COCA-COLA EUROPACIFIC PARTNERS
H1 2021 Results
Analyst Call Transcript
2 September 2021

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 Nik Jhangiani, our CFO.

Before we begin with our opening remarks on our results for the Second-Quarter & Half-Year 2021, 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 and Nik and accompanied by a slide deck. We will then turn the call over to your questions.

Many of the metrics presented today will be on a pro forma basis. These reflect the results of CCEP and our Australian, Pacific & Indonesian business unit (API) as if the Coca-Cola Amatil transaction had occurred at the beginning of this year. Comparable measures reflect the timing impact of the Amatil deal, which completed in May. The slides and our prepared remarks will distinguish between these two methodologies accordingly.

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: 1H21: Key Takeaways

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

Lets start with our H1 key takeaways.

A strong performance delivered by highly engaged colleagues, in quite a dynamic environment. So to all my colleagues, I am sincerely grateful for the hard work and commitment that you've all shown to CCEP and continue to show as we close out 2021.

We are again the #1 FMCG customer value creator in Western Europe and I'm very pleased to say that we continue to win market share both instore and online across the NARTD category.

Critically, we are continuing to accelerate our investments across 2 key areas; our sustainability agenda, alongside our on-going digital transformation.

And I'm very pleased that the integration of API is well underway and we are working on joint growth plans with The Coca-Cola Company as we look forward to an even more exciting 2022.

Damian: Our purpose

We have a simple but vital purpose as we move forward as Coca-Cola Europacific Partners: to refresh Europe, the Pacific and Indonesia and critically to make a difference for all our communities and our stakeholders.

We do believe in a bright future for our business, led by our aspiration to be the world's most digitised Coca-Cola bottler, and, as I mentioned earlier, our strong commitment to delivering on our ambitious sustainability agenda.

We have a solid track record of delivery and execution and I'm very pleased that we do retain our number 1 position as customer value creator in Western Europe.

We are fortunate to operate in a highly attractive, valuable & growing category. With our exciting portfolio of brands, products and packaging, we enjoy scale and a leading position across all our geographies. We also have a great opportunity to continue to unlock the potential of our newly acquired business unit, API.

We continue to position ourselves to be fit and competitive for the longer-term. Despite covid, we have continued to invest for long-term growth, particularly in our portfolio, our people, our digital journey and our portfolio and our sustainability agenda.

We know we will go further together, creating greater, more sustainable value for all of our stakeholders.

We have a simple focus around great people, great service, great beverages. Done sustainably, for a better shared future.

So now I'd like to touch on each of these areas as we look back on the first half of this year.

Damian: Great People

As you know, the well-being and safety of our colleagues is our absolute number 1 priority. We continued to support our colleagues through the evolving challenges of the pandemic, as well as the recent widespread flooding that unfortunately occurred in Belgium and Germany.

We continue to work to break down barriers to inclusion. Our colleagues celebrated Pride across many of our sites and offices, and shared photos and stories on our digital communication platform, Redline.

In New Zealand, we were thrilled to be named New Zealand's Employer of Choice 2021, the only company to receive the gold award in three consecutive years.

And across CCEP we were also recognised as being a "great place to work", with strong engagement shown in our first global engagement and culture survey as Coca-Cola Europacific Partners which has been recently completed.

Damian: Great Service

Great service is critical for our customer growth story and engagement.

Supporting our customers and the reopening of HoReCa has been a key priority, and we launched a number of initiatives across all of our markets such as the "We are HoReCa" campaign in Spain and a customised digital support programme in France & Germany.

In Europe, our focused and creative Euro football activation generated great excitement for not just our customers and our colleagues but also of course for our consumers as lockdown eased and people could do what they love to do during the summer, and get out and about and enjoy a Coke with friends and family.

And despite these challenges of the pandemic, we have maintained high levels of customer service, in the high 90s, and we will continue to invest in capacity to support our growth and revenue growth management initiatives. This includes placing over 50 thousand cold drinks equipment units in the first half, increasing our canning capacity & efficiency and accelerating our in-sourcing plan. This year we have already installed a can line in Papua New Guinea and an aseptic line in France in the first half of the year.

And we have launched Starstock, an online marketplace in GB, and Wabi, a b2b eco-system platform in Portugal, both via our ventures arm, CCEP ventures, as we continue to explore and progress new models that make it easier for our customers to do business with us.

Damian: Great Beverages

And lastly we are extremely privileged to make, move and sell the best beverages in the world.

Both Coca-Cola Zero & Monster continued to outperform across all of our markets in the first half.

Our new taste, new look and new campaign for Coca-Cola Zero Sugar in Europe has been a great success. Our Monster innovations have supported impressive growth - Mule, Ultra Fiesta Mango & Monarch, launched in 8 of our European markets, and we also launched Monster Super Fuel in Australia & New Zealand.

We are very excited about Costa Coffee and we are readily expanding this great brand outside of GB. We are making good progress in Germany, Belgium & Norway, and we have recently launched Costa express in Spain.

In Indonesia we launched a new and well received Fanta flavour, Coco Pandan, for Ramadan.

And Topo Chico continues to be an exciting opportunity, now launched in 6 of our European markets.

Damian: Done sustainably for a better shared future

As we progress with our commercial agenda we do this with a mindset clearly focused around sustainability and we know we need to go further and faster on this agenda.

Carbon reduction is at the heart of our business, as we move towards our net zero greenhouse gas emissions target by 2040 across our entire value chain. Contributing around 40% of these emissions, packaging is clearly front and centre, and I am pleased that we are making great progress on a number of fronts.

Across Europe we are continuing to accelerate our rPET plans, towards our ultimate goal of 100%.

In Australia, we have signed up to a JV to build and operate a new PET recycling facility, expected to process 1 billion bottles per year and produce over 20 thousand tonnes of recycled PET across the partnership.

And likewise in Indonesia we have announced an industry collaboration to construct a recycling facility that will have the capacity to save 25 thousand tonnes of virgin plastic each year. This will help stimulate the recycling industry in Indonesia and accelerate much needed improvement in recycling rates.

Both collaborations are a step forward towards creating a circular economy for PET within our industry.

Beyond packaging I am also extremely proud to have achieved carbon neutral status at two of our manufacturing sites in Spain and Sweden, with the aim of extending this certification to a further 4 sites by the end of 2023. We have met the global benchmark for responsible water stewardship in the Netherlands, making this plant one of just five in the Coca-Cola system to achieve such an accreditation.

And finally we recently signed up to the EU Code of Conduct for Responsible Business & Marketing Practices which aims to make healthy and sustainable food choices easier for our consumers.

So, all in all a great first half towards a better shared future with a clear acknowledgement that there's more to do and we must go faster.

Damian: 2021 H1 – Performance highlights

Just turning now to our performance, we are pleased to report a strong performance in the first half.

We continue to win with our customers, having created more than double the absolute value sales increase compared to any of our peers in Western Europe.

Supporting the reopening of HoReCa has been a key area of focus as I touched on earlier.

Strong performance from our core brands has led to some great share gains both instore and critically, online.

Across our combined markets we gained 90 basis points of share in Flavours and 170 basis points in Energy. And in our European markets our Energy portfolio has gained nearly 300 basis points of value share since 2019. This performance in Europe was supported by new Monster flavours and wider distribution, resulting in impressive volume growth of 50 percent versus 2019, meaning we are well on track to double the size of our European energy business relative to 2019.

All of these elements combined to deliver a very solid top line performance.

The 6 percent increase in pro forma comparable volume obviously reflects the easing of restrictions in Q2 and soft prior year comparables. As you will recall, Q2 was the worst impacted period last year. We have been encouraged with the pace of volume recovery, and I am particularly pleased that our continued focus on revenue growth management has driven growth in revenue per unit case above pre-pandemic levels. An impressive result given the mix headwinds we have continued to face during the half of this year.

We are moving at pace to accelerate our digital capabilities and I'll come back to this on the next slide.

We do remain focused on efficiency and are on track to deliver the efficiency programmes and combination benefits that we shared with you earlier this year.

And finally, we've made a great start with the API integration, going Further Together and I'll provide a little more detail on this later.

Damian: 2021 H1 – Ongoing digital transformation

So, to some highlights on our digital transformation journey, a critical journey for all of us at CCEP, as we aspire to be the world's most digitised Coca-Cola bottler.

We have seen continued share gains and strong performance in online grocery, with RSV up 28 percent and our online grocery share up by 100 basis points. In Europe, our beverages were also the most ordered beverages on food aggregator platforms.

Our own B2B portal, My.CCEP.com, is on track to deliver a record year of over €1 billion in revenue. We expect the number of customers using the platform to reach 90 thousand by the end of the year, an increase of over 150 percent. In GB, StarStock was launched in partnership with CCEP Ventures. StarStock is an online marketplace which enables licensed venues to order directly from major drinks companies and brewers. It is a great example of how our Ventures platform is focused on identifying strategically relevant partners that can help CCEP make our business more efficient, sustainable and future-proof. And we are very excited that we have launched Wabi, a new eB2B platform in Portugal.

We continue to develop our D2C platform, your Coca-Cola. Encouragingly the platform's average order value is increasing, this is aided by recent product innovation, subscription services & special bundles for special occasions. One recent innovation was the launch of personalised cans, a great and fun way for us to engage directly with our consumers. We are taking learnings and generating valuable consumer insight. We are partnering with The Coca-Cola Company to leverage the power & insight of the system as we progress on our digital journey.

From a supply chain perspective, achieving a single integrated Source-to-Pay process and touchless invoice automation through the implementation of SAP Ariba will provide over 100 thousand hours of efficiency savings.

And in the workplace, we recently launched Compass, which brings all of our workplace digital services together, making it easier for all of our colleagues to find the tools they need when they need them. The use of automated translation is also driving time and cost efficiencies across CCEP.

And on that note, I would now like to hand over to Nik to talk in more detail to the financials. Nik.

Nik: 1H21 Financial Summary

Thank you, Damian and thank you all for joining us today

Let me start with our H1 financial summary. I will touch on these now and go through some more detail shortly on each of these areas.

So starting with our proforma revenue at 7 billion euros, that's an increase of 11 and ½ percent on an fx-neutral basis.

And our pro forma COGS overall was up 10 percent and on a per unit case increased by 1 and ½ percent on a pro forma, comparable and fx-neutral basis.

We delivered pro forma comparable operating profit of €802 million, up nearly 60% on an fx-neutral basis, reflecting the growth in our revenues and the benefit of our on-going efficiency programmes and our continuous efforts on managing the discretionary spend areas closely.

Our comparable effective tax rate declined to 21 percent from 24 percent last year when calculated on a similar basis. The reduction is driven by the utilisation of previously unrecognised losses and reassessment of our uncertain tax positions. This resulted in comparable diluted earnings per share of €1.09, up 87 and ½ percent on a comparable and fx-neutral basis.

Free cash flow generation continues to be a core priority for us and we generated strong free cash flow of approximately 650 million euros on a comparable basis.

Nik: Pro forma revenue

Now to pro forma revenue highlights.

The increase was driven by both an increase in volume and importantly our revenue per unit case.

As mentioned earlier by Damian, we are encouraged by our volume performance in Q2 as we lapped the worst impacted period from last year.

Revenue per unit case grew by 3 percent versus 2020 reflecting positive pack and channel mix following the reopenings in the away from home channel, positive brand mix and favourable underlying rate increases. And encouragingly up ½ percent versus 2019 despite the mix headwinds.

Unsurprisingly, the most significant improvement has been in on our away from home channel as restrictions eased and mobility generally increased towards the end of the second quarter. As a result, versus 2019, the away from home channel was down 22 percent in the first-half.

Strong trading in the home channel continued, benefitting from increased at-home occasions as well as continued growth in online grocery, with volumes up 3 percent versus 2019 during H1. Overall, this meant that total volumes were down 7 and ½ percent versus 2019.

From a pack perspective, on-the-go immediate consumption was positively impacted across both channels with volumes doubling in Q2 in Europe due to increased mobility.

Nik: Pro forma revenue by segment

Now to revenue by segment. You can see more detailed commentary by geography in the release.

On an fx-neutral basis Europe revenue was up 10 and ½ percent in H1 versus 2020 and down 8 percent versus 2019, reflecting the reopening of away from home during Q2 and tougher restrictions in Q1.

On an fx-neutral basis API pro forma revenue was up 15 and ½ percent in H1 and flat versus 2019, reflecting the minimal restrictions in place in Australia and New Zealand throughout the first half of the year, which has obviously changed during the last few months.

As I mentioned earlier, strong second quarter performance was driven by the reopening of away from home in Europe and the cycling of softer comparables in both segments.

We are now well progressed into the third-quarter, a quarter that last year started to see an initial easing of restrictions, therefore resulting in tougher comparables compared to Q2 last year.

Whilst we are encouraged by the broad-based recovery we are seeing across our markets and therefore remain cautiously optimistic, we are seeing several challenging factors at play. Generally the weather has been colder and wetter across most of our markets. Softer international tourism given ongoing travel restrictions, is impacting markets like Spain, Portugal and France. And of course renewed restrictions in Australia, New Zealand & Indonesia as I referenced earlier. And as I will talk to in a moment, in the context of commodities and opex, pressure on global can supply does remain alongside increasing pressure on haulier availability, especially in GB.

As a result, our Q3 quarter to date pro forma volumes for July and August are slightly down versus 2020. We will of course update on this at our Q3 trading update in November and this has been factored into our guidance for the full year that I will discuss in a few moments.

Nik: Pro forma cost of sales

Moving now to COGS.

As you are aware, typically around 85 percent of our total COGS are variable. This includes our concentrate purchases and finished goods, accounting for 45 percent, which have naturally increased in line with our incidence model reflecting the improvement in revenue per unit case that I talked to earlier.

Commodities account for a further 25 percent and have been mainly adverse with higher aluminium, sugar and PET prices. I will go into more detail on the upward pressure we are seeing on commodities on the next slide.

And finally, approximately 15 percent relate to manufacturing and D&A, both of which are largely fixed. As expected, we saw a positive impact on our COGS per unit case resulting from the favourable recovery of fixed manufacturing costs given the higher volumes during the first half.

And as the mix favourably comes back into the topline, this has a COGS impact for us as well.

All this combined, resulted in a COGS per unit case increase of 1 and ½ percent on a pro forma, comparable and fx-neutral basis.

Nik: Upward pressure on commodities

While there continue to be a number of moving parts, I do want to take this opportunity to give some colour on commodities as well as current view on COGS per unit case for the full year.

As you can see from the chart, we are experiencing upward pressure with total commodities up around 2 percent in the first half.

Unsurprisingly, aluminium is a significant driver of the increase due to movements in global spot prices and pressure on can supply. We are accelerating the use of recycled PET across our portfolio as we progress towards our sustainability commitments and we are also seeing higher recycled PET prices due to increased market demand versus feedstock. Virgin PET and sugar prices are also increasing, but due to our hedging profile we expect the impact from these elements to subside next year.

As we look out to the remainder of the year our commodities exposure is largely hedged, at over 90 percent, for both API and Europe for 2021. Taking all of this into account, we anticipate commodities inflation of around 3 percent for the full year, so clearly an upward trend in H2 this year versus the first half. This translates to our latest view on cogs per unit case for the full year, assuming volumes continue to recover, of an increase of around 2 percent on a pro forma comparable basis.

As you will see here, we are approximately 40 percent hedged on commodities for next year, so we currently expect to see an increase in the range of mid to high single-digit when compared to 2021. We continue to look at the right trigger levels to lock in more of our exposures depending on market conditions.

We have several levers to help manage through these pressures on a multi-year view. As you will have seen, we have been successful in driving some underlying price during the first half and will continue to focus on this with our customers as we look to create value jointly. As our volumes continue to normalise, we expect to benefit from positive mix and continued operating leverage. And we continue to identify and take meaningful actions on our wider cost base to be fit and competitive for the longer term, which I will come on to next.

Nik: On track to deliver pre-announced efficiency & combination savings

Moving now to efficiency.

As we communicated earlier in the year, both Europe and API committed to rebasing their cost base versus pre-pandemic levels alongside announcing wider efficiency programmes.

As a reminder, we announced €200 to €225m of efficiency savings in Europe and A$145 million or €90 million for API. We also communicated combination benefits of €60 to €80 million, weighted to 2022 and beyond, from procurement, supply chain best practices and the group functional cost and listing structures.

These pre-announced efficiency savings and combination benefits equate to €350 to €395 million in total and remain on track.

Nik: On track to deliver pre-announced efficiency & combination savings

These ongoing programmes, along with our continuous efforts on discretionary spend optimisation are helping us to protect profits and margins in the short-term, whilst ensuring that we will be fit and competitive for the longer-term.

In absolute terms, despite the increase in volumes in the first half, our total opex was broadly flat.

Or as a percent of revenue, our opex is lower now, not only compared to last year, but more importantly compared to pre-pandemic levels.

Although a great achievement at the half year point, we would anticipate some volume related increase in opex as the recovery continues, focused investment in TME to support that recovery and as I mentioned earlier, we also need to manage the business to mitigate as far as possible against some upward inflationary pressures in areas like labour and haulage.

Nik: Guidance

Now moving to guidance for the full year, which reflects our current assessment of the scale and magnitude of the pandemic and the continued uncertainty around the pace and timing of the recovery.

We expect full year revenue growth of 26 to 28 percent and operating profit growth of 40 to 44 percent. Each of these growth figures are on a comparable basis and therefore reflect the timing of the acquisition of Coca-Cola Amatil which completed in May, and are based on actual FX rates.

We are also guiding to a full year effective tax rate of approximately 20 percent, down from 24 percent last year when calculated on a similar basis. The 20 percent effective tax rate equates to around an 18 cent increase to the current vuma consensus on EPS, which is available on our *website. The expected reduction from 2020 is largely due to the utilisation of previously unrecognised losses and reassessment of uncertain tax positions, as I touched on earlier.*

Our latest estimate for 2022 is between 21 percent and 22 percent, and thereafter we expect to see some upward pressure driven mainly by anticipated increases in corporate income tax rates.

Finally, we are also reiterating our dividend payout ratio of approximately 50 percent. This will of course be based on the enlarged earnings base of the combined business, on which we will update for 2021 with our Q3 trading update.

Nik: Medium-term objectives: a reminder

And finally, as I mentioned at our investor event in May, the Amatil transaction firmly underpins our medium-term objectives, giving us even greater confidence in our revenue and operating growth ambitions.

We increased our free cash flow target to at least €1.25 billion per annum to reflect the greater incremental cash generation, giving us the confidence to commit to returning to our target leverage range of between 2.5 and 3 times net debt to adjusted EBITDA within a three year period.

And in line with the guidance I just mentioned for this year, we will continue to maintain our competitive and progressive dividend pay-out ratio at around 50 percent.

And now back to Damian.

Damian: Amatil transaction

Thank you, Nik.

Just now to touch on the very exciting Amatil transaction.

As a reminder from our investor event, we truly believe that this transaction is a great move, and happened at the right time. The recent news of New Zealand being crowned champions of the 2020 Candler Cup, an annual global Coca-Cola system bottler competition, is a great example of us acquiring a business with momentum and a business which we can learn from in Europe.

The tangible top and bottom line growth story, combination benefits and best practice sharing, as well as an even stronger relationship with the Coca-Cola Company and our other brand partners are all reasons that this transaction will create significant value for all of our stakeholders.

It is indeed a really exciting opportunity for us at CCEP.

Damian: Integration update: First 100+ days

On the integration, we are well underway and I am extremely pleased with the progress we have made in the first 100 plus days.

We have key talent in place, including Jorge, our new GM of Indonesia & Papua New Guinea, who recently joined us from one of the Mexican Coca-Cola bottlers. Jorge has extensive emerging market experience and is great addition to the team.

From a digital perspective we have started on the journey to bring our people together, systems and processes to allow us to collaborate and operate as One across multiple timezones. We are already sharing learnings and best practices and one example of this is the excellent use of analytics that the Australian business has been doing for a number of years.

And as Nik mentioned earlier, we are making progress on our efficiency programmes and the combination benefits we are committed to deliver.

We have also been simplifying ways of working, such as acquiring the minority interest in Paradise Beverages, our alcohol business in Fiji.

And, arguably most importantly, we are already creating long-term growth plans with The Coca-Cola Company to better align our portfolio, focusing on the core. The sale of our minority interest in Made Group, a coconut water, premium juices and yoghurts business in Australia, is a great example of this and we look forward to updating you on further momentum in due course.

And close to our heart as you know, we are working on aligning our sustainability commitments across the broader CCEP.

Damian: Integration update: H2 Focused actions

Now looking forward to the second half of this year.

In a nutshell, this is a slide we showed at the investor event in May and our priorities have not changed.

We continue to work successfully on the integration of API.

We are focussed on growing our core and creating value for our customers.

As I said earlier, we are making great progress on our digital transformation, both to maximise our opportunity online and also to better support our customers, consumers and employee needs.

Investment in our people, their development and their well-being is always front of mind as we continue to go Further Together and navigate the ever changing situation around covid.

And, as always, our focus on sustainability will remain as we want to accelerate our journey to net zero. As you will have heard today, we are making great progress in this area and following *completion of our review of this area in API we will be able to align and update our targets at a CCEP level.*

Damian: Excitement ahead

So, with the rest of 2021 in mind and indeed beyond, here are some examples of what I am especially excited about.

We will continue to support our customers as the recovery from the pandemic continues. We will be helping our customers on their journey to net zero through for example our involvement in the Net Zero Pub & Bar initiative in GB. A project aiming to raise awareness of the climate impact in the hospitality sector.

On the core, watch out for the new Coca-Cola No Sugar taste and packaging launch in Australia, and the exciting new look to our Coca-Cola Zero Sugar Cherry and Vanilla variants in GB. Both of which will be supported by exciting new marketing campaigns.

We continue to roll-out our Costa Express machines across Europe with new gingerbread latte RTD innovation on its way for Christmas.

And as I mentioned earlier, we are well on track to doubling our European energy business. Monster will drive more innovation including new flavours, especially across the performance energy range through the Reign brand.

And last but not least, the continued roll-out of Topo Chico. It is still early days but we are seeing positive initial results in all of the 6 markets in which we have launched. We will start to move into the away from home channel with dedicated plans in Spain and the Netherlands and focus on building that brand & category awareness throughout the months ahead.

Damian: Key takeaways

And, finally to close with the key takeaways for half one which I shared with you at the beginning of this call.

A strong performance delivered by highly engaged colleagues at CCEP to whom I am sincerely grateful.

We are again the #1 FMCG customer value creator in Western Europe and I am pleased that we continue to win share in the market with both gains in volume and value, both instore and online.

Importantly, we continue to accelerate our sustainability investments, and also to invest heavily in our on-going digital transformation.

And as I mentioned earlier the integration of API is well underway and it is very much now part of the CCEP family as our 6th business unit. And we are very excited with the growth plans we are developing with TCCC, for Indonesia in particular over the coming years..

So, now we would like to open for questions.

Over to you operator.

Q&A Section

Participants

Bonnie Herzog, Goldman Sachs
Lauren Lieberman, Barclays
Richard Withagen, Kepler
Edward Mundy, Jefferies
Robert Ottenstein, Evercore
Simon Hales, Citigroup
Charlie Higgs, Redburn
Fintan Ryan, JPMorgan
Sean King, UBS
Bryan Spillane BofA Securities,
Carlos Laboy HSBC
Mitchell Collett Deutsche Bank
Sanjeet Aujla, Crédit Suisse
Eric Sarota, Evercore

Bonnie Herzog

I was hoping to get some color on your recent pricing actions and how these have been received in your markets? I guess, in general, have retailers been accepting? And are you finding that you're -- your pricing actions have been sticking? And then finally, how are you guys thinking about pricing in the balance of the year? And how aggressive do you think you might need to be to potentially offset some of the inflationary pressures certainly that you're seeing? Or maybe touch on what other levers you can pull to offset some of these pressures.

Damian Gammell

Bonnie, yes, we're -- on pricing for '21, as you know, I mean, most of that really was concluded at the end of 2020 and into the first quarter this year as we finalized our kind of broader customer agreements. So clearly, we are happy with the level of pricing we're seeing in '21, and that's definitely supporting a very strong first half of the year, and we'll continue to support our *performance into the second half of the year. We've also been, I think, really starting to benefit from some of the investments we've been making back since '18 and '19 around the revenue growth management strategy and tools. I suppose one of the metrics that I'm particularly happy with is that our revenue per case is ahead of '19 this year, which I think is a phenomenal achievement, given some of the mix headwinds from a channel perspective we've endured.*

So I think we are getting the pricing. We are managing it smarter through RGM. And clearly, as we look through the second half of this year and into '22, that's going to become a capability that we're going to need to use even more to offset some of the headwinds that Nik alluded to around some of the commodities and ultimate cost pressure. We're having those conversations already. I mean, this is not new news to anybody. So we're engaging with our customers to look at our pricing plan for '22. They will be, as in other years, finalize more towards the end of the calendar year and into the first quarter, and we'll obviously be updating everybody on how they're progressing.

But, obviously, it's going to be a different type of pricing environment when you look at some of the headwinds that our sales or competitors. And let's not forget, our customers in Europe are also big suppliers in their own right. So these headwinds are really being felt by everybody. So from that perspective, we're confident that we're going to be able to navigate those challenges. We see them more shorter term in nature. So we are not going to do anything that would jeopardize the long-term health of our category of our brands.

But ultimately, accommodate the price mix for '22 will be what we need to offset those headwinds, particularly in aluminum. But we're already working on that, and as I said, engaging with our customers. So for '21, very happy, particularly happy with our net revenue per case performance. For '22, great line of sight and visibility on the challenge, which always helps and critically good capabilities inside CCEP now to make sure we can pass on that pricing in a sustainable way so we don't do any long-term damage to the head of our brands and to our consumers. So that's how we're looking at pricing at the moment, and clearly, we'll update as we get into those subscriptions at the end of this year and into Q1 '22.

Eric Sarota

Could you address any of the supply constraints that you're seeing across Europe or any of your markets more broadly? Is it impacting your cost of goods more? Or are you seeing any topline impact from supply constraints on the can side or the logistics side?

Damian Gammell

Hi Eric, we've had -- again, in line with the industry, some interesting challenges in '21. And I suppose, the broader one has been around some pressures on aluminum and can supply. I think our supply chain team has done a really good job sourcing cans to minimize our out of *stocks. Our customer service levels remain in the high 90s. So it hasn't really impacted our topline performance and/or customer service levels, and that's been critical for us to maintain that. We've had some unique situations in the U.K. where I'm sure you've read, there's some haulage shortages. So we're working with our customers to minimize the impact of the haulage shortage. And again, we're looking at innovative ways to mitigate that as we go into '22, using different transport solutions. We've had a couple of one-offs in Germany and in Belgium around flooding and a couple of water plants, but again, relatively small in the total mix of our business. So it has been a challenge, but I have to say, when I look at the service levels that we've been able to sustain, our team has done a great job mitigating that.*

And I'll just pass over to Nik in terms of the impact it had on our COGS.

Nik Jhangiani

Yes. And I think as we've highlighted, clearly, some of those challenges are flowing through in terms of outlook for half 2 in terms of COGS and mainly coming from canning supply shortages and then also just the pricing of aluminum stock prices significantly higher than what we had forecasted. So that's been factored into the COGS guidance, but more importantly then into our overall guidance. And then we are seeing some OpEx pressures in some of the markets, as Damian just alluded to, GB in particular, with some labor and haulage issues. But again, that's all been factored into our thinking for 2021. And Damian just talked about the type of actions that we'll be taking for 2022 to protect the business longer term.

Eric Sarota

Great. And then a quick follow-up. In terms of Australia, I know no transactions have been announced yet, but could you provide us any update on your big picture, thinking about the portfolio cleanup work that you had alluded to needs to be done there? Where are you in the process? Where are you in the evaluation of the process? Any update or high-level color you provide would be helpful.

Damian Gammell

Yes. That work is ongoing, Eric. It's something that we identified early on in the transaction has been a source of value for the system, both for us and the Coke company to align our brand portfolio a lot better. So since we've concluded the transaction, we've been working with Peter West and the team and the Coke company in Australia to really set out a medium- to long-term view of the category. That work is now concluded. And then we're now just finalizing within that landscape what other brands that we believe we need to win and create value over the next 3 to 5 years. And that work is where we're at, at the moment. And then clearly, that will lead to some decisions around brand ownership and the timing of the portfolio. And maybe, Nik, you want to comment on the timing of that piece.

Nik Jhangiani

Yes. So as Damian said, we're working through that and we're looking at what we might do with our brand partner, in particular, with Coca-Cola. When we look at some of the portfolios choices for water and flavors, as we've alluded to, and then we're spending some time also assessing what is the right longer-term profile of some of the other categories such as coffee, beer, cider, et cetera. So we're working through that. So I think we'll be able to give you an update, hopefully, towards the end of the year, but all very much on track and on target with our plans.

Damian Gammell

I think the good news on that, Eric, as well is it's really confirmed a lot of our pre-deal assumptions and our ideas. So we're very happy with that as well.

Sanjeet Aujla

A couple of questions from me, please. Firstly, I guess one for Nik on the commodity cost outlook into 2022. Is it reasonable to interpret that mid- to high single-digit guidance on commodities as a sort of 1.5 to 2.5 COGS per unit case impact? Or should I be assuming some mix impact on top of that? And then just on the tax rate guidance going up slightly 21% to 22% next year. Is that a reasonable range to think about more medium term? And are there any cash tax implications we should be factoring in above and beyond that P&L tax rate?

Nik Jhangiani

Sanjeet, on the commodities guidance, right now, obviously, we're working through various elements on overall COGS. So it can be a little premature, but as I said -- as you're aware, the overall profile of our calls mix post the acquisition still remains largely similar. So you're looking at about 25% of overall COGS being the commodities piece. Now clearly, as Damian alluded to, we will be looking at pricing, which clearly had an impact on concentrate in line with our incidence model. And then 2 other factors. I think recovery will continue and volumes will come back, which will support us on the manufacturing side. And then clearly, I think mix should be a net positive. Obviously, that will have a COGS impact depending on the revenue mix implications as well. So early days to give you overall COGS guidance, but we completely look at trends of what we've seen in years '18, '19 and be able to assess some initial estimates based on that commodities guidance.

In relation to the tax question, obviously, clearly, we continue to look at this in terms of what is that medium-term impact look like. I think from an angle of '22, we've given some range. I think that should be doable in '23 as well. Remember, the one main factor we need to keep in mind is, are there any statutory rate changes that can continue to come about. Today, the only one that we know about is, what is planned for the U.K. in that move in '23 and '24, but potentially, that might be reassessed as well. So we'll continue to keep you updated on that. But at least for the next couple of years, absent rate changes, we see that 21% to 22% being sustainable.

Sanjeet Aujla

Got it. And just on cash tax, should that differ from income P&L tax?

Nik Jhangiani

Well, the cash tax piece will continue to defer, but you won't -- in the past, we've seen a bigger delta between the effective and the cash tax rate. You will see that built and know. So I don't think you'll see as much of an impact on the cash tax piece, but that's in line with what we've been having in the past.

Edward Mundy

Two questions, please. The first is on your guidance for the full year, and I appreciate it's really difficult to guide in the world still so fluid and no one's got a crystal ball. But are you making any specific assumptions around the COVID situation within the guide? For instance, do you think -- or do you assume that things improve in API into Q4? And do you assume that things deteriorate in Europe into Q4 with the flu season? And then the second is on the EUR 350 million to EUR 395 million of savings. Are you able to update us on sort of how much is done? And any more color on the phasing for the remainder of this year and also into next year?

Nik Jhangiani

Yes. I mean on the guidance, we've assumed that clearly, there will be a reopening in API coming about in Q4, and that's based on what is known in the public domain today, which is kind of indicating that probably Septemberish or in thereof things to start opening up. So we continue to watch that. The good news is that the impact has not been as severe given some of the restrictions and the business continues to perform strongly, despite some of those challenges. In Europe, obviously, we are not planning for anything significant or catastrophic in terms of changes. For Q4 right now, we expect and hope that the current trajectory should continue.

So obviously, it would have been kind of crystal ball gazing if we try to make all kinds of assumptions because we just have to go with what we know today. In terms of the EUR 350 million to EUR 395 million, I would say to you, everything is very much on track in terms of that delivery. The phasing of what we have committed to for 2021 in particular. I would say to you, all indications are, we will deliver right on, if not slightly ahead of those numbers, but that's been factored into the range of guidance that we provided. And as we finalize some of our plans, particularly as we look at areas that we might be able to offset some of those challenges from commodities, inflationary pressures, et cetera, we will work with the business units to see how might we accelerate some of those into '22 versus '23 and '24. But we'll provide you an update on that probably late in the year.

Damian Gammell

Yes. Just wanted to give a bit more color to Nik's comments. I mean, I think on API in particular, we've been very pleased with how that business has performed, in spite of these new lockdowns. And I suppose we are learning to operate and perform with lockdowns, and I think API is demonstrating that at the moment and I think that's great. As we look through the second half of the year, I think it's really a positive that we could give the guidance we gave. I think that demonstrates our confidence in what we're seeing in our business, despite some of the macro uncertainties.

And I suppose another element, certainly those as based in the U.K., I'm happy to say that I could talk about the weather being a challenge in the second half of the year, particularly as we came out of June. And I think that's also something that we factored in when we look at our full year outlook. So as a bottler, it's kind of nice to be able to reference to weather on an earnings call again. And then as we look through to '22, I suppose we have seen the reopenings in '21 being a little bit slower and a bit more patchy than we would have liked. Having said that, we're still believe we're delivering great results in spite of that. That will obviously, we believe, come back even stronger in '22. So when we look at some of those pressures that we've talked about on the call is also going to be a mix benefit for us as we see Away From Home having a full year of more reopening as we get through the end of '21 into '22. So that's also something that we're excited about as we look through '21 and into '22.

Edward Mundy

Just a quick follow-up on Coke Zero, which has seen really good traction, up 10% versus 2019 levels. Can you perhaps give us your view on sort of how much more of a penetration opportunity? What's the type of runway you've got for Coke Zero, given the money that's gone behind it and also the reformulation?

Damian Gammell

Yes, I think we've got a lot of room ahead. I think we've landed on a formulation that's been really well accepted in the market. I think the visual identity looks great. And we've had a number of different graphic iterations on Coke Zero, and we've developed that brand. I think we've now landed on a look and feel and consumers are giving us positive feedback. If you've been in any of our stores, it looks great on shelf. And that momentum has given us more confidence around some flavor innovation, which will be coming and then also continuing to evolve some of the pack varieties. So I see that brand format being a big part of our growth for a long time to come. It's playing against 2 of the real positives in the category at the moment. Obviously, great taste and the sugar free momentum. And certainly, in some markets, that's still got a long way to go, and we're excited about it. And as I said, it looks great on shelf. So I think that's going to be a big part of what we will be talking about for the next few years.

Mitchell Collett

I've got a couple of questions back on commodities. You gave the 40% hedge rate, which is very helpful. Are you able to comment on whether or not that's the normal level of hedging at this stage of the year. I guess, we're 3/4 of the way through '21. Would you normally be at 40%? Are you able to also perhaps comment on what that input cost inflation would look like on an unhedged basis? So what is roughly the spot right now? And I think you mentioned that logistics costs sit within OpEx, and it sounds like there's probably some headwinds there. Are you able to quantify the increase you're seeing, if any, on logistics costs? And maybe give us a similar steer as to how material logistics costs are for your overall P&L?

Damian Gammell

So Mitch, on the -- I think I picked up your question because you were patching in and out. But on the coverage, hedge coverage levels at 40%, I would say to you that, that would be lower than where I would have liked to have been at this time of year. Typically, we look at our hedging to be on a rolling 12-month basis somewhere towards that 80%. So clearly, where the spot prices have been, we've been looking to lock in as appropriate when we can. And obviously, the areas that we continue to have open primarily is aluminum. We've done well with some of the sugar. And I think, as I said, given where some of the PX and MG pricing is, we should see those be okay for next year from a PET perspective. So the real main challenge is around aluminum, and we continue to be able to look at both the spot pricing and when we should lock in as well as the added premium piece, which is significantly high that cash piece as well.

So having said that, I mean, if you look at 2021, as an example, when we go back and look at our hedging, how do we not have the type of levels of coverage that we had just to give you a perspective where we went into the year close to about 80%. You could have seen on spot pricing upwards of EUR 100-plus million of an impact on our COGS number, right? So clearly, our hedging and doing it at the right time, it does pay off. And we'll continue to look at that and see what we can lock in, but we also don't want to lock ourselves in depending on how things might be moving, right? And we do expect, hopefully, some forecasts that we're hearing that there might be some type of reprieve. But again, no crystal ball that any of us have. So we'll see how that plays out.

On logistics costs, yes, you're right. That is largely a part of OpEx because you do have some element of that in COGS, depending on your – you have freight between plants to warehouse, et cetera, as well. Clearly, we've managed through that cost and that's factored into our guidance. I think it will be premature to give you any indications on 2022 for now until we have a better view. So we'll provide you an update on that in due course.

Mitchell Collett

Okay. And just to come back on my second question, which maybe my sound quality wasn't great at the time, but I was really looking for, what is the spot today? If you haven't -- you weren't hedging for next year and you had to cover your costs at spot as of now, roughly what sort of level of inflation that you'd be looking at versus the mid- to high single-digit range you gave on a hedged basis?

Nik Jhangiani

Well, it would probably be that high to, if not even, low teens with that 40% hedging and that lock-in of some of the areas that I talked about.

Bryan Spillane

A couple of quick ones. One, just a follow-up on that last question on COGS. Just -- Can you just -- are there any issues with labor? We've -- we're seeing it a lot here in the states. It's not just labor cost pressure, but it's like labor availability, I guess, for lack of a better way to put it. So maybe that's the first question is, just is there any pressure on either one of those, whether it's labor cost pressure, but more importantly, just staying fully staffed, I guess?

Damian Gammell

No. I would have to say, we've really navigated some of those challenges well at CCEP, and we've also invested a lot of time and efforts to keep all of our employees safe during the pandemic to minimize any disruption and obviously, to protect our health fundamentally. So we haven't seen it internally at CCEP. We have, I suppose, back to my earlier comment on the U.K. haulage challenges, which is really external because as you know, most of our haulage is externally sourced. So we have seen a number of our large contract partners struggling in the U.K. on labor. They're going to need drivers. And that's a combination of demand, Brexit, COVID impact and people finding where to work. So I suppose that's the one area that has kind of touched CCEP. But again, it hasn't been the problem for us generally across all of other markets, and even in the U.K., we're maintaining reasonably good service levels, despite that challenge. And we continue to focus on how we can mitigate that. So we haven't -- I've been looking at what's been going on in the U.S. We haven't seen that trend in Europe or API or Indonesia.

Bryan Spillane

And then the next one is just, Damian, can you -- as you're looking at the commercial plans or developing the commercial plans in API, things that you might look to change or swapping best practices. Can you just give us some sense of how COVID or just how this environment right now is affecting the planning and then the execution? So I guess what I'm trying to understand is just will there probably more -- just is there going to be any delay or any timing effect in terms of implementing maybe some of the changes that you have identified just because the *environment is not conducive?*

Damian Gammell

I don't see that, Bryan. Actually, I think we've -- as I mentioned in my comments, we've been really pleased with how quickly we've moved with the integration of API, not just from, I suppose, a formal integration, but really from getting it in a 6th BU. As you said, sharing best practices and learning from Australia and New Zealand and from Europe. So I haven't seen anything that is slowing this down because of the pandemic in terms of sharing and reapplying. In some ways, we've been able to share a lot of what we went through in Europe with Australia in particular now as they've gone into further lockdowns because we have something.

Unfortunately, we've been quite experienced at navigating. So no, it happens. I suppose we are looking at the recovery, both in Europe and in Australia as we go into '22, and how can we even go faster together. I'm very pleased that Jorge has joined to lead our Indonesia business because again as that recovers through the pandemic, I think there's a lot we can do together with the Coke company. So other than it being a challenge to physically get to Australia due to some of the regulations, despite that, I'm really really, really pleased with where we are as a team, ahead of my expectations, to be honest, by at this stage.

Bryan Spillane

Okay. Great. And just last one, I made this request to Sarah. Maybe the next slide deck for the next call, you need a picture of you and Nik posing with the Candler Cup.

Nik Jhangiani

You don't want to see us holding it, you want to see Chris Litchfield, our GM in New Zealand holding it.

Fintan Ryan

Most of my major ones have been answered, not going to go down the route of commodity costs at this point again. But I'm just interested now that you sort of had the range of API for just over 3 months, if you give any insights specifically around the Indonesia business. How is your development or sort of presenting that in a few weeks back and the commercial bond there next year, the post-COVID welcome? And secondly, again, it sort of relates to the Topo Chico launch in Europe, but any learnings that you're taking from the alcohol business in Australia, and what you can sort of bring to that business in Europe? And also, I appreciate that i think the Topo Chico launch within Australia is going to be held by a third party, but how would that conversation come in place? And what's the relationship with Beam Suntory? Is there any tension there potentially?

Damian Gammell

Thanks, Fintan. So maybe first to touch on -- so API, as I suppose we alluded through, it's ahead of our expectations on a number of levels and since we've taken over that business, and we're very pleased with where we are. On Indonesia, in particular, I think it's impossible not to be excited about that market. When we look at the macros, when you look at the size of the population, per capita levels, GDP growth. Unfortunately, it's clearly suffering from COVID at the moment, but I'm particularly pleased with a new GM in place. We've taken the time as we looked at the API business to do a full top-to-bottom analysis of the industry there, the categories and our business. Clearly, that's pointing to a number of decisions that we feel very good about, really focusing on our core brands in Indonesia, particularly Coke, Fanta, Sprite.

Building on some of the work that has started on the Amatil around affordability, particularly on sparkling small packs and taking the opportunity to look at our route to market and our cost to serve. So that work is ongoing. Obviously, Jorge, with his experience, both in Asia and Mexico, is bringing some great insights into that conversation. And as we look forward to the end of the year and to our next Capital Markets Day. We will obviously be able to share even more around the detailed plan for Indonesia. But a lot happening, very good Ramadan period for our business. So that's obviously given us some encouragement.

On Topo Chico and on the alcohol, and as you said, prior to us acquiring Amatil, Topo Chico distribution was through a third party. That's something we'll continuously look at with The Coca-Cola Company. And taking in mind, obviously, we have a great relationship with Beam Suntory. We have a great business there. So that's something that we are continuing to learn from. And as we look at Europe, clearly, there's been a lot of, I suppose, experimentation in the Australian business around beer, cider. That's something that Peter was looking at as well to see what can we learn.

And we've also, as you know, had a number of markets in Europe where we've looked at alcohol distribution and partnerships. So combining all of that together. On Topo Chico, it's been a very interesting move for the system would have benefited from a little bit better weather in Europe, if I'm being honest, but it's something that we're encouraged by the category. And over time, we just have to look and see how do we look at that outside of Europe, but ultimately, we're very pleased with the way the business is structured at the moment, and we'll come back to that agreement at a later time.

Charlie Higgs

I've got 2 questions, please. The first one, I was wondering if you could talk about your business? And have you seen any impact from The Coca-Cola Company's decision last year to change its business structure, particularly things like separating trademark Coca-Cola from the flavors. And then also, have you seen any benefits from platform services? Or if that's still to come? And then the second one, your Coca-Cola, the DTC business here in GB looks to be going great guns. So I was just wondering if you had any thoughts about potentially expanding *that into any of your other markets?*

Damian Gammell

Thanks, Charlie. Yes, maybe I'll start with the last point. Yes, we've had a lot of fun and a lot of excitement with our direct-to-consumer business in GB. It's still early days, but I think it's proven to be a really interesting move for us to build brand value and to engage with consumers in a different way. And I mean we're getting a lot of positive feedback of people proposing to people by using one of our cans with a dedicated message on birthdays. And so that's been something that we've learned a lot from, and clearly, we're going to look at whether we can reapply that to other markets, particularly Australia, Spain, Germany are big markets. So that's work in progress.

And I think on The Coca-Cola Company, we are seeing improved collaboration and more alignment. I think a culmination of the moves they made in the networked organization and also, candidly, the need to make bigger and bolder decisions due to COVID has just brought us closer. And I think having to align due to the COVID challenges faster and quicker around priorities is just move the system to an even stronger place in my view around how we work together and how we collaborate. I think the decisions on brands, I think they're made market by market and very much aligned with us around the role of flavors. And obviously, as we mentioned earlier, we're very happy with the new Coca-Cola Zero performance. So overall, positive. And we've also had the chance to work a lot closer with them, particularly in Australia and Indonesia, we wanted to validate some of our deal assumptions around what we can do with those businesses. And in particular, as we talked about earlier, the brand portfolio in Australia. Yes. So a lot happening with certainly a stronger level of collaboration and transparency, I think, due to both those factors.

Nik Jhangiani

Yes. And I would just add. I mean in the same vein as having set up what was the cross-enterprise procurement group with the moved platform services, there's a lot more engagement on a cross-enterprise collaboration grew to ensure that both areas such as finance and integrated shared services, business process and technology, there is a lot more sharing of learnings and leveraging that across the system, which I think is a great positive as well.

Carlos Laboy

Damian, is your digital capability advanced enough at this stage of your journey that if you don't get the pricing that you want to cover some of these raw material costs, you're have enough in trade discount management through these tools for next year that maybe you can offset a lot of this impact?

Damian Gammell

Thanks Carlos, I think when we look at some of the digital analytics capabilities that we started building coming out of '18 and '19, certainly, one of the areas that has given us the most insights and value has been around the whole promo effectiveness to understanding where we invest on price promos and the return both to our retailers, but also obviously to CCEP on a profit level. As we look through to '22, we spend a lot of money on straight promotions. It's our biggest investment in our business when you look at it from the top line. So clearly, we want to use that capability to, as I mentioned in my comments, to be smart about the pricing we're going to take in '22.

So clearly, we're hedging. We're becoming more efficient and predictive as a company. Well, ultimately, we are going to take pricing in '22 to offset some of those headwinds. What we want to do in a way that doesn't jeopardize the long-term health of our business and our customer relationships. And one of the deltas for that is certainly what you've called out, which is to be a lot smarter about how we use existing investments on price promo. On the analytic tools, we've developed give us that transparency and that's something we didn't have a number of years ago. So it's absolutely part of that decision process around how do we take pricing, how do we mitigate any negatives on our consumer or customers and how do we use that big, big bucket of cash investment on price promo to make smarter decisions. So yes, short answer, but absolutely correct.

Carlos Laboy

And just very quickly. On Indonesia, you spoke about a recycling investment. Can you speak how your thinking is evolving there as you look at that market on refillables?

Damian Gammell

Yes, that's something we're looking at, at the moment to see is there a role for refillable packaging in Indonesia. It was done many, many years ago, but the system exited out of it. It's serving the pack format that I've used in a number of emerging markets to drive affordability and sustainability. So clearly, it's something we're going to look at to see should that be part of our future pack pricing mix. So that's some of the work we're doing at the moment, Carlo. So as we get clarity in that towards the end of the year, we'll be able to provide a bit more color on the roll of refillables in Indonesia.

We're also continuing to use refillables in Europe. We just launched a 400 ml RGB glass pipe in Germany, refillable. I was in the market that recently looks great on shelves. So that's a very different use of refillable not so much on the affordability play, but much more around sustainability and premium and that's in on the go. So we're continuing to look at how refillable can play a role, not just on the traditional affordability piece, but ongoing on the sustainability agenda in some markets. So in Indonesia, it will be key to that, absolutely.

Sean King

I apologize if I missed this, but what are you seeing in terms of market shares in the away from home channel that they return? And any efforts that you're making to kind of lean into that reopening opportunity?

Damian Gammell

Thanks, Sean. Yes, we're seeing, and obviously, in Northern Europe, Away From Home reopening very strongly. And we put in a number of programs coming into the second quarter actually to support our customers on reopening from basic cold drink equipment post mix readiness through to promotions. Digital initiatives, particularly in France and GB, have gone really well. So that's obviously supporting our customers and supporting our share. So we continue to performed extremely well in Away From Home. In other markets, it's reopening a bit slower, particularly in Liberia, and that's mainly on the back of tourism and a slower recovery in tourism during the summer.

But we're seeing about 90% of the outlets reopening. So that's probably higher than we originally anticipated. So it's a very resilient segment in HoReCa across all of our markets. So we'd expect that to continue into '22. And then obviously, the biggest sale for them will be footfall. So as people get back to the office, transportation, tourism, we'll see footfall and HoReCa continue to improve. And we can see that already in markets like the U.K., which is probably further ahead than some of our other early European markets. So we can kind of pretty much track how that's going to progress and then work with our customers to make sure we've got the inventory in place. We've got promotions in place. And as I mentioned earlier, that will be a benefit as we look through to '22 in terms of our mix and as new away from home channels come back even stronger.

Simon Hales

My first question. Perhaps, you partly answered this, perhaps, in response to Carlos' question around digital capabilities. But coming back to the whole price negotiations with customers as we head into the year-end. Clearly, most consumer companies are facing significant cost headwinds and need to price. I just wonder if there's anything from a CCEP side specifically that you think gives you an advantage relative to other FMCGs to be able to get those pricing negotiations over the line? And then secondly, when we think about sort of elasticity of demand to those pricing moves, how are your assumptions there perhaps evolved over the last sort of couple of years, given the portfolio change we've seen, the changes to package mix, et cetera, in the business? Is there anything you can share with us there?

Damian Gammell

Thanks, Simon. Well, clearly, we're very focused on that whole pricing strategy, and it's something that we've -- I think since we created CCEP, it's been part of our story around price/mix and leading those pricing conversations with our customers. What gives me some *degree of confidence is really the value creation story that we've laid out. So we've consistently generated the highest amount of revenue for our customers, not just within drinks, but across NARTD. And I think that gives us a good seat at the table to discuss proactively with our customers, what's the right decision to make for the category and obviously, for both of our businesses. So I think that value creation platform, if you just look at the size and scale that we now represent of our customers' revenue and profitability,*

I think that's clearly something that gives us a strong platform.

Secondly, brand love. I mean, I think we are very, very forced to have some -- well, certainly, the best beverage brands with some of the best brands across NARTD, better consumers and shoppers as well. We never take that for granted, and that's why we take pricing decisions not just on a 1-year basis because we don't want to damage that relationship. But clearly, that gives us a lot of confidence in terms of brand strength. And that also flows through to the elasticity point that you've made.

And we clearly know in some channels and some occasions that we have a lot more pricing elasticity than we probably realized a number of years ago, and I think that certainly going to support our pricing objectives. And then mix, we haven't talked a lot about pack mix today, but obviously, from a beverage category perspective, we've introduced a lot more premium small packs. On the go has been impacted by the pandemic. That should come back and our IC mix should come back. So while that's not direct pricing. Clearly, it plays in the whole net revenue per case evolution, which is what we're focused on and getting that ahead of the commodity headwinds. So all of that together, I think, helps.

I think the second aspect that we raise is that we'll continue to invest in our business. So when we sit with customers and we talk about pricing, we're doing that on the back of multiyear investments with the Coke company in media and advertising. Our trade marketing investment remains, our capital investment remains and we're still investing in innovation, whether it's with the Monster company or with the Coke company. So it's never easy, and I think anybody who has sat in front of a customer and talked about pricing will affirm that, but I do think we positioned ourselves as best we can for those discussions. And as I said, they've already started and that gives us confidence in what we've laid out today.

CLOSING REMARKS

Damian Gammell

Thank you, operator.

And again, I just want to thank you to everybody for joining us this afternoon and this morning. Myself and Nik have laid out a very strong start to the year in the first half, and we're very, very pleased with that. Also really pleased that our integration of API continues to go really well. We are now very much focused on delivering the full year of 2021, and we're looking forward with excitement through to 2022 as we continue to come out of the pandemic and the COVID restrictions that we've seen across our business in 2021. As both myself and Nik have talked to today, we believe we're well positioned to manage some of those shorter-term inflationary headwinds. And in parallel, we're very much focused on the long term of this great business across a number of areas, but in particular, our sustainability journey, our digital investments, and finally, and most importantly, our people.

So, with that, I'd like to end today's call. And again, thank you for joining us, and we very much look forward to speaking to you again about our great business at CCEP. Thank you, everybody.

END