COCA-COLA EUROPACIFIC PARTNERS
H1 2022 Results
Analyst Call Transcript
4 August 2022

CORPORATE PARTICIPANTS OF PREPARED REMARKS

Damian Gammell - CEO
Nik Jhangiani - CFO
Sarah Willett - VP, Investor Relations & Corporate Strategy

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 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.

Please note that unless otherwise stated, metrics presented today will be on a comparable and FX neutral basis throughout. Any growth rate will also be presented on a pro forma basis.

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

I will now turn the call over to our CEO, Damian.

Damian Gammell: Prepared remarks

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

In May we celebrated our first year as Coca-Cola Europacific Partners and I am incredibly proud and pleased with the progress we've made to date.

We have built a solid platform for long-term profitable growth, focused on delivering value for our shareholders and our customers.

We had a fantastic first half, achieving strong top and bottom line growth, value share gains and an impressive level of free cash flow. This really gives us confidence for the rest of the year, so I'm really pleased to be raising our 2022 revenue, profit and free cash flow guidance today.

We are very proud of our strong relationship and alignment with the Coca-Cola Company and our other brand partners such as Monster.

And we're very confident in the future. We've retained our sharp focus on revenue growth management and driving efficiencies throughout the business, while continuing to invest for long-term growth – particularly in our portfolio, our digital platforms, sustainability and of course in our people to whom I wish to say today a huge thank you.

So, although we're mindful of the macroeconomic and the unprecedented inflationary environment, we do believe we are well placed for the second half of 2022 and beyond.

I would like to now talk a little bit to the categories in which we compete. They have remained robust and I'm very pleased that we've continued to take share, grow household penetration and drive more value for our customers.

We have great brands which our consumers love and on the back of ongoing investment and innovation in brands, product and packaging, our brands continue to support a solid RGM growth platform for our customers. This means that we can achieve good pricing in the market even in the most challenging of times – because that brand love, taste and quality are always of paramount importance to our consumers.

And we continue to innovate, driving excitement and growth in the NARTD category that grew by around 5 percent in the first half across our markets. The growth was even higher in API at around 15 percent.

This is great for our customers too and I am immensely proud of the long-standing and supportive relationships we have with them, particularly over the last number of years with all of the challenges that covid brought to our business and to their businesses. It is great to see that once again during the first half we were the largest creator of value in the retail channel within FMCG in Europe and in NARTD in API. In fact in Europe, we delivered more than twice the value to our customers than our nearest peer.

We've made structural changes to our business in recent years which positions us more favourably in the event of a potential recessionary environment.

As you know, approximately 40 percent of our volumes come from the more inelastic away from home channel which is naturally 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 consumers and now confidently play across a spectrum of recommended price points and elasticities. We also continue to actively manage our headline pricing and optimise our promotions through smart, digitally led, RGM.

So we feel good about our categories, and although we're not yet seeing signs of a shift in consumption, we are well placed as we move into more uncertain times.

So this slide should be familiar. We have a simple 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 simple focus around great people, great service and great beverages. All done sustainably, for a better shared future. So, now I'd like to briefly touch on each of these areas as we look back at the first half of 2022.

Firstly our great people - the well-being and safety of our colleagues remains our number one priority at CCEP, and our new 'get home to what you love' campaign has really brought the importance of safety to life across all of our businesses.

We had a very strong participation in our first global digital engagement survey with a stable engagement score overall – a great result in what has been a challenging environment as we establish new ways of working post COVID. This score continues to positions us ahead of our benchmark group.

In June we saw some fantastic Pride celebrations across many of our sites as we further progress our 'everyone is welcome' philosophy. Our D&I credentials continue to be recognised externally too and we were recently included in Bloomberg's gender equality index for the second year in a row.

And we were recently awarded gold at the UK employee experience awards in recognition of the digital technologies we use across our workplace.

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

We have continued supporting our customers through the reopening of HoReCa and maintained levels of customer service in the 90s.

In Indonesia, we had a record Ramadan period with our biggest ever activation – a huge event in the calendar, representing about a third of our annual sparkling sales. More focus on our core sparkling and tea categories allowed us to manage our supply chain more efficiently and deliver better service to our customers across this wonderful period for our consumers.

And finally, I'd like to take this opportunity to congratulate and wish the Netherlands good luck as they will represent Europe in the final of the annual global Coca-Cola bottler competition – the Candler Cup – in September, which recognises world class customer service and execution. You may recall that New Zealand won this last year.

We are also extremely privileged to make, move and sell the best beverages in the world.

Coca-Cola Zero Sugar has continued to outperform across all of our markets growing volumes by 24 percent versus 2019.

On Fanta, new flavour launches, such as Fanta Raspberry in Australia, and the latest What the Fanta campaign continued to drive excitement for our consumers.

Celebrating its 20th anniversary in our markets, Monster continued to gain share through great innovation.

In GB we launched the new Costa Frappe range in three indulgent flavours, Smooth Coffee, Chocolate Fudge Brownie and Caramel Swirl. This is being supported by a great summer sampling campaign across the country so make sure you try one if you come across it in GB!

And in Indonesia, we launched new Frestea Nusantara Original Jasmine Tea, an authentic home brewed tea which we feel will connect really well with our Indonesian consumers.

And all of what we have just shared must continue to become more and more sustainable. This is a key focus for all of us at CCEP, our consumers, our customers and our shareholders.

We want to continue to be the leader in package-less solutions and in some of our markets we are piloting new compact freestyle dispensing technology – designed for smaller on-the-go and at work locations.

As we continue on our journey towards net zero emissions by 2040, we've introduced lighter weight necks for our sparkling drink bottles and will soon distribute 100% of our packaged beverages in returnable glass bottles to all of our HoReCa customers in France.

To make it even easier for our consumers to recycle, similar to Germany, we introduced new, attached caps to our plastic bottles across GB.

Our progress continues to be recognised and we are proud to be included on the Financial Times - Statista list of Europe's Climate Leaders – as one of 400 companies having achieved the greatest reduction in Scope 1 & 2 greenhouse gas emissions intensity between 2015 and 2020.

So, all in all great continued progress towards a better shared future.

Turning now to our first-half performance highlights.

We continue to win with our customers, and this momentum is evidenced by our NARTD value share, which grew by around 30 basis points both in-store and critically online.

I am pleased that we delivered volume and revenue ahead of 2019 levels.

The recovery of HoReCa and tourism – as well as a resilient home channel - led to strong volume growth of 13 percent in the first half. This was supported by great execution and service levels across all of our markets.

Our continued focus on revenue growth management drove solid revenue per case growth, significantly ahead of pre-pandemic levels. In the digital space, our transformation journey continues and we remain on track to deliver around 30 percent of our European AFH revenue through our B2B portal, myccep.com.

Given the uncertain outlook and some of the macro headwinds that we are facing, it is more important than ever for us to continue focusing on driving efficiencies throughout the business as you see referenced here and which Nik will cover in more detail shortly.

And having recently celebrated our first anniversary as Coca-Cola Europacific Partners, I'd like to now share with you some of the key highlights.

Last year we described the Amatil transaction as the right deal at the right time. The more time I spend in the business, the more excited I get about the opportunities ahead. I firmly believe this was not just the right deal, but a great deal.

The API business had a great first half with revenue and profit ahead of 2019 and is moving ahead with its strategic priorities at pace.

We have already made good progress in reducing the depth of our promotional support in Australia, with little impact on volumes. This is also great for our customers.

We are sharing learnings and best practices in both directions in areas such as IT infrastructure and data analytics. Our Chairman Sol Daurella and I recently visited New Zealand, which sets the benchmark for world-class execution, and we look forward to bringing some of these learnings back into Europe too.

And I'm even more excited about the transformation opportunity in Indonesia, having spent time in the market recently with our Board of Directors.

And the reorientation of our portfolio is well advanced. We have now substantially 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 with a few brands in New Zealand and Fiji still outstanding.

This is all in line with the long-term growth plans that we continue to develop with The Coca-Cola Company to better align our portfolio, focusing on the core.

So clearly the growth potential from API is significant and I look forward to sharing more at our capital markets event later this year.

So on that note, I would now like to hand over to Nik to talk in more detail to the financials. Over to you 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 8.3 billion euros, an increase of 17 percent. I will provide some more details on this very strong top-line delivery in a few moments.

Our COGS per unit case increased by 5 and a half percent. This was driven by higher commodity prices, as well as concentrate costs, which have naturally increased in line with the growth in revenue per unit case via our incidence pricing model. Clearly our mix has been more favourable on the top line, and this has had a COGS impact as well, partially offset by the favourable recovery of fixed manufacturing costs given higher volumes.

We delivered comparable operating profit of 1.1 billion euros, up 29 percent, reflecting solid top line growth, the benefit of our on-going efficiency programmes and our continued efforts on managing discretionary spend.

Our comparable effective tax rate increased to 24 and a half percent, which I'll come back to later.

All in all then, this resulted in comparable diluted earnings per share of €1.61, up 32 percent on a pro forma comparable basis.

Free cash flow generation continues to be a core priority and we delivered an impressive 1.3 billion euros during the first half. This was due to the strong growth in operating profit as well as some capex phasing with a few larger projects landing in the second half of the year. And as you know, working capital remains a core focus for us and I am pleased that we were able to deliver approximately €400 million of benefits in the first half, with a notable improvement in our payable and inventory days in API as we rolled out our Rebond project in that region.

That said, we do expect to see some reversal of these working capital benefits in half two, mainly driven by our inventory, as we believe it is prudent to build our safety stock levels on key raw materials to ensure continuity of supply and ensure on-shelf availability given the availability and logistics and supply chain constraints that we may continue to face.

And finally on shareholder returns, we paid a first half dividend per share of €0.56 which we declared at Q1 and was paid in May. As a reminder, this was calculated as 40 percent of the FY21 dividend, with the second half interim dividend to be paid with reference to the current year annualised total dividend payout ratio of approximately 50 percent.

Now if I move to our revenue highlights.

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

As you would have expected, the most significant improvement has been in the recovery of 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 returned to 2019 levels in half one, with traction in immediate consumption, a rebound in tourism in many of our markets and of course the start of great weather this summer across our markets.

Strong trading in the home channel continued, benefitting from increased at-home occasions as well as the continued growth in online grocery, with volumes up 7 and a half percent versus 2019 in the first half.

This meant that overall volumes grew 13 percent in the first half or by 4 and a half percent versus 2019.

Revenue per unit case grew by 4 and a half percent in half one, up 6 percent versus 2019 levels. This reflects the strong growth in away from home but is also testament to our revenue growth management initiatives, with positive headline price, pack and brand mix.

Now moving to opex and our efficiency programmes.

As a reminder, our pre-announced efficiency savings and combination benefits equate to €350 to €395 million in total and we remain very much on track to deliver that. In fact, some of the combination benefits have been realised at a faster pace than we had initially thought and so we now expect to deliver approximately 85 percent of these savings by the end of this year.

We remain committed to rebasing our cost base to below pre-pandemic levels. And you can see that here. As a percent of our revenue, our opex has continued to decline, not only compared to last year, but more importantly compared to 2019.

Going forward we will continue to manage costs very tightly, but of course we do anticipate an increase in our volume linked opex as well as some inflationary pressures in areas like labour and haulage.

And as we continue to invest for the future, naturally our TME investment has increased in order to support our top line growth given the recovery.

So let me now move on to our updated guidance for full-year 2022 which reflects current market conditions.

First to revenue. We now expect pro forma comparable growth of 11 to 13 percent, versus the 8 to 10 percent previously guided. This reflects the stronger first half results that I just went through and our confidence in our revenue growth management initiatives for the rest of the year. The second half has started well helped by the continued great weather, as well as the continued recovery of the away from home business and tourism. But we do remain very mindful of the more uncertain outlook for the consumer as we move into the post-summer *period, but I do caveat that with the point that we are not yet seeing any signs of a shift in consumer behaviour and their buying patterns.*

From a modelling perspective, volume growth will be lower in the second half reflecting a tougher comparison as the away from home channel began to recover last year.

And in terms of shape, we still expect our full year revenue growth to be more weighted towards volume as evidenced by our first half.

Additional headline price increases and promo efficiencies are currently being discussed and in progress across all markets in the second half to help offset some of the unprecedented inflationary pressures we are seeing across the industry, particularly aluminium and gas and power, and other key commodities including conversion costs. Some markets are more exposed to these trends such as Great Britain which over-indexes to cans, which clearly has an impact on their costs for the second half of this year.

These pressures more broadly will be much higher in the second half across all our markets, and as always we are very surgical in how we look at these increases across our various brands, packs and channels that can remain relatively inelastic using strong RGM capabilities that we have developed over the years. And we are not looking to fully pass on these cost increases to our customers to ensure that we continue to manage affordability and relevance to our shoppers and consumers which is even more heightened in key markets like France and Germany given higher exposure to the home channel where we need to be conscious of that dynamic of relevance and affordability.

As always, we will continue to work with our customers to optimise our recommended price, range and pack architecture, so that we can expand our categories and importantly focus on joint value creation. And of course, we will continue to focus on our own efforts to manage our cost base as well to ensure continued profit and free cash flow growth going forward.

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

We now expect COGS per unit case to increase by approximately 7 and a half percent, weighted more towards the second half as you can see in this chart.

This slight increase from our previous guidance of 7 percent mainly reflects very small moves driven by gas and power costs, as well as the slightly higher concentrate costs impacted from the additional headline price increases planned for the second half as I have just discussed. This is in line with our incidence pricing model and as a reminder, concentrate accounts for approximately 50 percent of our total cost of sales which is linked to revenue growth.

We continue to anticipate commodity inflation in the high teens range, weighted more to half two, and we are now approximately 90 percent hedged for this year.

In terms of the 2023 outlook, as you know, the commodities markets remain extremely volatile. While there has been some recent respite in spot prices for certain raw materials, such as aluminium, please do remember that conversion costs still account for approximately half of our *total commodities exposure. And here we and our suppliers continue to feel the effects of higher energy prices and we continue to manage this appropriately.*

We are now approximately 55 percent hedged on our commodity exposure for next year at a group level and closer to 60 percent within Europe. We will continue to look at the right trigger levels to lock in more of our exposures depending on market conditions. Taking all this into account, at this stage our best estimate is for high single digit commodities inflation in full-year 2023.

Of course we are still seeing other inflationary pressures within COGS such as labour, gas and power as well as concentrate in line with our incidence pricing model as we realise more price and mix in the market going forward. Whilst too early to provide full guidance for 2023, all of these factors combined will result in further COGS per unit case pressure next year, albeit not expected at the levels we have seen in 2022.

Of course we will continue to look at all levers to continue to support our profitability with the focus on value creation for all our stakeholders. And as always, we will update you more on the 2023 outlook in due course.

Back now to our remaining guidance.

Taking into account our updated guidance for revenue as well as our latest view on COGS per unit case, we are now expect operating profit growth between 9 and 11 percent.

That said, we still expect overall operating profit for the full-year 2022 to be ahead of 2019 levels, albeit at a lower margin - a great achievement in the context of such uncertainty and volatility in the market and importantly demonstrate us managing all levers on our P&L particularly on our operating cost base as I discussed earlier.

We continue to expect a comparable effective tax rate for full-year 22 of 22 to 23 percent, implying a lower ETR in half two versus half one .This is due to certain timing related factors, for example we will realise some benefits in half two from the expiration of statutes of limitations on some of our tax exposures. We will continue to reassess our uncertain tax positions as we move through the balance of the year.

Given our strong free cash flow performance in the first half, we are now raising our full year guidance for 2022 from at least 1.5 billion euros to at least 1.6 billion euros, well above our medium term target of 1.25 billion euros. This equates to a current free cash flow yield of 6.6 percent.

And given this strong focus on driving cash and working capital improvements, we remain confident that we will return to our target leverage range of 2 ½ to 3 times by full-year 2024 whilst remaining fully committed to our strong investment grade ratings. Our balance sheet is strong and we continue to monitor the markets to determine opportunities to further optimise our debt structure and maturities.

So that’s it from me, I’ll now turn back to Damian for a few more comments before we open for Q&A.

Damian Gammell: Prepared remarks

Thank you Nik.

So, finally to recap on our key messages.

We had a great first half – with strong revenue growth, value share gains and our away from home volumes back in line with 2019.

This, alongside with our continued focus on driving efficiencies, has enabled us to raise full year guidance today for revenue, profit and free cash flow.

We are confident in our future, alongside The Coca Cola Company and our other brand partners, while remaining mindful of the uncertain outlook.

And finally we look forward to welcoming you in our London offices for our capital markets event on the 2nd and 3rd November. Here we will share more on our longer term growth ambitions as well as an update on our third quarter performance.

So, thank you very much - now we would like to open for questions.

Over to you operator.

Question & Answers

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

Q. So look, I appreciate you're not seeing any shift in consumption patterns yet. But relative to prior periods of consumer weakness, can you talk to how the business is different vis-a-vis the portfolio, the digital platforms and also the relationship with customers? And how does this help you navigate the potentially more tricky environment?

Damian Gammell

A. Yes, I think we're very conscious, and as you'd expect, given the uncertainty, looking very closely at what's happening with our consumers, our shoppers and indeed some of our customers' strategies. So I think a couple of pillars that we've built over a number of years, I think, give us the confidence that we can navigate it. I think, one, obviously, we're seeing stronger revenues and volumes coming from away-from-home. I mean that was a headwind for us here in COVID, but clearly it's bringing a much more balanced revenue stream, and obviously, a little bit more inelastic. So that's good.

I think within grocery, we've been very focused on generating value for our customers. And we've grown the category. We've grown margin. And I think that positions our brands as a key value driver for our customers. And I think that's always a good place to be at any given time.

But clearly, as you move into some maybe more challenging times, I think the margin structure and the value of our brand is a big asset when we look forward.

Within that, if you go to any of our retail outlets in particular now, I think we've done a really good job having a much more balanced pack architecture. So I mentioned in my prepared remarks really being conscious about having value across all of the price points. So our RGM work really has balanced our pack offering now in retail. And I think that allows us not just to manage promotions more effectively and efficiently, but those allow consumers to participate with our brands at varying degrees of price points. And I think that's critically important.

And I suppose the final aspect is both ourselves, Monster and the Coca-Cola Company continue to invest in our category well ahead of prior years. And I think that's also important because as people make choices, the brand equity and the brand love that we've built is critically important. So I think all of those give us confidence.

Having said that, we've looked back at previous economic challenges. The category continues to perform very strongly, particularly cola. If there are some moves to private label, it tends to be in Flavours. So we're aware of that and we'll adapt accordingly. So I think all of those tools will allow us to manage that. We haven't seen it yet, to your point. But clearly, things can change quickly. So we're prepared.

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

Q. And just as a quick follow-up. I mean you mentioned some of the tailwinds you've got from an execution standpoint. If you were to really pinpoint what led to the acceleration of market share from 10 bps to 30 bps in H1, what would you really put that on?

Damian Gammell

A. Yes. I mean I think if you even look within Sparkling, in most of our markets, there's even a stronger performance, Ed. And I think that's on the back of: we continued to invest in 2021. We continued to focus on the long-term health of the category. We continued to partner well with our customers. And obviously, we've had a lot of good innovation. I mean Coke Zero, the new packaging, has been phenomenal. There's great flavour innovation on Fanta. The Monster portfolio continues to innovate and expand. So there's not really one reason. I think it's just really the output of a number of different initiatives over many years.

It's not something that's just happened this year. We've had strong momentum on share. Obviously, we were hurt in away-from-home with COVID. But during that period, we re-orientated our business to being a more retail-focused business, and we probably sharpened our focus on the execution. And that's coming through now in some of the share gains. And obviously, we're very happy with that, and we'll see that continue to year-end.

Nik Jhangiani

A. And I think our customer service levels have also been very strong in terms of ensuring availability on shelf, which is great, relative to a lot of our competition. So I think that's also *something that clearly helps and will help us going forward as well.*

Simon Lynsay Hales - Citigroup Inc., Research Division - MD

Q. Nik, one for you. But I mean, could you talk a little bit more about your sensitivity perhaps both directly and indirectly to potential further moves in the European sort of gas price? I know you've referenced that you're doing some stock building and that will have you will have to work on the impacts on the second half as you perhaps do some (inaudible) of planning from a potential both gas supply and supply chain disruption standpoint. I mean, can you help us with some sensitivity as to how material a further 10% or 5% move could be when we think about planning for H2 margins and into 2023?

Nik Jhangiani

A. Yes, a great question and very tough to give you a clear position on that. I think if I look at half 2 and Q4 in particular, I think there are a couple of things that we're doing, and it's coming more from ensuring that we have alternatives in terms of what we can use. So I think if you take a market like Germany, we've ensured that we've got contingency plans in place both from an availability of natural gas, also looking at fuel oil. And all our plants actually will have dual fuel boilers being available or mobile boilers to allow us to have alternative sources of energy to be used for that.

I think as we look at '23, that will also help us as we look at other sources of renewables across some of our plants and how we're expanding and building out our ranges there. Obviously, one of the challenges that we are working through is a little bit more with our suppliers to ensure that they have adequate contingencies and backup plans to be able to continue to supply us with critical ingredients and packages to ensure back to that point around ensuring that we have products available on shelf.

So a lot of moving parts, but I think we're well positioned, as you've seen, from an angle of what we've been able to deliver so far and how we continue to work in what is probably the most volatile and fragile supply chain. But well protected to the best we can. And I think it comes across, again, in our service levels relative to a lot of our competitors.

Simon Lynsay Hales - Citigroup Inc., Research Division - MD

Q. Got it. Maybe just a follow-up with regards to, obviously, the working capital move that you highlighted, perhaps sort of reversing some of the H1 benefits that we've seen. Clearly, the free cash flow you delivered in the first half was very impressive. The step up in guidance for the full year is quite limited. Is it really all working capital that's sort of depressing the H2 cash flow delivery? Or is there something else in the cash flow that we should be aware of that's hurting...

Nik Jhangiani

A. No. I mean, honestly, that's actually quite a small element of it because it's really, like I said, just limited to inventory and what we want to do there. Part of it is definitely linked to CapEx phasing. And I think as we were looking at our plans for this year, some of the larger projects are landing in the second half. And that's one element. And the second element is the slight *impact from the working capital piece.*

But clearly, a very strong delivery. And I will continue to say even the upgraded guidance, remember, is a very strong number in terms of full year free cash flow relative to our midterm target of the EUR 1.25 billion. So we're very pleased with the progress we're making there.

Bryan Douglass Spillane - BofA Securities, Research Division - MD of Equity Research

Q. So Nik, just a question on, I guess, gross profit or gross margin. And I guess, 2 parts to it. One, in the first half given how strong the volume was, the volume growth, is volume leverage -- was volume leverage a contributor to COGS efficiency, I guess, or bringing down that COGS per unit case inflation on a net basis?

And then I guess as we look into the second half, given it looks like we're still looking at revenue growth being more driven by volume, is that a factor again as we're kind of looking at kind of the net COGS inflation to the back half of the year? So really, the question is just how much of a benefit are you -- or are you getting from volume leverage?

Nik Jhangiani

A. Well, clearly, a big benefit when you think about the fact that 15% of our COGS is the manufacturing piece, and that's largely fixed and largely labour related, right? So there's an efficiency element in there. But clearly, as you get that volume returning, clearly, that's a leverage tailwind for us from an angle of the COGS per unit case. And that is the case in the second half as well.

I think, obviously, it's clearly not offsetting the challenges that you're seeing from a broader commodities inflation perspective. But all in all, if you look at the first half, we're very pleased with what we were able to deliver given our hedging position. Clearly, that will accelerate in the second half when we think about that commodities pressure that we're looking at. So yes, that's the short answer, Brian.

Bryan Douglass Spillane - BofA Securities, Research Division - MD of Equity Research

Q. Okay. Yes. And Nik, just to follow-up on that. As we're thinking about model -- as we're modelling out next year, does that benefit kind of stay in the base? Again, we're not knowing entirely what volume growth would look like next year. But just trying to sort of understand whether or not that should stay in the base and we model off of that? Or should we be thinking about if there's potential -- that if there's volumes pull back next year that, that could be like a gross margin headwind?

Nik Jhangiani

A. No. So clearly, without giving any '23 guidance, we're expecting growth in volumes for '23. So that clearly stays in our base and should accelerate. But then keep in mind the headwind that you'll have there, is you're looking at labour inflation as well, right? And we need to continue focusing on efficiency gains to offset that labour inflation piece along with volume growth. So it *will be both those factors that should continue to support in terms of efficiencies and volume growth.*

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

Q. I've got a question on Australia, where in the 3 to 5 years prior to the pandemic, it was quite a tough market from both a volume and a revenue per case growth standard view. But it looks like you already managed to grow volumes and revenue per case at kind of mid-single-digit range. So can you maybe just talk about some of the early things you've changed there? Damian, maybe what you saw when you were on your site visit that could be applicable back in Europe? And how much further there is to go in terms of optimizing the portfolio down in Australia?

Damian Gammell

A. Yes. Yes, very exciting market, and I've been pleased to be down there and see it hands on. I think to give credit to Peter and the Australian team. Coming into the acquisition, they had already started to make some changes in the Australian market based on, as you called out, a number of years of stagnant or no growth. So clearly, when we've looked at some of the initiatives we've taken in the last 12 months, the portfolio clean-up, I think, is a boost to volume growth, ironically, because it allows us to focus on the categories that are growing and not to get distracted with plays in beer or cider.

So there's definitely a focused benefit. There is an alignment benefit coming through now with the Coke Company as we've executed the brand sales. So we're very clear now on how to win in Flavours, a category that we've struggled within. We've made some bold moves on the back of European learnings and based on some work that Peter did in Australia around promotional price levels. So clearly, that has allowed us to support our revenue growth. And with the Coke Company, I think Coke Zero in Australia has really had a great year as well.

So a number of different drivers of growth. And also, we're benefiting clearly with COVID restrictions easing and people going back out and eating and drinking, is a big part of the lifestyle down there, outside. So that's definitely helping. But it's a very sustainable volume growth and revenue growth, which I'm pleased with.

In terms of learnings. I think a couple of areas that I really liked about our Australian business is a very clear focus on cost or profit to serve. So I think the team has done a lot of work on a channel level, looking at the cost to serve and how that impacts. And that's something we're looking at for Europe. A lot of great work in data analytics. We enjoy a lot of store level data on the category, not just on our business. That's allowed Peter and the team to be very segmented about what particular -- not just what customers, what stores within our customers really do we need to focus on. And I think that's something that we've taken back. And Steve and our GB team particularly have looked at that for the U.K.

So quite a wide range. Something we'll touch on when we're together in November. I think it's going to be a topic at the Capital Markets Day that we'll be able to share a bit more about what best practices have gone both ways. But I'm very confident that the commitment I made that it's a great deal, not just because we're buying a great business, but it's a great deal because it will *make Europe stronger. I think I see that coming through more and more, and that's really exciting.*

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

Q. That's very useful. And then just a quick follow-up for Nik. On the cost savings from the combination benefits coming in quicker, is the way to read that, that they're all going to be realized in 2022 and therefore none in 2023?

Nik Jhangiani

A. No, no, no. All I've said is that there's an acceleration, and we now expect to have delivered about 85% of the total benefits that we had announced, the $350 million to $395 million, by the end of 2022. So there's clearly definitely more savings to come in '23 and '24, although I'd like to accelerate that to help us in 2023. So that's the plan.

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

Q. Just a question on pricing. Can you give us a sense of the magnitude of pricing you're putting through in H2 relative to what you did earlier this year? And it sounded like you were striking a bit of a cautious turn on France and Germany in particular, perhaps pursuing a bit more of an affordability approach there. So I'd just love you to elaborate a little bit on that. Is that anything to do with what you're seeing with the consumer today?

Nik Jhangiani

A. No. So I'll come back to the first question. But on your second question, no, I was just talking more around the fact that, clearly, the cost pressures that we're seeing are across all our markets and both France and Germany do have a larger home market relative to some of our other markets. And hence, we just need to be mindful and watchful of that. Nothing other than that.

So I think -- obviously, the good news is, as we're looking at some of the markets in Northern Europe as well as Spain and Portugal, we've kind of already been able to land our pricing in July, and that is now in the market. So that's great news. The markets now ahead of us are really France, which is live as we speak, and should be concluded during this month. And then you've got Germany and GB coming right on the back of that.

I would say the price increase is going to range across our markets depending on, obviously, the channel mix, the brand mix and it will vary. Like I've said and Damian said, we're not really taking just a fixed price increase across channels and across all brands and packs. We're being very surgical in terms of how we're looking at it based on brand, packs, in-channel and elasticities. And then back to the broader comment, around also being mindful around continuing to be affordable and relevant to our consumers and shoppers.

I mean, the great news is, I think, we're an affordable product that obviously has strong brand equities, strong brand love. And ultimately, taste and quality are of critical importance, right? So we remain very excited about the category as a whole and the robustness of the category, and *what we've also seen during past downturns in terms of how the category continues to perform. So that's where we are.*

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

Q. Great. And just a quick follow-up on Indonesia. Clearly, there was some phasing between Q1 and Q2 in terms of the Ramadan timing. But can you just give us a sense of how much the portfolio you're rationalizing and taking out? How impactful has that been?

Damian Gammell

A. Yes. I mean, it's made a bigger impact quicker than we kind of expected, to be honest. So I think we clearly have aligned on 2 core categories, Sparkling and Tea. I think what we've seen in Ramadan, and actually it continued post-Ramadan, is that has allowed our sales force and our supply chain and indeed our customers to align against 2 categories where we believe we've got brand strength. It simplifies our business quite a bit and frees up the supply chain to deal with that peak around Ramadan.

Clearly, our long-term objective is that peak gets smaller because we build a bigger business outside of Ramadan, and that's the strategy we're now working on with the teams locally and with the Coke Company. So it's had an immediate impact. It's been executed quicker than we expected. The team locally have done a great job. I think our customers understand it because for many years, they saw us trying to compete in multiple categories with very limited success. And they now start to see the growth in Sparkling. And clearly, when you look at the Sparkling category and the margin structure for them as well, it's more attractive.

So we'll continue to focus on that. But the bulk of the work has been executed and is already in market. And then, clearly, as we understand that business better and the consumer better, it gives us the opportunity to invest not across 6 categories, but in certainly one category, Sparkling, and then the second one, Tea. So yes, it's been a big driver of our progress in Indonesia.

And as I said, both myself and Nik, we were down there. Really great buy-in from the teams and our customers. And because of that, they executed it quicker than I thought we could. So that's a nice surprise.

Bonnie Lee Herzog - Goldman Sachs Group, Inc., Research Division - Research Analyst

Q. All right. I was hoping you could talk about any changes you're making to your price to attack cost pressure to ensure greater affordability for consumers given all the pressures? Just curious to hear how quickly you can pivot your portfolio? And maybe just how much lead time you need to switch things over? As we think about the second half, how should we think about your mix changing? Any key call outs by region based on this?

Damian Gammell

A. Yes. I mean, it really comes back to what I talked about. I think we've, over a number of years, built a much broader pack and indeed brand portfolio within retail, where, if we start to *see that pressure, it will be more in retail, obviously. So I think that gives us existing SKUs on shelf. If you visit any of our retail outlets across CCEP, you'll see our brand pack architecture representing premiumization in terms of glass, multipack, all the way through to more value-conscious consumer offerings around large multipack 6 by 1.5 litre PET or multipack cans.*

What we have seen in COVID is our business pivoted much more towards retail. So we've seen a lot more momentum on multipack cans. And clearly, that is a pack, that, if we look through the consumer becoming more price sensitive, it is possible for us to change our promotional focus with our customers and pivot more towards some of those value packs.

The good news for us is value packs now are at a lower level of discount than you would have seen certainly 4 or 5 years ago in Europe. We've done the same now in Australia. So we can continue to offer value and margin for our customers. And I think that's critical and also for our shareholders.

In terms of lead time, it's quite flexible once they're on shelf. So I think we're in a good position. It can differ from 4 to 12 weeks depending on the customer you're talking to. So we're quite flexible. We don't see a significant shift. We're already coming into the second half of the year. Summer has been very strong. Once we get to Christmas, which will be the next big peak in our business, our portfolio tends to move towards larger pack sizes as people enjoy Christmas and celebrate at home. So that's already in our mix plans anyway.

It will really be then into 2023 do we see a significant move from the consumer side towards more value and do we change our pack emphasis going into '23. But that's something we can update you on later in the year.

Fintan Ryan - JPMorgan Chase & Co, Research Division - Analyst

Q. Just one question for me, please. Sorry for slightly labouring the point on pricing. But with regards to the conversations that you're having with customers currently, do you still feel confident that you'll be able to take another round of pricing come the start of 2023? And presumably sort of taking the low-hanging fruit trend of promotions to costs, how should we think of the balance between absolute pricing, product mix and promotional intensity as we look into 2023? And is there any sort of -- are you seeing any changes within the competitive environment of competitors maybe being more or less active or assertive on pricing in big market?

And also assume that given some of the pressures around Europe and the energy costs, would it be a fair assumption that you'd be more -- trying to be more aggressive when it comes to price realization within Europe and from the API market as we look into next year?

Damian Gammell

A. You did well to fit in 4 questions into one. So let me make sure we try and answer them. As I think we've called out before, I mean, our pricing strategy is multiyear. So I mean, I think we're -- we've done a good job and we continue to do a good job managing pricing over multiple years. And clearly, when we look at the pricing that we've taken in 2022 and we're currently looking at -- we're also looking at what we will need to take in 2023 as well.

So we don't see any difference, clearly, based on some of the topics you outlined, continuing pressure on energy costs, labour inflation, as Nik's talked about. So clearly, we've managed our pricing strategy on a multiyear level, as I said on previous calls, with a view to maintaining momentum with our customers and with our consumers.

So I think we've been very mindful about what pricing we take on what pack and what channel. Nik mentioned that it's really driven by good data insights and understanding where we can pass on pricing and where we want to maintain a value proposition to keep the category healthy and to make sure that we grow value for our customers. So that will continue into 2023. So no change.

We're actually investing more in promo, if you look at our numbers. So clearly, we've come back with a strong retail business. We've got a strong away-from-home business. So our promo is growing because our volume is growing. So we've redeployed our promo funds into smarter promotions. But we've continued to invest in promotional pricing because we believe it's good for the category, it's good for our customers and it gives us a tool to manage some of that potential consumer headwind if it comes.

So we've been quite protective of that investment. We've tried to continue to spend it smarter. And you're seeing that in our net unit case revenue growth. But clearly, that is a large -- as Nik continues to remind, our commercial people, it is a large amount of funding which drives our business, but also gives us flexibility to look at in 2023 how do we want to deploy that. And that's something we'll continue to look at.

From a European and API perspective, obviously, Indonesia is a little bit different. But we would see similar strategies across New Zealand and Australia around our price promo. So not a big difference, which is also, I think, been somewhat encouraging since we did the deal. So a long answer, but clearly more pricing in '23, continued investment behind the right packs and channels to make sure we continue to drive this very healthy category. And we will continue to grow value for our customers. If we need to make bigger decisions on promo, we've now -- we've got that value to play with. And we'll continue to make smarter decisions. Nik, I don't know if you want to add anything else.

Nik Jhangiani

A. No. I think you've covered it. I'm good.

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

Q. I just wanted to ask again another question on sort of revenue growth management, and this time focusing actually on away-from-home outlook. So (inaudible) mentions a glass -- I mean, increase in glass in the release. I know some of that's going to be related to just the reopening. But I was curious if you could speak to how you've actually -- since you have changed the package mix within away-from-home accounts, the degree to which that's been a focus over the past 2 years, if you think there's sort of been a structural change in mix within those outlets? I think that would be helpful and interesting to talk about as well.

Damian Gammell

A. Yes. I suppose if you go back to pre-COVID, if I can talk like that -- or maybe even back to the origin of CCEP. I mean one of the growth drivers we identified in Europe was away-from-home pack mix. And within that, we've been offering a lot more options for our customers and our consumers around glass and premium can offerings in particular. We've got great businesses like Spain, Belgium and now New Zealand, where we really see and can demonstrate the power of having a really healthy pack mix in away-from-home. And we set some goals across our European businesses to continue to kind of mirror that.

And we've made investments. So if you go to Germany, we're now offering 4 to 5 different glass pack sizes. That investment has been over multi years. We've now just moved our whole portfolio in France into RGB. So it's really been clear to our sales force what we believe is important in away-from-home, supporting now with cooler investments, DME, promotions, advertising. So you'll see a lot more glass being advertised now in Europe. And then making sure that the value structure for our customers is in place. And clearly, the margin structure in RGB based on the prices that they sell for is very, very healthy. So there's a good profit story for the customer.

Our biggest challenge has been continuing to keep up with demand. So as to get our supply chain and continue to invest in glass and in RGB to meet that demand. So that will continue. As I said, it's multiyear. We're also seeing -- with HoReCa coming back post-COVID, there is slightly more premium offerings in the market now, which also plays into that glass and premium can proposition. Yes, so it's going to be part of our story for a number of years, Lauren. We've got a lot of growth potential.

If you look at -- you've been to Spain. If you look at our market there and you look at some of our other markets, clearly, we've got a way to go, which is great. I'd like to particularly call out GB. I think if you look at our market in GB, Steven and the team have done a great job driving glass distribution in GB. So next time you're in London, we'll hopefully show you a bit more of that as well.

Robert Edward Ottenstein - Evercore ISI Institutional Equities, Research Division - Senior MD & Head of Global Beverages Research

Q. Great. Congratulations on terrific results. I was wondering if you could please remind us about your package mix in Europe. So just specifically a European question. The mix between PET, glass, aluminium. And then I know you touched on it earlier in terms of your discussion with your suppliers. But can you just kind of give us any more granularity in terms of your confidence in glass supply in worst-case scenarios with natural gas?

Damian Gammell

A. Well, just on this -- maybe I'll take -- I'll just take the second question. I mean, I just want to call out the alignment with our suppliers based on the challenges has been fantastic. I mean, clearly, we're a big customer for them. But over a number of years, we've been working to try and build more strategic relationships. And they've done a great job keeping up with not just the challenges that you mentioned around energy pricing and availability, but also our volumes *have been a bit stronger than we originally planned. So that's worked well.*

I'll hand over to Nik just to kind of share with you a little bit around how that mix looks in Europe.

Nik Jhangiani

A. Yes. And I think just building on Damian's point, I mean, the fact that we've been able to continue to support the growth that we're seeing across the various packs, and I'll particularly call out our can and our glass suppliers, has been a testament to, I think, the strength of our relationships with them. So I think if we look forward, we continue to feel good around continuity of supply.

From a mix perspective, for Europe, about 55% of our business is in PET. And just as a reminder, we have over half of that in terms of recycled PET that we use and a number of markets have transitioned to 100% rPET at least for the on-the-go part of the business or a market like Sweden that's 100% rPET across all their packages. About 30% in cans. And that's where we've seen some strong growth. And then about 7% to 8% in glass and post-mix each. So that's roughly the mix that you would see in Europe.

Damian Gammell

A. And I think just on that, Robert. I mean, that's volume. So if you want to translate that into revenue, clearly, those numbers will change dramatically with glass and cans, in particular, being a much higher share of our revenue, which is really what we look at internally. So that's the volume mix. But on the revenue side, it's even more balanced with glass and cans playing a bigger role, which -- I think back to a lot of the questions around price mix or how we're going to deal with any potential consumer headwinds, it demonstrates a much healthier list of options for our sales force and our customers to work with than previously.

Eric Wilmer - ODDO BHF Corporate & Markets, Research Division - Analyst

Q. I was wondering if you could talk a little bit about the difficult situation at the European airports, especially in July, with the potential knock-on effect on August. How do you see consumers behave in this regard, perhaps by cancelling or changing holiday plans? And what would be the impact on your Iberian and French business in Q3, which I believe is very much on-trade geared during this quarter?

Damian Gammell

A. I think the biggest impact is people are getting to the airports earlier.

Nik Jhangiani

A. And consuming more of our products while they wait.

Damian Gammell

A. I know we are. I mean, I think proportionately what you're picking up is very, very small relative to the size of our business. And if I just look at our Spanish business, our French business, which are probably more tourist centric, we're not seeing any sign of a slowdown. In fact, trying to get hotel bookings or restaurant bookings across all of our big cities is quite challenging. Even in London -- I commented I was around some of the tourist areas last night in London, and they're completely packed.

So we are picking up noise. BA have cancelled a few short-haul flights. We know there's been challenges at Schiphol. Maybe a percentage of people have cancelled their holiday, but generally, then they stay at home. So we pick up a bit more volume maybe in Holland and Netherlands and a bit less in Spain.

But overall, it's on the edge really and quite marginal when we look at the volume of people who are moving. And if you look at tourism numbers across all of our markets, extremely strong. Clearly, a bit less than traditional from Asia. So that will probably be a benefit coming into next year as that reopens a bit more. But certainly, we're not seeing any dramatic impact other than probably a few people moaning about security queues. But I think that's going to be life, as you said, definitely into Q3. It could probably run till the end of the year as airports continue to cope with what has been dramatic demand. But again, nothing material in our numbers at all.

Nik Jhangiani

A. No. And I think as we look out -- and our business units have good visibility at least 6 to 8 weeks out in terms of order flow. And no real impact that we're seeing. So we feel pretty good about the continued strength of the growth in the away-from-home, at least through the summer.

Damian Gammell

A. Great. Thank you. And again, thanks, everybody, for joining us. I'd just like to wrap up by once again just saying a big, big thank you to all of my colleagues at CCEP for delivering what has been, as you've heard today, a great, great first half. I'd also like to thank our customers for their partnership as we continue to grow this category and this business.

And as we touched on a little bit in the call, but I do want to call out a big thank you to our suppliers that have clearly stepped up to meet stronger demand in a more volatile environment and continued to keep our lines running. So again, a big thank you to our suppliers.

As I wrap up the call, I'm extremely pleased and proud today to be able to raise our guidance for 2022 and to have shared with you the opportunity around our business, not just looking at the first half of 2022, but how we see the year progressing and the actions we're taking also to ensure another successful 2023.

I do look forward to welcoming you, those of you who will travel, to join us in London for our Capital Markets Day in November. And I would like to wish everybody a great summer, and I look forward to seeing you in London. Thank you, everybody.