COCA-COLA EUROPACIFIC PARTNERS
Q4 & FY 2022 Results
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 Nik Jhangiani, our CFO.

Before we begin with our opening remarks on our results for the Fourth-Quarter & Full-Year 2022, 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.

Unless otherwise stated, metrics presented today will be on a comparable and FX neutral basis throughout. Any growth rate will alsobe presented on a pro forma basis. With a full financial year as Coca-Cola Europacific Partners behind us, please note that pro forma growth rates will no longer be relevant when talking about FY23 and beyond.

Following the call, a full transcript will be made available as soon as possible on our website.

And finally before I turn over the call to our CEO Damian, if you live in GB, please do not worry about the recent news coverage about the much loved brand and one of my personal favourites, Lilt. It is not disappearing but being rebranded as Fanta pineapple and grapefruit.

So on that positive note, over to you, Damian.

Damian Gammell: Prepared remarks

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

Before we start with our key messages, I'd particularly like to thank all of my colleagues at CCEP for their incredible commitment and hard work throughout what was our first full year as Coca-Cola Europacific Partners.

And indeed what a great year it has been.

I am delighted with our financial performance, achieving strong top and bottom-line growth with revenue and profits both ahead of 2019 levels, value share gains and very impressive free cash flow generation. This has allowed us to pay a record dividend to our shareholders.

As a diverse and sustainable bottler, we firmly believe we are well placed for growth in 2023 and beyond. We also operate within a resilient and growing category, with great brands, that our consumers continue to love. We will continue to invest and innovate in these brands and their packaging, supporting a solid growth platform for all our customers.

We are confident in the future and are fully committed to the higher mid-term objectives announced at our capital markets day in November.

And finally, we are very proud of our strong relationship and alignment with the Coca-Cola Company and all of our other valued brand partners.

So this slide and graphic will be familiar. We have a clear but vital purpose: to refresh Europe and API and critically to make a difference for all our communities and our stakeholders.

And we have a clear focus around great people, great service, great beverages, all done sustainably, for a better shared future. So, now I'd like to touch on each of these areas as we look back at 2022.

CCEP's ambition for growth and sustainability depend on our great people, and the well-being and safety of our colleagues remains our number 1 priority as a company. We finished 2022 with a world class safety performance.

We are committed to encouraging all our employees to live happy, healthy lives, so that they are engaged at work and able to perform at their best. I am pleased many of you got to see this for yourselves during the market and plant tours as part of our recent capital markets event in London.

We now offer a new Employee Assistance Programme or EAP in all markets, providing all our employees with access to counselling, advice or specialist information.

We accelerated our diversity and inclusion progress and this continues to be recognised externally too. I am pleased that we were recently included on the 2023 Bloomberg Gender-Equality Index for the third year running. This demonstrates our commitment to gender diversity and equality, and fostering an inclusive culture for everyone at CCEP.

We continue to encourage a culture of innovation and improve our digital tools in the workplace. And we were awarded gold at the UK employee experience awards in recognition of our progress.

Great service remains a key priority and is a critical driver of our performance.

Once again, we were the largest creator of value in the retail channel for our customers within FMCG in Europe and in NARTD in API, according to Nielsen.

And in Australia we were the largest value creator within the alcohol category too, gaining over 250 basis points of value share in the RTD space.

I am extremely proud of the way we successfully navigated supply chain challenges throughout the year and importantly continued to invest, ensuring our products were available on shelf and online, and maintaining our high levels of customer service. This year we installed 4 new lines, and upgraded 2 existing lines, helping us to meet the growing consumer demand for our beverages, whilst also delivering a range of sustainability benefits. For example, our new state-of-the-art can line in Moorabbin, Victoria is able to make up to 1,700 cans per minute in a variety of formats including mini cans, whilst also using less water and less energy than our existing lines.

In recognition of world class customer service & execution, the Netherlands were the runner up in the annual global Coca-Cola bottler competition – the Candler Cup.

And we have seen some great activation, particularly around the World Cup and throughout the really important festive periods of Ramadan and Christmas.

On digital, we continued to accelerate our B2B platforms, hitting record revenues of €2 billion in 2022, that was up 50 percent versus 2021.

And finally, through our Ventures programme, we recently partnered with two universities who will be undertaking academic research into Direct Air Capture at our sites to help us reduce carbon emissions on our journey to net zero.

We are extremely privileged to make, move and sell the best beverages in the world. And we continue to recruit new shoppers across our portfolio. In fact in Europe, over 75 percent of households purchased from our NARTD portfolio in 2022, that's up 70bps versus last year.

You will recall that we rolled out a new taste, new look and a new campaign for Coca-Cola Zero Sugar across our markets throughout 2021. This has been a great success, driving volume growth of 10 percent in 2022 or an impressive 23 ½ percent when you compare it to 2019. Coca-Cola Creations were also a great success in 2022 with more excitement and new flavours to come this year.

Within flavours, new Fanta flavour launches and the latest What the Fanta campaign continued to drive excitement for our consumers, particularly over Halloween. We also launched Sprite Lemon plus, with added caffeine, in Australia with really promising early results.

Monster continued to gain share through innovation, with more flavours launched in the Juice and Ultra ranges during 2022.

In coffee, we launched the new Costa Frappe range and in Australia, Suntory's Minus 196 double lemon, a brand that has proved really popular in Japan, continued to deliver solid growth.

And all of this will continue to be done more sustainably.

Our This is Forward commitments were extended to our API markets in 2022, resulting in a unified action plan for CCEP.

We continued to make great progress against our commitments and are taking action where it matters most.

In Europe, we launched tethered closures on our PET bottles in seven markets with more to follow in 2023. This new design, which includes a lighter weight neck, is estimated to save at least 1 gram of plastic per bottle – equating to approximately 15,000 tonnes of CO2 and over 9,000 tonnes of plastic a year by 2024.

In Australia and Indonesia, we invested in new PET recycling facilities. These collaborations are a step forward towards creating a circular economy for PET and will continue to further accelerate our journey towards the ultimate goal of using 100 percent recycled or renewable plastic.

Four more of our production facilities became carbon neutral in 2022, totalling six to date across different markets.

Our progress continues to be recognised and we are proud to have retained our coveted CDP and MSCI ratings for the 7th consecutive year. CCEP was also recognised for its sustainability leadership within the Coca-Cola System by winning the prestigious 2021 J.Paul Austin Award.

And finally, I have the pleasure in sharing that CCEP recently became a member of the Ellen MacArthur Foundation – an important partnership as we continue our efforts to transition to a circular economy.

So, all in all a great year of progress.

Turning now to our 2022 performance highlights.

We're really pleased with our top line performance. The continued recovery of away from home and further growth in the home channel helped drive a 9 ½ percent increase in comparable volumes.

Our continued focus on revenue growth management and in particular our efforts to actively manage headline pricing and optimise promotions across our broad pack offering, drove solid revenue per unit case growth of 6 percent. This is ahead of pre-pandemic levels but below realised cost inflation, reflected in our margins, as we continue to prioritise relevance and affordability of our brands for the consumer.

We continue to win with our customers, and this momentum is evidenced by our NARTD value share gains and value creation.

Our continued focus on driving efficiencies, which Nik will cover in more detail shortly, helped drive solid operating profit growth of 12½ percent.

This all resulted in impressive adjusted free cash flow generation of €1.8 billion enabling us to pay a record dividend to our shareholders.

And as mentioned earlier – we've made great progress on our sustainability initiatives.

I'd now like to hand over to Nik to talk in more detail to the financials. Nik.

Nik Jhangiani: Prepared remarks

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

Let me start by taking you through our financial summary.

We delivered total revenue of 17.3 billion euros, an increase of 15 ½ percent, and our COGS per unit case increased by 9 percent, both of which I'll come back to shortly.

We delivered comparable operating profit of 2.1 billion euros, up 12 ½ percent, reflecting our solid top line growth, the benefit of our on-going efficiency programmes and our efforts on managing discretionary spend.

In line with our guidance, our comparable effective tax rate increased to approximately 22 percent, from 21 percent in 2021. This is largely due to differences in the mix of taxable profits across our different territories and the reassessment of our uncertain tax positions.

This resulted in comparable diluted earnings per share of €3.39, up 14 percent.

Free cash flow generation continues to be a core priority and we delivered an impressive 1.8 billion euros on an adjusted basis during 2022 and I'll cover that in more detail in a few moments.

And finally on shareholder returns, we paid a total 2022 dividend per share of €1.68, up 20 percent versus 2021. In absolute terms this equates to total dividends paid of approximately €760 million which, as Damian mentioned, is the largest payment in our Company's history.

So now if I turn to our revenue highlights.

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

Unsurprisingly, the most significant improvement has been in our away from home volumes given last year's base was still impacted by lockdown restrictions. That said, we are pleased that our away from home volumes have broadly returned to 2019 levels, with traction in immediate consumption and the rebound in tourism. GB has been the standout here, with away from home volumes in double digit growth versus 2019 and Iberia with strong recovery to slightly above 2019 levels as well.

Strong trading in the home channel continued, benefitting from the increased at-home occasions as well as the continued growth in online grocery, with volumes up 4 percent versus 2021 or up 6 ½ percent versus 2019.

So volumes were slightly softer in the fourth quarter, up 1 ½ percent, impacted by some customer disruption in Germany as well as tougher prior year comps.

Excluding this customer disruption, volume growth in the home channel would have been positive in the fourth quarter versus the -1 percent detailed in the release. I am pleased that we were able to resolve this customer negotiation during the quarter and as Damian referenced earlier, our priority is, and will continue to be, to lead the category for sustainable value creation for all our customers.

Moving now to revenue per unit case which grew by 6 percent for the full year, reflecting the strong growth in away from home but also testament to our revenue growth management initiatives, with positive headline price, pack and brand mix. Unsurprisingly pricing took a bigger role in 2022 compared to previous years given the inflationary environment, and we successfully implemented both our first and second round headline pricing strategies across all markets, and I'll update on 2023 shortly.

Revenue by segment is also referred to here. You can see more detailed commentary by geography in the release but at a headline level, Great Britain and Iberia were the stand outs but with both Europe and API ahead of 2019 levels on a revenue basis.

So moving now to COGS/UC which increased by 9 percent, slightly ahead of our 8 ½ percent guidance. This difference was primarily driven by higher concentrate costs as a result of our incidence pricing model. This is, as you know, directly linked to our revenue per unit case growth which was stronger than anticipated as a result of our successful RGM and second round pricing initiatives.

As expected, we saw commodity inflation in the low twenties, in line with our guidance, reflecting higher aluminium and rPET pricing as well as the impact of higher gas and power pricing on our conversion costs, this part being more second half weighted.

Now moving to opex and our efficiency programmes.

We have now delivered over 90 percent of our FY21-23 programme which ultimately will amount to approximately €375 million of benefits in total. We will deliver the final €30 million during 2023.

And in November we announced a new efficiency programme aiming to deliver €350 to 400 million of incremental savings by FY28. As a reminder, these benefits will be weighted towards 2024 and beyond.

You can see on this slide that a percent of revenue, our opex continued to decline in 2022 reflecting our extremely disciplined focus on driving efficiencies throughout the cost base, more than offsetting our underlying cost inflation as well as the increase in our volume related costs, and of course TME which has naturally increased to support our top line growth. Importantly our opex has declined not only compared to last year, but more importantly around 200 basis points lower as a percentage of revenue, compared to 2019.

Going forward we will continue to manage costs very tightly but do anticipate further inflationary pressures in areas like labour and haulage as well as a certain element linked to volume growth this year.

So, turning to free cash flow in more detail, a hugely important metric for us and for you as well.

We generated €1.8 billion of adjusted free cash flow in FY22 and this slide lays out the key components.

Recognising the importance of targeted investment, we spent approximately €600 million in capex, excluding leases, on supply chain, digital and other technologies, as well as cold drink equipment.

And as you know, working capital remains a core focus for us and I am really pleased that we delivered yet another year of significant benefits. This included a notable improvement in API as we rolled out our proven working capital initiatives in that region. For example, we have now aligned API's annual incentives to Europe so that it incorporates free cash flow as a targeted metric, which has naturally encouraged more focus on improvements. This has helped drive approximately €120 million of working capital improvements in API since the acquisition, taking the cumulative amount, including Europe, to approximately €1.2 billion since 2017. A remarkable performance.

Finally, you will see our reported free cash flow also includes the benefit of a VAT refund in Spain amounting to approximately €250 million. We have excluded this from the adjusted free cash flow to allow for better comparability given the unusual nature of this item.

And now to our leverage and balance sheet. We ended 2022 with a net debt to adjusted EBITDA ratio of 3.5x, demonstrating the pace of deleveraging since we closed the Amatil transaction in May 2021.

Given our strong focus on driving cash and working capital improvements, we remain confident that we will reach the top end of our target leverage range of 2 ½ to 3 times by the end of 2023 while remaining fully committed to our strong investment grade ratings.

We have a strong and flexible balance sheet and as a reminder we won't need to refinance any of our existing debt for another two plus years which is certainly helpful in the current volatile rates environment.

Moving now to API and an update on some of our portfolio initiatives.

We have now exited beer and cider in Australia as planned, and the majority of the proceeds have been received from the sale of our CCEP-owned NARTD brands as well.

And we have a more streamlined portfolio in Indonesia, focused on our core sparkling and tea categories, which has allowed us to manage our supply chain more efficiently and deliver even better service to our customers across key calendar events like Ramadan and the Chinese New Year.

Indonesia is a hugely exciting and attractive market for us, and so we're really pleased to announce the purchase of The Coca-Cola Company's 29.4 percent minority stake in our Indonesia business, increasing CCEP's ownership to 100 percent. This was for a total consideration of €282m and please note that this price includes a significant amount of cash on the local balance sheet and represents KO's fair share of that cash.

While this transaction will be EPS accretive, it will have a minimal impact at a group level for FY23.

This now simplifies our ownership structure while demonstrating our commitment to the future of this exciting market. In fact, the more time Damian and I spend in Indonesia, the more excited we get about the opportunities ahead.

This is a market with a fantastic growth opportunity in the NARTD category of over 10 percent a year. We're already seeing promising results from some of our portfolio initiatives, evidenced by a 7 percent increase in revenue per unit case versus 2019, and so we're looking forward to the longer-term value creation opportunities that this market offers as we continue to reshape our route to market to be fit for purpose.

So let me move on to guidance for FY23 which now reflects our view of current market conditions.

We expect revenue growth of 6 to 8 percent and COGS/UC growth of approximately 8 percent, both of which I'll talk to more on the following slide.

With our continued focus on opex management, we will look to deliver operating profit growth of 6 to 7 percent. From a phasing perspective, we anticipate low single digit operating profit growth in the first half reflecting the cogs per unit case comp.

Please note that these growth rates are all provided on an fx-neutral basis, and whilst too early to provide specific FX guidance, for modelling purposes we do expect to see a translational FX headwind for the year at current rates. We will of course continue to update you as the year progresses.

On interest, we do expect a small increase versus 2022 given the impact of higher rates on our floating note exposure at around 10 percent of our debt, as well as the loss of interest income associated with the net cash outflow from the Indonesia minority buyout.

As I referred to last year, we do anticipate an upward trend on our effective tax rate driven by known tax rate increases. We therefore expect our ETR to increase to around 23 percent this year, with the UK tax rate increase from 19 to 25 percent, effective from April this year, being the main driver. We will continue to update you on our expected ETR, including our assessment of any uncertain tax positions, as the year progresses.

We will continue to maintain our progressive dividend payout ratio of approximately 50 percent.

And finally, we expect to deliver free cash flow of at least €1.6 billion after our capital expenditures which this year are expected to be in the range of 4 to 5 percent of revenue excluding lease payments.

So let me now provide a bit more colour on our revenue and cogs guidance.

First to revenue.

In terms of shape, revenue growth will be mainly price/mix led, driven by our anticipated headline price increases in 2023 combined with the annualised impact of last year’s second round of pricing. We will also continue to focus on driving promotional efficiency, all of which will help us to offset some of the inflationary pressures that we are still seeing across the industry.

Our main priority is to remain affordable and relevant to the consumer and, as such, we continue to manage the business for the longer term with overall realised pricing tracking below inflation to date.

We have great brands, which our consumers love, and on the back of ongoing investment and innovation in brands, product and packaging, our category and brands continue to support a solid growth platform for all our customers.

The NARTD category remains resilient to date. Ultimately, we believe we can at least maintain or grow our share of the category, led by our great brands and best in class capabilities and execution; all underpinning our guidance of 6 to 8 percent revenue growth this year. And our customers will continue to share in our success too.

We've made structural changes to our business in recent years which has positioned us more favourably for a volatile macroeconomic environment.

As you know, approximately 40 percent of our volumes come from the more inelastic away from home channel which is naturally somewhat more resilient in challenging times.

And in the home channel, we've made bold strategic decisions in recent years targeting value over volume and improving the underlying profitability of the channel. We've step changed our recommended price pack architecture to address different consumer needs and now confidently play across a spectrum of package formats and recommended price points. We also continue to actively manage our headline pricing and optimise our promotions through smart RGM.

So we feel good about our category and our leadership position within it. And despite what we see as a very dynamic external environment, recent trading has not indicated any significant changes in the underlying consumer demand.

Moving now to COGS and clearly these comments are based on what we know today.

We expect COGS per unit case to increase by approximately 8 percent, weighted more to the first half given the comps from last year as previously disclosed.

This reflects higher concentrate costs tied to our revenue per unit case growth, which, as we mentioned earlier, will be the main driver of revenue growth this year. You'll notice on this chart that concentrate now accounts for approximately 45 percent of our total COGS, versus the 50 percent previously indicated, given the inflationary pressures we saw in 2022 through the commodities line.

We now anticipate commodity inflation of approximately 10 percent, versus the mid-teens previously communicated, as we've seen some respite in spot prices for certain raw materials such as aluminium. That said, our indirect exposure to higher energy and transport costs continues to drive inflation through our conversion cost line, accounting for approximately half of our total commodities exposure.

From a hedging perspective, I am pleased to say that we are now approximately 85 percent hedged for 2023 and approximately 45 percent for 2024.

Of course, we will continue to see other inflationary pressures within COGS such as labour, gas and power mainly through the manufacturing line.

Clearly, all this guidance is based on what we know today. Given that there is still some volatility, particularly in our indirect non-hedged commodity exposure, we will continue to update you as the year progresses.

And on that note, I'll pass back to Damian who will share a bit more on what you can expect from our portfolio this year. Damian.

Damian Gammell: Prepared remarks

Thank you, Nik.

And indeed, we have plenty to look forward to with some great plans in place with all our brand partners.

We will continue to invest in Coca-Cola Zero Sugar with some fantastic activation planned around the FIFA Women's World Cup in Australia and New Zealand.

In flavours, we'll continue the excitement with What The Fanta, launch Kirks Orange in Australia, and refresh Sprite across Europe with a new irresistible taste.

And our 'smooth' campaign will drive consumers to try our great tasting Costa ready to drink range.

Innovation will continue to be a core driver of our growth in energy. We will launch even more flavour extensions, and the first ever energy coffee offering in Australia with Monster Java Loca Moca and Mean Bean.

And of course, we are extremely excited to be launching our Jack & Coke assortment in GB, Spain and the Netherlands. Hopefully many of you were able to sample this at our recent capital markets event. If not watch out, it'll be here soon!

Before we close, I wanted to take this opportunity to recap the new objectives we set as part of our capital markets event in November.

We have a lot to do, but as we build on our current momentum, I am confident that we have the right strategy to deliver on these ambitious targets.

So, finally to recap our key messages.

2022 was another successful year for CCEP – with strong revenue growth, share gains and further value creation for our customers.

This, alongside our continued focus on driving efficiencies drove solid bottom line growth and free cash flow, enabling us to pay a record dividend to our shareholders.

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

We are operating in a dynamic environment, but as the leader in what is a resilient and growing category, we are confident in our plans for 2023 and are firmly committed to our ambitious midterm objectives.

And of course, the foundation of our success is the great alignment and partnership we have with The Coca-Cola Company and our other brand partners.

So to close, I'd like to once again thank all of my colleagues at CCEP who can rightly be very proud of what we all achieved in 2022.

So, thank you very much – Nik and I will now be happy to take your questions.

Over to you operator.

Q&A

Edward Brampton Mundy - Jefferies LLC, Research Division - Equity Analyst

Damian, Nik, just got one question then. So you saw some pretty strong revenue per case in Q4. Could you talk about progress in pricing so far year-to-date and the cadence of pricing through 2023, given your joint value creation model with key customers.

Damian Gammell

Yes. So we've been really pleased, I suppose, going back a number of years of CCEP at our focus around revenue growth management and our NSR per case realization. And I think even during COVID, was one of the highlights of being able to deliver strong NSR per case growth. On top of that, we've seen our customers also expand our margins as well, which I think is great for our business and for theirs. So clearly, we're in the middle of negotiating pricing for 2023. We've successfully landed it in a number of our markets. So we're very pleased with that. We've got the flow-through of our pricing from the second half of '22. It was unusual for us to go back to the market for a second price increase. And that's something that will remain an option as we look at 2023, again as well.

So as we see how the year turns out. Clearly, it's something that we look at again. Overall, I'm quite pleased with where we are today as we're in February, some of our markets, Iberia, Nordics and Australia are already done. France is clearly under negotiation at the moment. But we had a great '22 in France. And clearly, we looked at being the best value creator for our customers within FMCG in France with a good balance between price mix and volume. But we also know that those cost headwinds that Nik outlined at the beginning remain in '23, and so it's critical for us to kind of price against that going forward.

But again, I come back, I suppose what's good is we've seen our volume hold up. We've recruited more households. We've gained market share and our customers, in most cases, have expanded their margins. And I think that's a pretty good formula for long-term value creation for us and our customers. So more to come on pricing as we go through '23. And obviously, it's something we'll update as we get through the first quarter.

Edward Brampton Mundy - Jefferies LLC, Research Division - Equity Analyst

As opposed -- as part of the same question as opposed to taking a second question. I think in the prepared remarks, you indicated that recent trading has not really indicated any significant changes in underlying consumer demand and volumes are holding up. Why do you think consumption for your products is holding up so well?

Damian Gammell

I can say, they taste great. I think that's the first reason. And I think it's a robust category. And I think we've invested as have our partners, particularly the Coca-Cola Company and Monster sustainably over a number of years. And I think that solidifies that consumer preference. I think on top of that, I think Monster and the Coke Company continued to improve their marketing and product innovation. So if you look at our brands on shelf now in Europe, Australia, in Indonesia, I think they look fresh, they look young. They taste great. We've innovated a lot around sugar-free. I think that continues to open up the category to new users. We've broadened our portfolio. So if you look at where we're now playing, we're participating in more categories.

So on top of that, I'd say, as a bottling business, we continue to drive better execution and customer service. So it's hard to pick one single element. I also think that we did a good job in '22, managing price realization with affordability. I remember on some of our calls last year, there was a question around what are we taking enough price. I think we were pretty consistent saying that we wanted to balance the midterm with the short-term cost headwinds, and I think we took the right level of pricing, which allowed us to continue to promote our brands and keep them accessible for our consumers.

So yes, I suppose what I feel good about is it's not one standout action. I think it's a myriad of good decisions over a number of years and a category that people continue to enjoy on a daily basis. And I think that's part of its resilience. And I think you also see that we're looking to connect much more on the digital platforms on social media. I think some of the new assets, particularly around brand Coke and Coke Zero whether it's on the gaming side or on music continue to kind of build out that preference. So a bit of a long answer, Ed, but there's a lot in there, and I think it's reassuring for our investors that, that's over multiple years. It's not just one thing we did in '22.

Eric Adam Serotta - Morgan Stanley, Research Division - Equity Analyst

Great. Thank you. So just a quick housekeeping item and then a question. In terms of the customer dispute, and I apologize if you answered this already, but what's the state of that? Has that been resolved? And if so what was the timing on that?

And then the main question I had was looking at cash flow. Nik, you've spoken about the further opportunity in the past and you gave some pretty healthy midterm guidance. Can you talk a bit about where API is in working capital metrics versus the rest of the portfolio and the scope for both API and the rest of the portfolio to free up additional cash over the next few years?

Damian Gammell

So Eric, I might take the first question. So that customer situation was resolved in Q4. So we've come into 2023 in a good place. It was mainly in Germany but that's now resolved. So -- and it really impacted Q4 early December. But as you saw in our results, we still had a very, very strong Q4 on the back of that. So I'll hand over to Nik to talk about free cash flow.

Nik Jhangiani

Yes. And we did call out -- actually, when you exclude the impact of that disruption actually Q4 was in a nice level of growth. So as Damian said, it had quite a short-term impact of about 5 to 6 weeks. On free cash flow, listen, I think we've hopefully demonstrated our commitment on that key metric. And as I highlighted, we've delivered over EUR 1.2 billion in benefits from working capital and only since the acquisition of API, which we all seem to forget, it was only about 1.5 years ago, we were able to deliver about EUR 120 million of benefits by taking some of the actions that we took here in Europe.

So from an angle of where are we, I think there is some more opportunity, both in Europe and API differences in terms of where we would get that. On Europe, I would say our focus is going to be over the next couple of years as we roll out our collaborative demand and supply planning, how do we look at the optimal inventory levels and how that might then translate into some unlocking of cash benefits.

In API, I think it's a continuation of some of the work that we've done in Europe around all 3 elements of receivables, payables and inventory. And some of it is some of the housekeeping, some of it is around terms renegotiation and looking at what's fit for purpose relative to competition in those markets as well. And I think that's factored in, as we said, into our midterm guidance of at least EUR 1.7 billion.

Clearly, you'll see we guided towards at least EUR 1.6 billion for 2023. And I think that's just a couple of drivers as we step back up to normalized levels of CapEx. Clearly, the type of benefit that we've seen in the earlier years on working capital will probably not be as strong, given what we've delivered. And then obviously, as we also look at the elements around how we deliver on new targets for efficiency programs, there will be some restructuring cash as well. But we feel really good about that number as well and we'll continue to update you during the course of the year, both for '23 and beyond.

Lauren Rae Lieberman - Barclays Bank PLC, Research Division - MD & Senior Research Analyst

Great. I just want to ask a bit about API because volumes -- there's a lot of pricing, but volumes did come in a bit light -- I mean, down. So I'd just love some color on volumes there and kind of the outlook and how that changes from here?

Damian Gammell

Sorry, Lauren. On API, was that the question?

Lauren Rae Lieberman - Barclays Bank PLC, Research Division - MD & Senior Research Analyst

Yes, the API volume.

Damian Gammell

Yes. So we're pretty happy with the full year volumes coming out of API. If you're looking at Q4, in particular, I think it was again a strong quarter for Australia and New Zealand and Indonesia, if we exclude some of the SKU rationalization work that we've been working on. So as you recall, as part of the strategic review post the acquisition, we've been working with the Coke Company to be much more choiceful around what categories we want to participate in, in Indonesia. We've really landed on 2, no surprise Sparkling being our number one priority and secondly, tea.

And beyond that, we've exited a number of higher volume categories but very, very low or negative margin categories, predominantly water cups and some SKUs in other categories that really were not generating value. So that certainly was the right decision when we look at our business for the medium term, but obviously impacted volumes.

But beyond that, I think there were some comps in Q4, if you go back to Europe from December '21, where we really started to see a bigger reopening. We had the (inaudible) issue we talked about. But I think if you just look at the full year, we're pretty happy with the volume momentum that we've seen coming into '23. And if you look at, I mean, market metrics for January in Europe, in particular, we see quite a healthy start to the year in '23 as well. So I'm pretty happy with our volume performance overall.

Lauren Rae Lieberman - Barclays Bank PLC, Research Division - MD & Senior Research Analyst

Okay. So just I guess a clarifying on API fourth quarter, ex the SKU rationalization, give a sense for what volumes would have looked like? And then in terms of looking forward, definitely saw the great comment in the press release about current trading conditions.

I guess there's a view that Europe escaped the worst because it was a warm weather, warm weather winter, so less pressure on European consumers broadly in terms of what their wallet needed to cover, but a concern that sort of the realities of inflation are still kind of yet to -- but that's still yet to really materialize in terms of consumer behavior. So how are you thinking about that? I know right now, things seem fine. And I'm just curious on your view of the European consumer as we move forward?

Damian Gammell

Yes. So back to your question on API, I think if you look at it, the average of the year would have been pretty much where Q4 would have come in, but we're not going to give specifics around the value of the SKU rationalization. But -- and if you look at our Australia and New Zealand businesses maintained single-digit growth in those periods. So nothing beyond really what happened in our Indonesian SKU decision.

On European consumer, we continue to be mindful of the challenges they're facing. So I think you've outlined quite nicely what we're continuously looking at in terms of the impact of inflation under spending. We haven't seen that impact our category yet. We clearly have something we'remindful of. It's reflected in our pricing strategy for '23. It's reflected in our promo strategy. We continue to earn the right to price, I think, is our model that whether it's through innovation or marketing that we've got to justify to all our consumers if they need to pay more for our brand.

So we're very mindful of it. We haven't seen it yet. We've clearly seen some retailers repositioned and focus on their own brands. That's clearly something that we've seen in the second half of '22. I believe that will continue into '23. And that's on the back of those challenges that you've outlined. But so far, we see a very solid consumer. We recruited a lot of new households last year.

But yes, I suppose we're still mindful that some of those challenges haven't gone away. And we're making sure that when we do take decisions around price and promo that we do so with that context. And then we'll see where we go as we come into the summer. It's been a good winter and relatively speaking. And obviously, spring it on its way in Europe. So let's see what that brings.

Sanjeet Aujla - Crédit Suisse AG, Research Division - European Beverages Analyst

Nik, Damian. Just coming back to the 6% to 8% organic revenue guide, I think at the Capital Markets Day, you outlined an expectation for the category to grow high single digit in value, mainly driven by pricing. So just against that context, are you embedding in any volume declines in your 6% to 8% outlook for '23?

Nik Jhangiani

No, we're not. I mean, again, we've given you a range there for a specific reason. It's early in the year, but we actually do expect volume to grow. And I think, as I also highlighted, we want to at least maintain, if not grow our share as well. So our focus is on getting that right balance between the 2 elements that might be a little different in terms of shape versus what you saw in 2023.

And part of that goes back to some of those pricing comments that Damian made earlier in terms of what we did in 2022 that has that carry-on impact, what we've already landed and then obviously, what's to come during 2023 as well. So that's the way we've looked at it. So just to be clear, we are looking at volume growth as well on the back of obviously very strong 9% volume growth in 2022.

Sanjeet Aujla - Crédit Suisse AG, Research Division - European Beverages Analyst

Got it. That's very clear. And just a quick follow-up on commodities. When you look at spot commodities today, are they below where you've hedged for '23? Or any color you can give us there would be really helpful.

Nik Jhangiani

So it will vary, obviously, depending on the commodity and those move up and down. So for instance, we were well covered on something like sugar, and I don't think that pricing has actually moved against us. It's been well positioned. Aluminum, we were obviously layering on. So if you look at an average price, it's probably there or thereabouts. We'll continue to see how the rest of the year plays out, where we still have an opportunity because we've kept about 20% open depending on the commodity type, right? Because we're about 85% hedged.

I think we've done a good job locking in on gas and power on the direct spend side, which was obviously the biggest concern. Now the element that's residual is really around that conversion cost element and the supplier pass through. So when you really look at the COGS unit case, and I'm just giving you literally a broad perspective right now, we've guided to that circa 8% overall on COGS per case. You could be looking at a point up or down depending on how things trend and we'll continue to update you on those.

But more importantly to your question, I think we're looking beyond '23 as well. And what do we do for '24 and '25 and that's where I think you'll start seeing some of that bigger benefit starting to come through.

Mitchell John Collett - Deutsche Bank AG, Research Division - Research Analyst

Damian. I'd also like to ask about commodities. Your hedge coverage for '23, 85% is quite a lot above where you were this time last year when I think you were 57% covered. And I think you also said, Nik, that the coverage for '24 is 45%. So I guess, first, can you just comment on why the coverage is higher. I appreciate it would be through a period of unprecedented volatility and although I know it's early to talk about '24, given that you're 45% covered, I wondered if you'd be able to make any comment at all on the likely headwind or tailwind for '24 from commodities?

Nik Jhangiani

Yes. So I mean, to your question around why we covered more, I think we saw leaving things open for as long as it was and the fact that it was rising and there continues to be uncertainty where we saw opportunities, and we've always talked about the fact that we've put in triggers in place and don't just try and take our number up from, let's say, 40% to 80% in one go.

So I feel good about our approach. It's been measured. It's been looked at carefully across each of the commodity types. Looking at -- is there backwardation? Is there a contango effect? Should we lock in some now? Or should we wait? And I think it puts us in a much better position in terms of what we control to be able to understand then how we need to be thinking about, obviously, pricing and back to Damian's point, over a multiyear period again, right?

So -- and that also helps us as we look at '24 with the coverage that we have, and we're just under 50% covered there, which gives us the opportunity to continue to look at the market. Based on what I see today and if those trends continue, clearly, you would expect that to be a tailwind in '24. Quantum, hard to quantify right now.

Mitchell John Collett - Deutsche Bank AG, Research Division - Research Analyst

Understood. If I can follow-up, just how specifically if you do move to a tailwind, how would you expect pricing and promo and I guess revenue growth management more generally to behave if you start to get a tailwind from inputs?

Nik Jhangiani

Well, I think it comes back to a point that Damian made earlier, right? We've had a very disciplined approach to how we think about revenue growth management initiative and we want to balance and get that spectrum from affordability to mainstream to premiumization, and that's back to, again, pack diversification through the various channels.

So I think we always have that promotional mechanic to play with as we look at what might be happening. But keep in mind, you're looking at one element which is commodities. There's other elements that drive inflation as well, right, that we need to be looking at across the levels of our P&L. So it's not like suddenly everything turns into a deflationary environment. We haven't seen that in terms of wage inflation, haulage, logistics, et cetera. So you've got to look at it holistically as opposed to just the commodity space.

Damian Gammell

Yes. And I think just to build on Nik's comment, I mean we're also looking at in most of our markets, circa 40% of our revenues coming from outside of retail. And I suppose that's quite a different dynamic to most CPG businesses. So we do enjoy diversification not just on the package side, which we've been really focused on over a number of years to make sure if you go into a supermarket or convenience store, most of our markets, you're going to see a lot of different pack sizes from minis all the way up to value packs that allows us to play a lot better with pricing on that affordability mindset, but also on premiumization, which we haven't walked away from.

So despite some of those consumer challenges, there are a lot of consumers who are still happy to trade off. So we want to make sure we capture that. So you'll still see glass packaging, premium mini cans and smart promo pricing. For example, in Australia, our promo percentage discount has gone from 50% to 40%. We've actually gone below that in some periods and not seen a drop off, so that's encouraging. And then on the other side, we've got our away-from-home business, which was our challenge during COVID for all the reasons we know.

But clearly, having 40% of your revenues coming from outside retail gives us a lot more levers and tools to deal with some of those commodity headwinds and other inflationary points, including labor, which we can't forget that clearly, we're seeing labor inflation also increase in Europe, and that's something that we're mindful of keeping our employees engaged and committed to our business.

So we've got a lot of tools, and I think we've demonstrated and Nik said a disciplined approach to using them, but they're well in place now after a number of years of really focusing on it.

Charlie Higgs - Redburn (Europe) Limited, Research Division - Research Analyst

Damian, Nik, I've got a question on Indonesia, please. And I mean, clearly quite a big impact on the Q4 volumes. But could you maybe just give an update on Indonesia. How is the reception been to the whole product and SKU trim, how you're feeling ahead of Ramadan this year where you normally see that starting uptick? How is the route to market development going? And then maybe if you can just maybe talk a bit more about the sale of the stake to the Coca-Cola Company. Does it confer any other benefits other than just simplifying ownership structure and the reduced minority charge?

Damian Gammell

Charlie, so I was in Indonesia in early January. It was my first market visit after the new year and I continue to feel great about that business. So I think the changes that you called out in Q4 on a relative scale are quite minor for the group. I think we've made the right choices around people. So we've got a team led by Jorge there that continues to look at that business for the medium to long term strategically.

So we're very happy with what we've done on that side. We've made some good decisions around portfolio management with the Coca-Cola Company. And as I mentioned earlier, being much more choiceful around where we believe we can create the right to win in Sparkling and in tea, we haven't done that yet. So that's work in progress. We have made some good decisions that really allow us to run our supply chain better.

So ultimately, putting less through our supply chain is helping us improve customer service. It's helping us to be more productive on our lines, which over time help us manage capital better. So I'm very happy with that. And clearly, we're well set up for Ramadan. And this week, actually, we have a big MIT across Indonesia to continue to get everybody into the market for that period. So I think, again, we're set up for a great Ramadan.

And then obviously, beyond that, we are looking at what choices we can make on our route to market, and that's probably something that we'll be able to come back to in the second half of this year. So we've been running some tests, we've been doing some modelling around what changes we could make. But as you can appreciate, those type of changes are significant. We believe there are moves that we can do to create better value for us and indeed for our customers. And that's something we'll probably finalize in the first half of this year and talk a bit more in the second half.

Nik Jhangiani

And Charlie, on your question around ownership. I mean I think it was, I think, twofold. I mean, one, I think it comes back to Damian's point around, we feel really great about that business. And that minority stake was something we'd always looked at as an opportunity to take 100% at the right time.

So for us, this was a great time in terms of some of the changes we've been able to make and what we're looking at going forward. But I think it also comes back to probably the Coca-Cola Company feeling good around our ability to run this operation well, and hence, their own view of being able to sell that balance stake to us. So I think it works for both sides.

Robert Edward Ottenstein - Evercore ISI Institutional Equities, Research Division - Senior MD, Head of Global Beverages and Household Products Research & Fundamental Research Analyst

Great, 2 questions, please. One, I'd like to follow up on your comment that retailers are putting maybe a little bit more focus on their own brands. Can you please remind us what the -- whether -- first of all, whether that is a general comment or a comment in terms of beverages, roughly what the kind of private label -- your private label exposure is in key markets and a little bit more detail in terms of what you mean by focus.

Damian Gammell

Robert, it's a general comment across multiple categories. So I think it's not just in beverages. In fact, in beverages, the private label share is lower than it is in most of other categories. So I think over a number of years, in Europe and in Australia and New Zealand, we've demonstrated the value creation of brands in beverages. So typically, what you'll see across all of our markets is that the private -- our retailer brand share within beverages is lower than at least in other categories. So I think that's a good starting point for us.

It is obviously part of our proposition to offer value, and therefore, they do it across all categories. So beverages is one of many, many categories that they've -- that they have. It's always been around. So this is nothing new. So I think we should also understand that retailer brands in Europe, in particular, have been part of the landscape for many, many years. And typically, in terms of value share, it differs by market, but it's obviously significantly lower than where we sit and so far, we've gained share. So I think this is not a new phenomenon. So that really kicked off.

Over a number of years, we saw kicking up a bit in the second half of last year as some of those inflationary pressures came into our markets and retailers responded. But despite that, we gained share in the second half of the year. So I think our value creation story, the smart RGM, good customer service and the continued investments, the margin story on our brands is very, very strong for our retailers.

So I think ultimately, that's what drives growth, and that's what we're focused on. Fully recognizing that they will continue to have to manage some of their value propositions for their business, and that's something that we've seen. But again, it's nothing really new but it does kind of peak and trough, particularly when you get some of the more macro headwinds for consumers. But so far, we feel pretty good about where we are. But obviously, it's something we keep a close eye on.

Nik Jhangiani

And Robert, just to add one point to Damian's comments, is around when you do look at NARTD, there are certain subcategories that have much more private label penetration. So if you take a look at juices or waters, they already have a high share. But keep in mind, that's not typically where we're playing.

And in fact, we've exited some of those. So the categories, from a value perspective, that we're a lot more focused in on, we're not necessarily seeing the same level of pressures. But as Damian said, we're constantly monitoring that to ensure that we remain relevant to a broad consumer base.

Robert Edward Ottenstein - Evercore ISI Institutional Equities, Research Division - Senior MD, Head of Global Beverages and Household Products Research & Fundamental Research Analyst

Sure. Can you -- I mean, -- you guys have been doing this for a long time, just in terms of historical perspective, what happened in prior downturns and let's just say for Sparkling, I mean did private label go from maybe 5% of the market to 10%? Can you put just kind of some rough ballparking of sort of worst-case scenarios or what you've seen and what -- which markets are most exposed?

Damian Gammell

Yes. I mean it's not that extreme historically. So I think what you'll see is typically -- and again, as you said, it still differ by market. So you may see private label on a volume side picking up a point to share, which overall on the value side would be a lot lower, given their pricing.

Clearly, they also faced some of the same commodity headwinds that we faced. So we're also seeing private label pricing move as well because of all of the commodity impacts that Nik outlined, they face the exact thing. So we're also seeing that happening. So you're looking in that range, and I suppose it's pretty consistent across our markets. But if I look back and we have looked back and we've seen what's happened in previous years where consumer spending has been challenged, you're looking at a small share move, Robert, nothing too dramatic.

Nik Jhangiani

And again, just on that pricing, keep in mind that as a relative level that COGS impact is significantly higher for them, so their absolute pricing has had to move a lot more. So just keep that in mind as well.

Damian Gammell

And obviously, it doesn't impact that 40% plus revenues that I talked about earlier in outside of retail. So again, compared to other CPGs we've got 80%, 90% of the revenue locked in retail, we're well balanced. So I think that also gives us confidence to deal with that going forward.

Robert Edward Ottenstein - Evercore ISI Institutional Equities, Research Division - Senior MD, Head of Global Beverages and Household Products Research & Fundamental Research Analyst

That's great perspective. And then just my last question. Could you please give us an update on your digital initiatives and to what extent you're implementing, kind of a micro targeting of coolers and displays and other sort of ways that that's improved your execution?

Damian Gammell

Yes. I think we outlined some of those initiatives on our Capital Markets event in November. We continue to invest behind digital analytics. It's driving a lot of a good decision-making. I suppose a couple of areas that I get excited about with the team in particular, is promo efficiency. Sowe're being much more targeted around promos and what works, what drives value for us, for our customers, what drives household penetration. We've added a lot of households last year.

So I think that's working. We've taken on board some of the learnings from our Australian business back into Europe around looking at some post code analytics to understand really where we're doing really well and potentially where we see share opportunities and then tailor making our proposition to those particular assets, whether that's display, as you called out, coolers, merchandising frequency, promo frequency are indeed advertising in and around the store.

So there's a lot of different initiatives. We're also continuing to drive over EUR 2 billion of revenue through our online B2B portal, which I think is one of the biggest globally now. And we're adding more services to that for our retailers. So they can continue to use that for a number of initiatives beyond ordering. So a lot happening across the board, Robert, and it's something that we'll continue to invest in. And honestly, we've made great progress. But in many ways, we're still at the beginning. I think every conversation I have with the team, there's a new idea coming up. There's a new initiative. So it's a very exciting part of our business. And I think we're leading, but I think honestly, we still have a long way that we could go.

Brett Young Cooper - Consumer Edge Research, LLC - Senior Analyst & Managing Partner

I wanted to ask a question more holistically on what's pressured the business as it relates to margins. So I think 2022 gross margins are down roughly 300 basis points from pro forma 2019 levels. Seems like we have ongoing pressure into 2023. And I appreciate the rationale for not fully covering inflation. But on a EUR 17 billion revenue business, it's growing. Recovery of that margin is significant to profit and cash flow. So I was hoping you could scope the drivers of that decline and then your thoughts on the ability to recover those drivers over time? And then just finally, a clarification as to whether recovery of those margins are embedded in your long-term targets?

Nik Jhangiani

Yes. Great question, Brett. And I think as we've highlighted a couple of times, we want to do this in the right way looking at both what we need to do in the short term, but also what is the midterm objective. So the first piece of data that I would give you that there's nothing that's structurally different in our market or environment that would not allow us to get to those margin percentages, right? For us, right now, it's been about very much growing absolute cash margins. And I think we've demonstrated, hopefully, very strong results there.

So we definitely plan to get back. We will do that in a balanced way. Is that built into our long-term algorithm? Well, part of it is built in when you just think about what we want to continue driving on an efficiency basis. And part of it is back to the point that Damian made earlier that we have been disciplined since we formed Coca-Cola Europe Partners and now Europacific around smart RGM, looking at opportunities of optimizing promo, looking at pack diversification, the away-from-home channels coming back nicely. We're now back at about flat levels from a volume angle in that channel, a couple of markets still have an opportunity to get back to '19 levels.

So we are focusing on that, but I think we've got to look at it in stages. And right now, we want to continue ensuring that we are relevant, play across the spectrum in terms of the affordability and the premiumization and continue to grow more at-home occasions and at the same time, look at what we can do to get more growth in the away-from-home channel and improved profitability in those channels as well.

Matthew Ford - BNP Paribas Exane, Research Division - Research Analyst

Nik, my question is just on the away-from-home volume performance in Q4. So on the release, I think you mentioned that away-from-home volumes in Q4 were 4.5% below 2019 levels. And this seems like a little bit of a slowdown from, I think, 2% above in Q3 and something similar in Q2. So I was just wondering what were the drivers of that kind of sequential slowdown? And are you seeing those trends kind of continue into the first 1.5 months of Q1?

Damian Gammell

Well, to kind of give a short answer. No, we don't see them -- that, as you call, we don't see a slowdown actually. I mean, I think on some of the comps, obviously, in the quarter, things will move around. But what we've seen consistently over the full year is a strong reopening of away-from-home across all of our markets. And I think from an outlet level, we're above 90% outlets that have reopened post-COVID. So that's good.

We're now seeing traffic continue to improve, tourism has come back. So people are flying again. So a lot of the drivers, particularly in markets like Spain, with tourism, et cetera, have come back very strong. So we see that as a positive going into '23. So we see that growing ahead of where we were. And so nothing that we've seen away-from-home to cause any concern at the moment.

Nik Jhangiani

And just to disaggregating that a little bit, I mean, essentially, you're looking at flat in Q4. But if you actually look at some of the markets like Iberia, GB, France, those have continued to see good growth, right? So I think we'll continue to monitor and you remember, again, you're looking at numbers that are quite different in terms of a base when you're looking at Q4 because it's a smaller away-from-home quarter to begin with, right, relative to Q2 and Q3. So -- and to Damian's point, we -- nothing that we're seeing in Q1 to date that would indicate a continuation of that trend.

Damian Gammell

Thank you, operator. And again, thank you, everybody, for joining us today. So hopefully -- we've shared with you our full year 2022, a great set of results. And again, I want to take this opportunity to thank everybody who works with us at CCEP and what they do every day to make this business great and continue to grow. As Nik highlighted, we are in a dynamic environment, and we've talked to that quite a bit today in the Q&A, but we do operate in a very resilient and very much a growing category. I think over a number of years, we've made the right decisions of CCEP to build a great platform, providing creation for our shareholders and our customers. This has been clearly bolstered by the acquisition of API. And as Nik called out, was our first full year with API. And indeed, we're traveling out there, just to meet and have a Board meeting there in March. So we're looking forward to getting back into that market again. So we are confident about the future and delivering on those midterm objectives we laid out with you in November. Finally, we remain very committed to delivering great service and value creation for our customers, and that remains our priority in 2023. So again, thank you. Look forward to speaking to you again at Q1. Have a great rest of the day, everybody. Thank you very much.

End