COCA-COLA EUROPACIFIC PARTNERS
Q3 2024 Trading Update
Analyst Call Transcript
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CORPORATE PARTICIPANTS OF PREPARED REMARKS

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PREPARED REMARKS

Sarah Willett: Introduction

Thank you all for joining us today. I'm here with Damian Gammell, our CEO, and Ed Walker, our CFO.

Before we begin with our opening remarks on our third-quarter trading update, a reminder of our cautionary statements. This call will contain forward-looking management comments and other statements reflecting our outlook. These comments should be considered in conjunction with the cautionary language contained in today's release, as well as the detailed cautionary statements found in reports filed with the UK, U.S., Dutch, and Spanish authorities. A copy of this information is available on our website at www.cocacolaep.com.

Prepared remarks will be made by Damian. We will then turn the call over to your questions.

Unless otherwise stated, metrics presented today will be on a comparable and FX neutral basis throughout. They will also be presented on an adjusted comparable basis, thus reflecting the results of CCEP and our Australia, Pacific & Southeast Asia business unit (APS) as if the Coca-Cola Philippines transaction had occurred at the beginning of this year, rather than in February when the acquisition completed.

Following the call, a full transcript will be made available as soon as possible on our website. I will now turn the call over to our CEO, Damian.

Damian Gammell: Prepared remarks

Thank you Sarah, and again many thanks to everyone joining us today.

Before getting into our Q3 trading update, I firstly wanted to convey that our thoughts are with the communities in Spain and all those affected by the recent devastating flooding. The personal cost for too many has been too great. Coca-Cola has had a presence in Spain for more than 70 years, and we will continue to support our colleagues and customers in the affected area, as well as local communities.

Now to our trading update. Before we get into more detail on our third quarter, I just wanted to take a moment to stand back and reflect on the year to date.

2024 continues to be a solid year for CCEP. We've grown volume and revenue year on year, with share growing ahead of the market. And, in the NARTD category which remains resilient and continues to grow in both Europe and the APS region.

Our focus on revenue and margin growth management, headline price and promotional optimisation across our broad pack offering has driven a really solid revenue per unit case growth, especially in our developed markets.

Geographic diversification means we are more robust than ever with our higher growth markets in APS, led by the Philippines, offsetting softer volumes in Europe. Underlying volumes, which exclude the effect of strategic portfolio changes, were up year to date by just over 1%.

Turning to Europe, despite transactions growing ahead of volumes this year, volumes have been relatively challenging. After allowing for strategic exits, which account for around 1%, we believe that much of the remaining decline, although as you can appreciate not an exact science, was driven by adverse weather. This is also reflected in our channel performance, where Away From Home has understandably seen a greater impact, even though we gained share.

What gives us confidence however, is that when normalised weather prevailed, as it did during August, we saw our consumers responding favourably driving high single digit volume growth. In addition, our share in both NARTD and sparkling have held up well and have improved across the year.

So, although we are slightly lowering our full year revenue guidance today, we are very pleased to be reaffirming our full-year profit and cash guidance alongside declaring a full-year dividend up just over 7% on last year. This *reflects the strong plans in place for the balance of year, together with our continued focus on efficiency and productivity.*

Our great brands, great execution and great people continue to drive the delivery of our clear and sustainable long-term strategy.

None of this would be possible however without the continued hard work and unwavering commitment of all my colleagues at CCEP. Our recent and latest engagement survey is proof in point, achieving record engagement scores, placing CCEP amongst the best of its peers as a great place to work.

I'd also like to thank our customers and brand partners for their ongoing support. Our customers will always be at the heart of our business and they share in our success, as we continue to create more customer value in the retail channel than our FMCG peers in Europe, Australia and the Philippines.

And we were recently recognized for our great service in the latest Advantage supplier survey results, with almost all of our markets ranking CCEP as #1.

So now turning to Q3.

It's been a solid quarter with some brilliant activation around iconic events, namely, the Olympic and Paralympic Games in Paris, the Euros in Germany and the America's Cup in Barcelona. These have created a great platform for our brands like Powerade, alongside Coke Trademark. Not only have they reinforced our position as a leading beverage partner for our existing customers, they've also contributed to winning new customers. Recent wins include Alsea, a multi-brand restaurant franchise operator in Spain, Punch Taverns in GB and Ancol Dreamland, the largest theme park in Indonesia attracting 13 million visitors a year.

We delivered total revenue growth of 2.4% in the quarter. This was driven by solid progression in revenue per unit case, reflecting our strong revenue growth management capabilities, partly offset by geographic mix.

While total volumes for Q3 were flat year on year, transactions were ahead, with underlying volumes, excluding the Capri Sun exit, growing by around 1%. Volumes in Europe was down by 1.4%, offset by the strength of APS, where volumes were up by 3.3%. This was driven by the Philippines, despite cycling volume growth of over 20% in Q3 last year. And was led by Coca-Cola Original Taste reflecting not only underlying market demand, but also fantastic execution leading to continued strong share gains.

I'm delighted with how seamlessly the integration of the Philippines has gone. As our focus is very much now on the future, we are upweighting our investment in this exciting market. To that end, we are looking forward to showcasing this business at our capital market event in Manila next May.

Elsewhere in South East Asia, and similar to many other western brands, our Indonesian volumes continue to be affected by geopolitical events. We do however continue to see encouraging growth in less affected parts of the country, supported by the recent launch of Coca-Cola Zero Sugar. We also recently launched refillable glass bottles in Indonesia, focusing initially on traditional food stores around Jakarta and surrounding areas. And the transformation of our route to market continues to progress well to ensure it is fit for the longer term growth strategy in Indonesia.

Now to Australia and Pacific. The momentum we've seen this year has continued. We've fully annualised our exit from bulk water, with volumes in the period marginally ahead. This was driven by a solid quarter for Coke Zero, Fanta and Monster.

Revenue per unit case was up 1.2% in APS, reflecting headline price increases and promotional optimisation, partly offset by strong volume growth in the Philippines, which has a lower revenue per unit case.

Returning to Europe, wetter and colder weather year on year, particularly in July and September, contributed to some softness in the Away From Home channel. The Home channel outperformed, with volumes up 0.6% on an underlying basis.

While consumer spending has held up reasonably well in Europe, we fully understand that some of our consumers continue to feel the squeeze. We continue to focus on driving great execution both in the Home and Away from Home channels, focusing on price relevance across our consumer base, using data and insights, to make sure we can optimise pack and price. For example in Spain, we have continued to activate a popular and affordable price point on the iconic 2 litre pack.

Revenue per unit case in Europe grew 3.2% reflecting price increases across all markets including GB and Germany, executed during Q3, as well as favourable brand and pack mix.

So now briefly to some Q3 highlights on our great brands. We are extremely privileged to make, move and sell some of the world's most loved brands.

We continue to invest and innovate to make them even better, and appeal to even more consumers.

Coca-Cola trademark volumes performed well. This was driven by Coca-Cola Zero Sugar, up 5.5%, which continued to achieve good share and volume growth across our key markets. We delivered fantastic activation centred around this year's sporting events, and we launched the exciting zero sugar limited edition Coca-Cola and Oreo collaboration, which has performed particularly well in Australia and GB.

*Also in GB, we have just launched our new Diet Coke campaign '*This is My Taste' *emphasising bold self-expression and featuring our new brand ambassador, actor Jamie Dornan.*

In flavours, you can't have missed the new Beetlejuice inspired Fanta Halloween campaign, celebrating the launch of the movie sequel and newly released limited edition Fanta Zero Afterlife.

Sprite volumes also performed well, up 1.8% again of the back of great execution, reformulation and refreshed marketing. Our Sports volumes grew 7% driven by Aquarius and Powerade, alongside by great activation and the launch of Powerade Mango, alongside favourable trends in the category.

Monster outperformed, driving overall Energy growth of 4.5%. Fantastic innovation continues to drive recruitment and distribution, supported by flavour extensions like Ultra Strawberry Dreams, Ultra Violet and Nitro Cosmic Peach.

And finally, in ARTD, as we diversify our business to address different need states, and following the encouraging results of Jack Daniel's & Coca-Cola, the number one ARTD value brand in GB, we continue to build with the recent launch of Absolut & Sprite in Europe. Already off to a good start with an encouraging rate of sale. And you may have seen the recent announcement of Bacardi rum and Coca-Cola which is due to launch next year.

So now to our full year guidance and outlook.

As I said earlier we have today reaffirmed our full year guidance on both operating profit and free cash flow. We continue to anticipate full year operating profit growth of around 7 percent, supported by our ongoing efficiency initiatives, and strong free cash flow generation of around 1.7 billion euros.

On our efficiency programmes, in short they remain on track and are progressing well. For example, we recently announced proposed changes to our supply chain network in Germany to ensure it remains fit for the longer term.

From a revenue perspective, revenue per unit case growth has been broadly consistent year to date, which we expect to continue for the full year.

And as I touched on earlier, from a volume perspective, whilst year to date volumes are slightly up, the recent quarter has been weaker, primarily driven by the mixed weather in Europe and softer demand in the away from home channel. Although adverse weather has persisted into October in Europe, we have strong and exciting plans in place as we head towards Christmas, from the summer season in APS to the winter season in Western Europe.

In that context and including the benefit of two extra selling days in Q4, as previously guided, we are slightely lowering our full year revenue guidance to around 3.5%, slightly below our previous guidance of around 4%.

Looking at COGS, with over 95% hedging in place and with less than two months of the year remaining, we now expect full year COGS per unit case growth of around 2.5%. This is lower than our previous guidance, partly driven by the positive mix impact from the higher growth in the Philippines, which has a lower COGS per unit case.

We are also very pleased to be declaring our second half dividend of 1 euro 23 cents per share. This level of dividend maintains an annualised payout ratio of approximately 50 percent, representing an absolute full year dividend increase of just over 7% versus last year.

Now looking to next year. We remain confident in the resilience of our categories. Whilst too early to provide detailed guidance, which will be provided with our full year results in February, we're confident we have the right strategy in place to deliver on our mid-term objectives. We have fantastic brands in the category which we expect to continue to be robust into 2025, where clearly our biggest opportunity is to see the return to quality underlying volume growth in Europe.

We're continuing to invest for the long-term and are excited about what lies ahead. We're adding capacity into key areas such as the Philippines, new can lines in Europe and Australia, aseptic capacity to support the growth of Sports and Fuze Tea, all whilst adding over 100k coolers. We are also accelerating our digital transformation, for example, adding even better functionality to our

B2B portal, my CCEP.com, making it even easier for customers to do business with us. This has grown strongly and is now expected to account for around €2.7bn of revenue this year, up from around €2bn previously.

As I mentioned earlier, we have an exciting capital markets event in South East Asia next May, so we really look forward to hosting you there.

In summary, and back to where I started. We are delivering. 2024 continues to be a solid year for CCEP. Combined with today's dividend declaration and our near term anticipated return to our target leverage range, this demonstrates the strength and resilience of our business and our ability to sustainably grow our shareholder returns.

Thank you for your time today. Ed and I will now be very happy to take your questions.

Over to you operator.

Operator
Matthew Ford, BNP Paribas Exane

Matthew Ford - BNP Paribas Exane - Analyst

Thank you. Good afternoon, Damian, Ed, and Sarah. My question is just on Europe and the consumer there. Damian, you mentioned that August was much better as the weather improved, but you mentioned in the release that you are seeing softer consumer demand in the away-from-home channel. Any update on how we should think about European consumer health now we are into Q4? Have you seen any deterioration in the level there within Europe among the consumer? Or are things as they were earlier in the year?

And then a quick follow-on to that, given the nature of the comps now, we had a weak summer this year and a relatively soft summer last year, is there any reason why, looking to 2025, the European business shouldn't see sales growth of ahead of its midterm algorithm, which is around 3% I think in Europe? Thank you.

Damian Gammell - Coca-Cola Europacific Partners PLC - Chief Executive Officer, Executive Director

Thanks, Matthew. I will cover the last one first, but we are clearly not going to guide on volume expectation for Europe next year. We will give a bit more colour in February, but suffice to say, we haven't had the year we planned *on volumes in Europe, so we will be cycling that in 2025 and give a bit more colour in how we think about that going forward.*

To your first point, we haven't seen a dramatic change in the consumer. I mean, ultimately, when you look at revenue growth in Europe across our business, it is holding up well. Clearly, we have got the benefit of a great away-from-home business, which supports our longer-term value creation model. Obviously, when the weather turns, that is a channel that really gets impacted more.

So in summary, we have seen retail holding up well, both in terms of revenue and consumer. We have seen the consumer respond when we got more normalized weather in August and volumes were up high single digits, so that gave us a lot of confidence. Unfortunately, it didn't last long, but we got one good month.

So we are pretty confident. I think we have been very focused on price relevance, particularly in retail, offering price points across the spectrum of consumer needs, including value, because we know that is still important, but also not losing sight of premium offerings and smarter price promos. And I suppose the one number that I am particularly pleased about is our revenue per case growth in Europe. I think that is testimony to the work we have done with our customers, but also in terms of some of the data and analytics work. That has really supported our returns this year. It would have been great to see that multiplied by the volume growth we expected that didn't come. But despite that, I think to be able to deliver the year-to-date results we have had, reiterate our guidance on profit and free cash flow, I think just proves that the diversification strategy that we've taken has been the right one.

What it means for '25 is too early to say, Matthew, but clearly, we will talk about that in February. But in summary, we have seen the consumer spending. They spent a bit more when the kind of environment allowed it, but also in retail, it has held up pretty well. And that gives us some confidence heading into Christmas in Europe and also obviously summer in Australia.

Matthew Ford - BNP Paribas Exane - Analyst

Great. Thank you.

Operator

Simon Hales, Citi.

Simon Hales - Citi - Analyst

Thanks. Hi, Damian, Ed, Sarah. Can I just follow up, Damian, on your last point there around the solid revenue per case development in Europe? I mean, can you just talk a little bit more really about what drove that in the retail channel again in Q3, particularly given the backdrop and the wider marketplace, as you said, away-from-home under pressure?

And how confident are you about sustaining good revenue per case in Europe into Q4? Are you seeing any increase in promo activity across the landmass? There's been a number of other beverage companies that have highlighted maybe some signs of increased promo in other categories. Interested in your thoughts on soft drinks.

Damian Gammell - Coca-Cola Europacific Partners PLC - Chief Executive Officer, Executive Director

Yeah. Thanks, Simon. So we expect to sustain that through the end of the year. I mean, what drove it is we took pricing across all of our markets during 2024. I think that's been a good cadence. In general, our customers, at their discretion, obviously took a little bit more, so margins continue to improve. We'd expect that to continue into '25. I mean, again, we'll talk more to that in February, but we think that has been a good driver of revenue per case and also value creation for our customers. We're very conscious that we do it in a way that retains momentum with the consumer, so transactions growing ahead of volume. We're happy to see that.

So we don't expect any change as we go into Q4. Generally, our promo calendar in most of our customers are well locked in. So as you can appreciate, we would have locked them in in some cases at the beginning of the year, firmed them up through the summer. So we've got good line of sight, and obviously that's reflected in the guidance. Ed and I are happy to reconfirm today on profit. So nothing material in Q4.

What hasn't been a big driver has been mix. And again, that comes back to my commentary around the away-from-home channel being a little bit weaker. So typically, we'd get a little bit more from mix in our net revenue per case. That hasn't been the case in Europe as much as we'd like, and clearly that's something we'll focus on into 2025, as we'd expect away-from-home to perform a little bit better.

Simon Hales - Citi - Analyst

Great. Thank you.

Operator

Sanjeet Aujla, UBS.

Sanjeet Aujla - UBS - Analyst

Afternoon, everyone. Just digging deeper a little bit into the away-from-home channel in Europe. Are there any particular subchannels there, Damian, you think are underperforming more than others? Any particular markets you'd call out? And how much of this do you think might be an affordability issue in the channel?

Damian Gammell - Coca-Cola Europacific Partners PLC - Chief Executive Officer, Executive Director

Thanks, Sanjeet. I wouldn't probably call out any particular country. I think from a subchannel perspective, clearly, we've seen restaurants, particularly outdoor dining in Southern Europe, terraces; so France and Spain, which clearly it's an area where we typically enjoy that occasion. So let's say that's been the one that's been hit the most. Convenience has held up well. QSR has held up well. Although to your point, we do see a lot of our QSR customers promoting more value meals now, I think, on the back of affordability. And I think pricing on menus clearly has been quite inflationary over a number of years in Europe across the full range of food and beverages. So probably not a surprise to seeing a bit more value focused, particularly in QSRs.

But generally, it's been our kind of fragmented traditional bar, restaurant, terrace trade that's been impacted the most, which you'd expect. Other channels have held up reasonably well. Convenience has been strong. Petroleum has been strong. Energy has done particularly well there. So yeah, probably France and Spain, a little bit more just based on the fact that typically they have a bigger business than that subchannel, Germany as well. Yeah, so that's how we see it, Sanjeet. Nothing that dramatic across the markets, so pretty consistent.

Sanjeet Aujla - UBS - Analyst

That's helpful. Thanks.

Operator

Mitch Collett, Deutsche Bank.

Mitch Collett - Deutsche Bank AG London - Analyst

Hi, Damian. Hi, Ed. Hi, Sarah. I'll ask Ed one to give Damian a rest. You've mentioned the EBIT guide is stable despite the slightly lower revenue growth. So there's clearly some benefit that you flagged from lower cost of sales. But I wonder if there are any other factors driving that margin performance during fiscal '24. Thank you.

Ed Walker - Coca-Cola Europacific Partners PLC - CFO

It was a bit hard to hear you, but I think the question was about still delivering our EBIT guidance despite the revenue change. So yeah, so we're very pleased that we are able to maintain --

Damian Gammell - Coca-Cola Europacific Partners PLC - Chief Executive Officer, Executive Director

Sorry, Mitch, could you repeat that? Just you're breaking up a bit.

Mitch Collett - Deutsche Bank AG London - Analyst

Yeah. Sorry about the sound quality. So you're right. It's just that you've managed to maintain the EBIT growth guidance despite a slightly lower revenue, and you've obviously given that there's lower cost of sales. But I just wondered if there were any other factors contributing to that ability to maintain the EBIT growth performance and therefore slightly higher margin delivery. Thank you.

Ed Walker - Coca-Cola Europacific Partners PLC - CFO

Yeah. So as you say, we're very pleased that we've been maintaining our EBIT guidance. The main driver is, in fact, yes, as you pointed out, the cost of sales. So we've moved from approximately 3% to 2.5%. Within that is the mix impact from the Philippines, which has a lower cost per case. So as it grows, we get a mix benefit. But also, we've had some commodity favorability. The benefits of our transformation program obviously also flow through cost of sales.

And given the top line, we have focused a lot on cost saving and making sure that we protect the bottom line given the challenging situation in Europe. And that applies to cost of sales, but also through all of our OpEx lines. So from logistics, G&A, sales and marketing, we've been focused on *doing what we can to make sure we can give confidence around that 7% on the operating profit.*

Operator

Lauren Lieberman, Barclays.

Lauren Lieberman - Barclays - Analyst

Great. Thanks. Good morning. First thing I wanted to ask was just on the 4Q implied acceleration because, even accounting for the two extra selling days, it looks like you're expecting things to get quite a bit better sequentially despite tougher comps. So Damian, you'd mentioned activations. I was wondering if kind of channel mix is a piece of it, that it's seasonally some of the fragmented trade is less important in 4Q typically. But I just wanted to understand a bit better the drivers of that acceleration sequentially. Thanks.

Damian Gammell - Coca-Cola Europacific Partners PLC - Chief Executive Officer, Executive Director

Yeah. Thanks, Lauren. I suppose it's certainly turning into a period in Western Europe, where Christmas retail becomes the bigger focus compared to at home. So that's reflected, and we've seen our retail business perform stronger. So from a kind of mix perspective going into Q4, it's a bigger part of our business in Europe. And that with the added selling days kind of supports that acceleration.

We continue to see strength in our Philippines business as we head towards the end of the year. And that gives us confidence. We're cycling through some of the effects in Indonesia. So that business starts to cycle through the beginning of some of those geopolitical impacts. And obviously, we're fully loaded in Australia, New Zealand, and the Pacific Islands heading into summer.

So yeah, it is a step-up. But it's on the back of those four or five kind of key changes that we see. And obviously, from a pricing perspective, on a revenue per case, as I mentioned earlier, we expect to retain that as we go into Q4 as well. So that's a key driver of that revenue expectation in the quarter.

Operator

Dara Mohsenian, Morgan Stanley.

Eric Serotta - Morgan Stanley & Co. LLC - Analyst

Hey. It's Eric Serotta. I think we're on -- got our dialing pins crossed there. Just wanted to follow up a bit about away-from-home in Europe. Could you talk a little bit more about sort of what you're doing to provide more value to the channel to reinvigorate the overall trends that you're seeing?

What levers do you have within your control other than kind of waiting for the consumer to come back? And then just a quick, somewhat related, any impact that you're expecting to the business from the tragedy in Spain in the fourth quarter?

Damian Gammell - Coca-Cola Europacific Partners PLC - Chief Executive Officer, Executive Director

Thanks, Eric. So maybe just to deal with the last point, I mean, as I mentioned in my opening comments, very sad and tragic situation. So it is in one region of Spain. So clearly, we're conscious of a small impact but, on a consolidated level, not. We are reopening operations in that region actually today with the support of the local community and regulatory authorities.

And obviously, as I mentioned, we're doing a lot around supporting our customers with new equipment, taking back damaged products, and just helping them reopen their businesses. So that will be quite a journey to the end of the year around Valencia. And that's something that we're getting on with now. But from a consolidated level, as you can appreciate, it's quite a small impact in our overall numbers.

Generally, in away-from-home, I mean, we love that part of our business. So it's something that we strategically manage. It's not driven by any short-term issues. So what we've been doing and what we can do is first be taking share. So I think we've taken share across all of our markets. So we're happy with that.

We've been winning new customers. I called out a few of my prepared remarks where we've got new customers on board. I also talked to our cooler ambition going forward. So over 100,000 coolers. So we continue to invest in that channel with equipment to drive availability. Probably what we've been focused on throughout '24 will continue into '25 incidents. So generally, our share is around 70%.

So one of our key drivers of profitable growth is incidents, so whether that's through menu combinations, more in-store presence and availability. So we've been focused on that. In some of our markets, we've broadened out our refillable glass proposition, for example, in France. That fits with our ESG ambition, but also from a consumer perspective, we believe that's a pack that really resonates well.

So we have taken a number of initiatives and despite some of those macros to take share, bring new customers into the CCEP family, and focus on executing in outlet. And ultimately, that's what builds that business for us and that's what got it to over 40% of our revenues, and that will continue into 2025.

So in some ways, when it gets a little bit tougher, it just puts more reinforcement into our organization on trying to work harder with those customers to get all the revenue in cases we can. And that's what we're doing and that will set us up well for '25 and beyond. And that's the way we look at our channel. It's not a short-term in-and-out business. You got to stay focused, stay invested, and continue to win business. And that's what we've been doing.

Eric Serotta - Morgan Stanley & Co. LLC - Analyst

Great. Thank you so much.

Operator

Bryan Spillane, Bank of America.

Bryan Spillane - BofA Global Research - Analyst

Thanks, operator. Good morning, everyone. My question is, as we're thinking about next year, just headwinds and tailwinds. So I think as we start to kind of look back, I guess the weather and the impact it had on volume is a bit of a tailwind as we look at next year. It seems like commodity cost inflation or unit cost inflation per case is reasonable. We are going to comp against next year, or over this prior year, just all of the programming in Europe around the Olympics, the EURO Cup. There was a lot of activity, I guess, over the course of the summer.

I don't know if I'm missing anything else. And I guess what I'm after is just, as we kind of look forward, again, not knowing what the weather will be like, but it seems to set up for a pretty normal year. And I just would like to get your perspective on that.

Damian Gammell - Coca-Cola Europacific Partners PLC - Chief Executive Officer, Executive Director

Yeah. Thanks, Bryan. I mean, I'll comment a little bit on some of those consumer programs and then pass to Ed to talk a little bit about the cost environment. We'd certainly welcome a few more tailwinds next year, that's for sure. And I think you've called out some of them.

To your point on Olympics and EUROS, I mean, two great assets that we enjoyed this year at scale. I suppose, as you'd appreciate, we've known for quite a while that they won't be repeating in '25. So particularly happy with the work Manolo and The Coke Company have done around some of the programs that you'll see in Europe next summer. Too early to give more color on them, but suffice to say, we went into our planning at the beginning of this year for '25 knowing that we're going to have to have something pretty good and strong for the consumer on the back of cycling the Olympics and EUROS. And I've reviewed those and I'm really happy with what we've got in terms of consumer activation. So that'll help.

We'll continue probably to see some of the macro challenges around some of the geopolitical tensions, although we will be cycling the beginning of them. But we've got to hopefully see a resolution to that quickly. But that's something we'll keep an eye on.

I'll pass over to Ed now on the cost side because, clearly, we've taken our COGS guidance down this year, and he can talk to how we see that going into next year.

Ed Walker - Coca-Cola Europacific Partners PLC - CFO

Yeah. Thanks, Damian. So yeah, as I said earlier, I mean, we're very pleased with the COGS performance in '24 and particularly the stability now that we see on commodities. And we expect that stability to go forward into 2025, which will help us. And actually, as we sit here today, we're over 70% hedged on the main commodity wallet, which is a good position to be in.

Of course, there are other elements of cost of goods. So there's our supplier conversion costs, which are also subject to their own inflationary pressures, particularly on labor. From our side, on the manufacturing point of view, we have the benefits of a number of the transformation programs that are in planning at the moment that Damian referred to earlier. And then on the rest of the OpEx lines, we'll see the usual inflationary pressures on labour. But as we sit here today, from a cost perspective, I think we're in good shape for our 2025 planning.

Damian Gammell - Coca-Cola Europacific Partners PLC - Chief Executive Officer, Executive Director

Yeah. I think just to close, Bryan, it'd be great to have conversations next year that don't involve the weather. That's what we're looking forward to.

Operator

Charlie Higgs, Redburn Atlantic.

Charlie Higgs - Redburn Atlantic - Analyst

Hi. Good morning, Damian, Ed, Sarah. I hope you're all well. I was wondering if you could dig in a bit more detail on the Southeast Asia division. I think there's some offsetting parts there. So another strong quarter by the Filipino Tigers. Can you just unpack that a bit and the growth in the modern trade channel? And then also on Indonesia, maybe a bit more color on what you're seeing on the ground and how the reception was on your recent returnable glass bottle initiative? Thank you.

Damian Gammell - Coca-Cola Europacific Partners PLC - Chief Executive Officer, Executive Director

Yeah. Thanks, Charlie. I mean, the Filipino team has done a fantastic job in having a great year. As we talked about on the back of that acquisition with our partners, we recognize the need, particularly short term, to provide a bit more capital into our, for example, glass flow. The RGB is a big part of our business there. I think we're seeing the benefits of that investment throughout 2024. It's taken a lot of pressure off our supply chain. It's increased inventory in our warehouses and in our customers. So I think that's gone really well.

I think the team have also executed a few price moves across the year that have landed well and support that revenue growth. And clearly, from a consumer market perspective, it continues to be quite a healthy growth outlook for the Philippines. So yeah, very happy with it. We continue to look to the future there.

A couple of elements we reinforced today. We have signaled a slight take-up in our capital to that 4% to 5%. Again, that will support the Philippines' growth in terms of capacity and glass float. We have also brought some of our key account capabilities from Europe, both in terms of people and technology, as we see key accounts and modern trade becoming a bigger part of the growth story in the Philippines. And we think we can benefit from that just by leveraging some of the work that we've done in Europe and across Indonesia, Australia, New Zealand.

So yeah, set up for a solid finish to the year. And, you know, really looking forward to having our Capital Markets Day down there, where we will just demonstrate on the ground exactly what the Tigers are doing, which is super exciting. Indonesia obviously has had some more challenges on the geopolitical side. We continue to execute our long-term plan there despite those headwinds because we see the opportunity in that market. We have launched refillable glass in Jakarta. It's very early days, but we felt it was a good move in terms of giving us a different affordability option, particularly for eating and drinking out of home. So those small street cafes, they're a critical part of the consumption behavior. And we know refillable glass plays a role for the tea category there. And we haven't had refillable glass in our soft drinks business. So again, early days, we'll start in Jakarta, look at consumer and customer acceptance, and then look at how big that could be in our portfolio.

Generally, across Indonesia, I was there recently, a couple of topics that I feel the team are doing a great job on. We continue to change our route to market. So every week, we're onboarding new distributors, moving away from our old model, and we see performance improve when we do that. So that gives us confidence that we are landing on a model which is very similar to the Philippines. Coincidentally, that will support long-term cost competitiveness, which will allow us to keep the affordability proposition, but also long-term growth as those distributors' financial model is much more linked to our top-line growth. And that gives us confidence for the future.

And then I did call out that there are some areas in Indonesia less impacted by some of those macro issues, and there, we see solid growth. And that gives us confidence because, in those areas, the price packaging is working. Some of them have the new route to market. And as I said, we have less of that consumer headwind, and that's delivering solid top-line growth.

So a lot to do. All we said Indonesia was going to be a longer-term play, but they certainly give ourselves and our team in Indonesia confidence that we're investing in the right areas. The changes we're making in route to market work. It's the right thing to do to try refillable glass in that market. We just got to look at the Philippines and see how big it is there. Yeah, and obviously, we'll get through some of the short-term challenges, although clearly, we'd like to see an end to the root cause of all those issues. But that's not within our control, so we focus on what we can manage.

Thanks, Charlie.

Charlie Higgs - Redburn Atlantic - Analyst

Great. Thanks, Damian.

Operator

Edward Mundy, Jefferies.

Edward Mundy - Jefferies - Analyst

Afternoon, Damian, Ed, and Sarah. So my question is coming back to your comments around the biggest opportunities to see return to quality underlying volume growth in Europe. I'd love to sort of get a better understanding, Damian, from you of what does that mean for you? You've had some very solid revenue per case growth the last couple of years. Does that imply a bit more of a balance on revenue per case and volumes?

And then, as part of the same question, there's noise in Europe around new entrants coming into the cola category, playing on the geopolitical theme. Presumably, this is something you've looked at. It's still very, very small, but I'd love to get any views on sort of the materiality of that as a non-triumphal in weakness, if you will.

Damian Gammell - Coca-Cola Europacific Partners PLC - Chief Executive Officer, Executive Director

Thanks, Ed. I mean, to your second point first, I mean, we're spending a lot of time, particularly with The Coca-Cola Company, understanding some of those macro impacts on our performance in Europe. And that's something that we track very detailed. We haven't seen any new entry brands causing any volume decline for us. But we do recognize that in some parts of Europe, clearly, it has an impact, particularly on Coke trademark. But that's something we keep a close eye on.

Looking into 2025, what -- I think gets us excited about it, and I'm not talking about comps, is real, tangible actions we're taking, particularly on Diet Coke. I think the new campaign in GB is a great start. Obviously, it gives us momentum in '24, but really into 2025. Diet Coke is a great brand. It's a big brand. And we believe getting more investment behind that in GB will support that quality growth into 2025. We'll also look at that and see how it goes and consider it for markets like Australia or maybe even Germany, where we still have a big Diet Coke and Coke-like franchise.

As I mentioned earlier, on the back of cycling the Olympics and also the EUROS, you will see some really good activation around our Coke trademark and Zero coming into the summer. Monster and our energy portfolio continues to perform well. So that supports quality underlying growth. We are transitioning our business in Spain from Nestea to Fuze. That will bring *some short-term challenges as we cycle out of that. But I think the Fuze platform has proved to be a great one for us. So again, I'm excited about that.*

You'll hear us talk more about sports and Powerade in particular. That's a big part of our portfolio in Australia. It's a category that we believe has more potential in Europe. So we're going to get behind Powerade. Again, that will support quality growth.

And then clearly, as I talked about earlier, we haven't pulled back any investments in our away-from-home business this year. So I know we'll go into next year with more coolers in the market. We'll go with more customers because we've been taking customers, and that will support it.

To the algorithm midterm, I think we'd come back with Ed to say, particularly in Europe, I think 1 point of volume every year is what we would look for. We'll continue to take price as we go forward. And then obviously mix is something that we'd like to see being a bigger part of that revenue algorithm, but that supports our midterm guidance.

Yeah, no surprise after the year we've had this year, we want to see volume being a bigger part of that in 2025 in Europe. But that will not be at the expense of price because we know that's a long-term value creator for the business. So we'll do both next year for sure.

Edward Mundy - Jefferies - Analyst

Great. Thank you.

Operator

Gregory Porter, Evercore ISI.

Robert Ottenstein - Evercore ISI - Analyst

This is Robert Ottenstein. Again, I think things may have got a little mixed up. A financial question, it's kind of two-part. One, has the addition of higher growth markets like Indonesia and the Philippines increased the capital intensity of the business in any way that would affect dividend payback, dividends, or share buybacks? You alluded to that a little bit in the Philippines, but just want to touch on that.

And then somewhat related, does any of the movement with the FTSE and the exchanges have an impact on how you think about dividends versus *share buybacks and liquidity issues and our share buybacks because of this maybe a less attractive route? Thank you.*

Ed Walker - Coca-Cola Europacific Partners PLC - CFO

Thanks. So maybe I'll take that one. So on the first point, Indonesia and the Philippines, so yes, those markets do require capital really to unlock the potential that we see there and to really release the opportunity for the volume growth. And particularly, that's something we're looking forward to in the Philippines with both the growth in the portfolio to support, but also the mix opportunities.

And actually, one of the reasons why our capital has trended up and is now closer to that 5% as opposed to the 4% is that we've included the Philippines and Indonesian requirements within that number. So that will keep us to more like the 5% for the medium term, but we should see it drop in the longer term. But all of that is built into our guidance and our midterm objectives going forward. And so it doesn't have any impact on our potential share buyback plans or dividends going forward. When we look at our capital allocation framework, the priority anyway is always to make sure, first and foremost, that we use cash to invest in the business as required to support that growth.

And then in terms of the FTSE, so as you all probably know, the new listing category will become effective on November 15. Then, we have to meet liquidity thresholds over the coming 2.5 months in order to enter the FTSE. And although those liquidity thresholds appear relatively low -- it's about 50,000 shares a day -- they're low in the context of our total CCEP share volume, but they're high in comparison to what's traded today in London. So that's something we're actively working on. But the earliest that we would be within the FTSE on that basis would be March. The entry to the FTSE anyway would have no impact on any of our other listings, and we would see it having no real impact in terms of our capital allocation framework going forward.

In terms of the next few months for that, so we're obviously in a very strong position today, another year of EUR1.7 billion of free cash flow, which we're pleased to see will get us back within our leverage range of 2.5 to 3 by the end of the year. So we'll be reviewing with our Board at the end of the year what the options are then going forward in terms of returning some of that cash to shareholders. And as you say, share buyback will be one of those options, and we plan to come back in February and give an update on that. But we don't see a potential FTSE listing making any real change to that policy.

Damian Gammell - Coca-Cola Europacific Partners PLC - Chief Executive Officer, Executive Director

Yeah. Just to add to Ed's comments, Robert, I think all of the investments we call out today are guided within that 4% to 5%, so we feel really comfortable. It's a big number, which I remind my team of, when you take 4% to 5% off our revenue, that's a lot of capital to spend. So we're very comfortable that that's going to allow us to do what we need to do, not just in Indo-Philippines, but across Europe.

And then within that, currently, we are transforming our IT platform and moving to an S4/HANA solution. That's going to be a multi-year journey. But as you can appreciate, within that 4% to 5%, there's a huge amount of IT and tech investment, which we're really happy with. Over time, that will roll out as we finish the implementation.

So I think to Ed's point, near term, that 4% to 5% is good. And as we roll out of some of those big step-ups, we'd probably come back and look at that percentage again in the future. But more to come on that, but certainly nothing beyond that in the near term. As I said, it's a lot of cash to get out. We're good at it, so that's okay, but nothing incremental.

Thanks, Robert.

Robert Ottenstein - Evercore ISI - Analyst

Thank you.

Operator

Philip Spain, JPMorgan.

Philip Spain - J.P. Morgan Securities plc - Analyst

Hi, everyone. Thanks very much for taking my questions. I just had one more question on the impact you expect from the increase in sugar taxes in the UK next year, both in terms of price and what you expect the subsequent impact on volumes will be as well. And given the government has also spoken about potential changes to the sugar thresholds within the sugar tax, how you might think about kind of reformulations within that and what you expect around those threshold changes as well, please?

Damian Gammell - Coca-Cola Europacific Partners PLC - Chief Executive Officer, Executive Director

Yeah. So obviously, new news on the back of an exciting budget in the UK, not the only thing in that budget that will impact our business, but certainly *one of them. So clearly, we've been on a reformulation journey for quite a while. So about 70% of our drinks now in GB are low or no calorie. So that's been a key driver of our performance.*

Sugar reduction in soft drinks is down about 46%. So I think the industry is reformulated across GB. So we'll have an impact, but it's on a much smaller part of our business. And it'll be a [inaudible leader] in April '25. So without getting ahead of ourselves, I think what's happened in the past, generally, the industry has passed it on to the customer and they've generally passed it on to the consumer, Philip. So I'd see that probably occurring again. So as we look at price elasticity and our pricing in the UK, we'll factor that in, predominantly from the consumer level. And yeah, and if there are reformulation opportunities, we'll take them. But we've just reformulated our Zero variants and Sprite and Fanta recently, and they're really great-tasting products. Coke Zero has gone well. Clearly, I talked about Diet Coke earlier. So that would be a good play in GB as well to mitigate the risk.

Yeah, so it will impact GB, but on the smaller part of our business and in line with previous years, well, I'd expect we will pass it on. And then we'll factor that into some of that elasticity modeling to see, on top of that, what our pricing strategy will be for GB. So that's how we're looking at it at the moment.

Philip Spain - J.P. Morgan Securities plc - Analyst

Great. Thanks very much.

Operator

Thank you. I would now like to hand the conference back over to Damian Gammell for his closing remarks. Damian, please go ahead.

Damian Gammell - Coca-Cola Europacific Partners PLC - Chief Executive Officer, Executive Director

Thank you, operator. And again, thank you to Ed and Sarah and everybody for joining us on our call today. So as we've called -- as we've talked about today, I mean, 2024 is another solid year for CCEP. I'm particularly pleased that it's demonstrated the power of our diversification strategy and becoming a bigger bottler across multiple geographies. We've talked a lot today about a big finish to 2024. We've got great plans in place for the rest of the year. But clearly, we're very much focused also on 2025 and beyond and how we can sustain that midterm growth guidance that we've articulated.

We are obviously looking forward to welcoming a lot of you to Manila in May. So I know Sarah is going to be sharing more of the logistic details. We'll also, on that trip, be offering a visit to Jakarta. So you can also get to see the transformation journey we're on in Indonesia.

So a lot ahead of us. We'll be back in February for our full-year results and look forward to sharing them with you in due course. So thank you, everybody, and have a great rest of the day.