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MANAGEMENT DISCUSSION SECTION

Operator: Good day and welcome to the Coca-Cola European Partners First Half 2018 Conference Call. As a request of Coca-Cola European Partners, this conference is being recorded for instant replay purposes. At this time, I'd like to turn the conference over to Sarah Willett, Vice President of Investor Relations. Please go ahead, madam.

Sarah Willett  
Vice President - Investor Relations, Coca-Cola European Partners Plc

Thank you and good afternoon, Europe and good morning in the U.S. And this being my first call having joined CCEP just over two months ago, I'm especially pleased to welcome and thank all of you for joining us today. I would also just like to gently remind you if you haven't already and wish to do so, to sign up to our investor event next month in Germany. Just let us know directly.

So before we begin discussing our second quarter and half year results for 2018, alongside our updated outlook for the full year, I would like to remind you of our cautionary statements. This call will contain forward-looking comments and statements reflecting our outlook. These should be considered in conjunction with the cautionary language contained in this afternoon's release, as well as the detailed cautionary statement 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.ccep.com.
Today's prepared remarks will be made by Damian Gammell, our CEO; followed by Nik Jhangiani, our CFO. Following those prepared remarks, we will open the call for your questions. Following the call, a transcript will be made available as soon as possible on our website.

So without further ado, I will now turn the call over to our CEO, Damian.

**Damian Paul Gammell**  
*Chief Executive Officer & Director, Coca-Cola European Partners Plc*

Thank you, Sarah and many thanks to everyone joining us today to discuss our results for the first half of 2018, as well as our outlook for the rest of the year. In May, we celebrated our second year as Coca-Cola European Partners, and we're encouraged by the strong progress that has been made. We delivered another solid performance in the first half of 2018, despite facing some challenges.

Our results demonstrate our ongoing focus on driving profitable revenue growth as we continue to make the right strategic decisions for both ourselves and for our customers to create value in the non-alcoholic ready-to-drink category over the mid to long term.

First half 2018, revenue increased 1% on a comparable and currency neutral basis, led by a 5% increase in revenue per unit case. Excluding the impact of incremental soft drinks taxes, revenue per unit case increased by approximately 3.5% as we continue to benefit from our dedicated efforts to improve price and mix. First half volume declined 3.5% impacted by several factors, which are detailed in the release and will be discussed in more detail shortly.

While we are facing some near-term challenges, we continue to see volume growth as a key component of our top line growth strategy over the longer term. Importantly, we continue to see transactions outpace volume during the first half and this remains a key metric for us in regards to the health of our overall brand franchise. Modest revenue growth overall and continued realization of post-merger synergy benefits helped drive operating profit growth of 5% in the first half on a comparable and currency neutral basis.

Now let me turn to performance by territory for the second quarter. In Iberia, our revenues were down 6%, as unseasonably cold weather in Spain led to weak volumes. June was a month that was particularly affected resulting in a slow start to the summer, in particular in our HoReCa channel. Despite difficult trading conditions, a number of our brands, namely Coca-Cola Zero, Royal Bliss and Monster all grew volumes during the quarter. Unfortunately, the weather has since improved and I am encouraged by our return to strong volume growth in July. In Germany, I'm particularly pleased that our revenue increased 4.5%, driven by strong, again by strong revenue per unit case growth, as we continue to focus on driving price and mix by scaling back on large multipack promotions. We saw a good volume growth from Coca-Cola Zero Sugar and Mezzo Mix. Fuze Tea continues to gain traction with our customers and consumers and we've been pleased overall with the initial reaction to the brand launch. These volume gains were offset by a decline in water volume following our previously discussed decision to make the right choice and discontinue some of our less profitable water brands in Germany.

Great Britain saw revenue growth of 6.5%. This reflects underlying gains in revenue per unit case again, as we continue to improve promotional effectiveness and drive a positive pack mix, as well as the impact of the soft drinks industry tax. Excluding the sugar tax, revenue in GB declined by 1% on a currency neutral basis. This principally reflects the soft drinks industry tax impact on volume both from a price elasticity perspective, but also due to the proactive reduction in select packaging sizes, mainly in our Coca-Cola Classic range.
While it is still early days, the impact of the soft drinks tax in GB has so far been broadly in line with our expectations. Although it is fair to say that the prolonged period of unusually warm weather in GB has made it difficult to fully assess the impact so far. That said, I am particularly proud of our supply chain and commercial teams who worked extremely hard to introduce an unprecedented number of reformulations and pack changes ahead of the tax introduction. While Coke Classic volumes declined in the quarter as expected, Coca-Cola Zero Sugar saw growth of nearly 50%. And we saw promising results from the recently launched Diet Coke flavors.

I will provide a little bit more color on brand performance shortly.

In France, our revenue was down 9.5% again with solid growth in revenue per unit case. However, this was more than offset by a sharp decline in volume, largely due to further customer disruption and delistings following the strategic decisions we made ahead of the recent tax changes. In particular, we have taken this opportunity to holistically reset our price and pack architecture in Spain.

For example, we have now upgraded our offer on trademark Coke in the home channel by replacing the legacy 1.5 liter and 2 liter PET bottles with a 1.25 and a 1.75 liter options as we focus on driving more profitable revenue longer term. We are also introducing a wide range of smaller pack offerings into the French market. It's fair to say not all of our customers were initially aligned with our strategy and this is reflected in our volumes and something we flagged last quarter.

While this has been disruptive in the short term, we are pleased to have recently resolved these home channel customer issues and our products will gradually be introduced across the shelves in France. Finally, revenue in the Northern European territories was up 6.5% in the quarter with growth in both revenue per unit case and volume. Norway, Belgium, Luxembourg, the Netherlands and Sweden, all performed very well during the quarter.

Our revenue growth was supported by pack mix, favorable weather, and the recent changes to soft drink taxes in Norway and Belgium. Overall in Northern Europe, Coca-Cola Zero continued to perform well along with Monster, Fanta and Fuze Tea.

Turning briefly now to brand performance. From a volume perspective, our sparkling portfolio declined by 4% during the quarter with a 5.5% decreased in our Coca-Cola trademark brands. As you would expect, these brands were the most exposed to some of the volume factors that I alluded to earlier, particularly in GB and France. However, Coca-Cola Zero Sugar had another solid quarter with growth of over 7%.

Sparkling flavors including energy were broadly flat with encouraging growth coming from Schweppes, and Mezzo Mix. While within this category, energy was up over 10% as we continue to execute our winning multi-brand strategy. Monster brands had another strong quarter benefiting from the continued growth of Ultra, Hydro and the Punch ranges.

Still brands, overall, declined by 9.5%. This was driven, however, by an 8% volume decline in water and a 10.5% decline in juices, isotonic and others. This reflects the right portfolio decisions in the ready-to-drink tea and water categories, as well as the decline in the sports category mainly due to the aforementioned unfavorable weather in Iberia. Fuze Tea, Vio and Smartwater all saw solid volume growth throughout the quarter.

So clearly, as you've heard, there were lots of moving factors in the first half. But overall, we believe it was a solid performance given some of the challenges we faced. Looking ahead, we remain excited about the growth opportunities throughout the rest of 2018 and beyond. And we have good momentum across the business. We
continue to expand our total beverage portfolio across our markets, and we are very pleased with the early customer reaction to Fuze Tea. We've also continued to roll out AdeZ, Honest Coffee and Smartwater.

From a package perspective, in support of our long-term strategy, we continue to focus on growing small pack transactions and premiumizing our offers to drive total revenue growth. For example, we saw volume growth of over 20% in small cans in the second quarter, driven by strong distribution gains of mini-cans, particularly in Belgium, Luxembourg and the Netherlands. Improving our commercial capabilities is critical to drive innovation efforts and our growth longer term.

We continue to invest in order to provide the right tools and technology for our sales force, to enhance our route-to-market, and to increase the availability of our products. We're also working to further strengthening our relationships with our key customers, which we believe will help us increase core range availability and drive new product distribution and visibility.

We are seeing the positive impact of these initiatives from a revenue perspective, most notably to our ability to grow our away-from-home channel and drive growth in a more profitable premium packages. In fact, this quarter was the sixth consecutive quarter in which we grew our away-from-home business faster than our home business. I look forward to sharing more about these initiatives and how we are shaping our future at our Capital Markets event in September.

So, taking into account our first half performance, we are pleased to affirm our 2018 revenue and profit guidance today. And are very much encouraged by a strong start to the third quarter. We continue to expect low-single-digit revenue growth in 2018 with both operating profit and diluted earnings per share growth of between 6% and 7%. We've also modestly raised our free cash flow guidance today, which Nik will cover shortly, along with more detail on our financial results and outlook.

Before I give some closing remarks, I wanted to touch on the recent CO2 issue and the shortage that our industry faced at the back end of June. As a business, we were well-placed to leverage our relationships and scale within the Coca-Cola system and with our suppliers. Our teams worked hard to source CO2 from across the continent and allocate them to our sites in GB. I'd like to thank everyone minimizing any disruption to our business and maintaining supply for our valued customers.

So finally, let me share some closing thoughts. First, when I step back and think about our first two years as CCEP, we have indeed accomplished a lot, but there are still plenty of opportunity ahead of us. Working together with the Coca-Cola Company, we have a clear and collaborative vision and strategy to achieve sustainable, long-term profitable growth for our shareholders. We will continue to work closely with our customers to navigate through a dynamic trading environment and our recent results are a testament to our operating strategies, as well as our commitment and agility of all our employees.

Secondly, our focus on driving profitable revenue growth through strong price and mix realization remains firmly intact. We continue to make bold strategic decisions when it comes to our portfolio, our packaging and our capabilities. These are the right choices to be made for making our business more sustainable in the long-term, despite some near-term disruption.

Thirdly, our commitment to generating cash and driving shareholder value remains as strong as ever. And this is reflected in our 2018 free cash flow guidance which we raised today. This is while we continue to invest in our business across a number of areas from coolers, supply chain, route-to-market and critically more and more in the area of digital capabilities.
And finally, as we work to build our company for the benefit of all stakeholders and maintain our commitment to delivering profitable long-term growth, it is critical that we continue to do so sustainably and responsibly. We are at the center of some of the most important debates of our time, the use of plastic in packaging, the amount of sugar in our diets and the role businesses should play in society. We have clear targets and ambitious goals in our journey to becoming a more and more sustainable business. And we will continue to play an active and productive role in developing long-term solutions with our stakeholders, anchored in our strategy of great beverages, great service, and great people.

Thank you very much for your time. And now I'll turn the call over to Nik for more detail on our financial results and our full-year outlook. Nik?

Manik H. Jhangiani
Chief Financial Officer, Coca-Cola European Partners Plc

Thank you, Damian, and thank you to all of us – to all of you for taking the time to join us today. So let's turn to the results in a bit more detail. On a reported basis, first half diluted earnings per share were €0.85 or €1 on a comparable basis. Currency translation had a negligible impact on earnings per share in the first half.

In the second quarter, revenue increased 1% on a comparable and currency neutral basis. This was driven by a 6% increase in revenue per case or approximately 3.5% in revenue per unit case, excluding the impact of the soft drinks industry taxes, which is reflective of a favorable price, pack and channel mix that Damian referenced to earlier. In fact, this is now the sixth consecutive quarter in which we – our away-from-home business has outperformed the home channel as we continue to drive our business more in the fragmented trade. And also as Damian mentioned, our transaction growth continues to outpace our volume growth.

Overall volumes declined by 4.5% in the quarter, driven by several factors which Damian spoke about earlier. These include the commercial disruption with one of our customers in France, which has now resolved, the unfavorable weather in Iberia, our strategic portfolio and pricing initiatives mainly in Germany, as well as the impact of the new soft drink taxes notably in GB. We estimate that these factors in totality accounted for approximately 3 to 3.5 percentage points of volume decline for the quarter.

Second quarter cost of sales per unit case increased by 5.5% on a comparable and currency-neutral basis. Cost of sales per unit case increased by approximately 1%, excluding the impact of the incremental soft drinks industry taxes. This was partly driven by mix, but also, as previously noted, the continued year-over-year increases in key inputs, principally PET and aluminum and of course concentrate which, just as a reminder, is in line with our incidence agreement linked to our revenue growth. These factors were partially offset by lower sweetener cost and synergies.

Overall, we did achieve gross margin expansion during the second quarter and the first half. Further, we anticipate a broadly stable gross margin for the full-year 2018, when including the impact of the incremental industry taxes and a slight gross margin expansion when excluding these taxes.

Operating expenses were up 1.5% on a comparable and currency-neutral basis. This reflects expense timing as well as the impact of select investments in the areas of digital, our route-to-market, and joint investments with the Coca-Cola Company on innovation and new products such as Fuze, Honest and AdeZ. These costs were partially offset by the synergy benefits and a continued focus on managing operating expenses. All these factors contributed to an operating profit growth of 1.5% on a comparable and currency-neutral basis in the second quarter. Also during the quarter, we realized approximately €30 million in synergies. While the calculations would
indicate an operating profit decline excluding synergies and approximately 5% on a comparable and currency neutral basis, this quarter is a little more complicated than most quarters.

When adjusting for the volume deleveraging impact from the various factors highlighted and the impact of the synergies, we believe that the underlying growth in operating profit would have been broadly flatted in the second quarter, which we continue to be pleased with. Finally, we continue to focus on driving free cash flow and while we encountered several challenges during the first half, our free cash flow generation was ahead of last year, driven by our continued success in managing working capital and type managing of our restructuring expenses.

Now, turning to our outlook for 2018. For the full year, we’ve affirmed our guidance to modest low-single digit revenue growth with operating profit and diluted earnings per share growth between 6% to 7%. At recent rates, currency translation would have a minimal impact on 2018 diluted earnings per share. These growth figures are on a comparable and currency neutral basis.

While we’re pleased with the first half results and encouraged by a solid start to the third quarter, we believe that we need to continue assessing the impacts of our business from several factors. Remember that the new sugar taxes in France only came into effect in July and it has been more difficult to read the GB sugar tax impact given recent weather trends.

And finally, while we’re very pleased to have resolved the customer conflict in France, we will now need to build back on shelf presence over the next weeks and months in that market. So with all that said, we should have a better read of the second half outlook once we have traded through the remaining important summer months of August and September, and we’ll update you when we next meet. As a reminder, our guidance excludes the accounting impact of the incremental soft drinks industry taxes. We continue to expect these taxes to add approximately 2% to 3% to revenue growth and approximately 4% to cost of goods growth.

We now expect underlying cost of sales per unit case growth to be at the low end of our 2% to 3% guidance range on a comparable and currency-neutral basis. This mainly reflects product mix, as well as a slight reduction in the headwind from aluminum costs versus where we were earlier. Also bear in mind the cost of sales comparables become more challenging in the second half when compared to what we had in the first half of 2017 versus 2016.

We now expect free cash flow within the range of €900 million to €950 million, up from our previous guidance of €850 million to €900 million. The higher free cash flow outlook includes an expected benefit from improved working capital of at least €150 million compared to our previous expectation of at least €100 million. Our capital expenditure outlook continues to be in the range of €525 million to €575 million, which includes approximately €75 million of capital expenditures related to the synergy captures. We remain on track to achieve our committed synergy savings target by mid-2019. We have now achieved a total savings of approximately €215 million, which includes €30 million in this quarter or the second quarter of 2018. We now expect to realize at least 80% of our target by the yearend 2018 and a run rate of nearly 100%.

Given these factors, currency exchange rates and our outlook for 2018, we continue to expect year-end net debt to adjusted EBITDA for 2018 to be towards the low end of our target range of 2.5 to 3 times.

To close, let me highlight a few areas. First, we’re pleased with our financial performance so far despite the challenges highlighted and remain committed to driving long-term profitable revenue growth. We’ve taken bold actions when it comes to our pricing, promotional, and our brand plans. And we believe this strategy will strengthen our business for the long term.
Second, we continue to invest in our employees and our capabilities to capture the growth opportunities ahead of us. These investments are critical as we seek to expand our portfolio, strengthen our relationship with our customers, and further widen our outlook coverage. And finally, free cash flow generation remains at the very core of our business, and we remain focused on pursuing disciplined investments, optimizing our working capital, and ultimately creating long-term value for our shareowners.

With that, Damian and I will now be happy to take your questions. Operator?

QUESTION AND ANSWER SECTION


Stephen Powers
Analyst, Deutsche Bank Securities, Inc.

Great. Thank you. Good afternoon, guys.

Manik H. Jhangiani
Chief Financial Officer, Coca-Cola European Partners Plc

Afternoon.

Stephen Powers
Analyst, Deutsche Bank Securities, Inc.

I don't mean to start off on a negative. But Damian or Nik I guess, it just feels like every year we're talking about some form of retailer conversation or dispute in France, and maybe that's a bit of an exaggeration, but it feels sort of directionally correct. And I guess just in that context, maybe just provide a bit more detail as to what drove the most recent discussions and the path from here to recovery. It sounds like it's largely resolved which is great.

But then, just more broadly, also step back and assess whether you see it possible that a more constructive status quo evolves in France, where future discussions may be more streamlined or whether you think the current state is more likely to remain business as usual.

Damian Paul Gammell
Chief Executive Officer & Director, Coca-Cola European Partners Plc

Hi, Stephen. Maybe I'll take that one, so not to start off on the negative, but just to talk a little bit about France. So, I mean firstly, I would say you've got to look at the market in total. And what Nik and I have referred to today relates to one customer. And while that's a very important customer and a customer that I'm particularly happy that we're back doing business with, it's fair to say that across all of the other customers, we had reached a good strategic alignment.

So I think it's important to note that it was one customer. A very important one and thankfully, as you mentioned, one that we're now back in business with. Prior to that, I think we haven't had this level of disruption in France before and it's certainly not something that we would foresee going forward. This was slightly a unique event this
year for a number of factors, but primarily we had to change our packaging as we moved into the reshaping of the French sugar tax.

And clearly, that was a bigger change than some people anticipated. As I said, the majority of our customers have bought into this strategy and see it as a way of creating long-term category value. And now we've got through the disruption. So it's not something that we would see as being a routine in France. Our French business is great. Over the last number of years, we've had solid revenue performance particularly in away-from-home, but we do see the opportunity for the category being a lot higher. And a key enabler of that was getting the right pack-price architecture in place, and unfortunately that came with some disruptions. But as you called out, we are now back selling to all our customers. But just to reiterate, it was one out of many, many customers.

So hopefully that answers your question and clearly, we look forward to solid business performance in the second half of the year in our French business. And a good start to 2019 on the back of the changes we've made.

Stephen Powers  
Analyst, Deutsche Bank Securities, Inc.

Great. Thanks for that. And maybe I'll turn more positive if I could. In follow-up, I guess this one's really for Nik. You've clearly prioritized working capital improvement this year, and the results have been extremely impressive as evidenced I guess by the free cash flow performance this quarter and the full-year guidance raise. I just would like if you could just to step back and talk about the sustainability that you see of that lever as an incremental source of cash flow as you go forward, just talk about the runway there?

And the same kind of question on synergies; it looks like you're realizing things a bit ahead of schedule, which is great. But does that have any implications? Does that pull forward have any implications as you think about medium-term profit growth, the runway for medium-term profit growth runway? Thanks.

Manik H. Jhangiani  
Chief Financial Officer, Coca-Cola European Partners Plc

Sure. So I think on the working capital piece, remember this has been already the start of what we have indicated would be a multiyear journey. And I think as Damian and I both went into this and talked about this across the business, we were very clear that whatever we did was not about a year-end or a quarter-end number and window dressing. This was about sustainability that we needed to have in regards to working capital improvement. So I think the things that we've done if you think about last year where we delivered over €250 million of net working capital benefits was very much about getting some of our house in order. Things like invoicing disputes that we had that were causing issues with our customers in terms of paying us timely.

We did some stuff on our framework in terms of how we wanted to pay and not go ahead and make early payments and not take things that we're taking too long to pay with some of our customers – some of our suppliers causing issues with them. So it was a lot about housekeeping. And then we've now spent a lot more time around re-looking at how we can actually engage with our top customers and suppliers, as well as continuing to look at our inventory levels.

So I think everything that we're doing is very measured and paced, and clearly will have sustainable impacts outside of what will normally be working capital growth that comes just as the business continues to grow. So I think we feel very good about what we've achieved. And I think we still have runway ahead of us as we look at the next three years. Obviously at a lower rate than what you've seen in 2017 and what we've now guided to for 2018.
In terms of the elements, obviously that translates to solid free cash flow and where we feel we're performing well there. The next question was around synergies. I think we have continued to say that getting synergies captured was an important part of this transaction, but clearly we saw greater opportunities for productivity and growth going forward as well. So I don't think the timing of the synergy capture in any way compromises our belief in being able to deliver against our long-term growth algorithm of low-single-digit revenue growth and mid-single-digit OI growth. In fact I think it just reinforces we've got that base right, off which we can continue to grow.

Damian Paul Gammell  
Chief Executive Officer & Director, Coca-Cola European Partners Plc

And just to add a point, I mean I think we outlined a couple years ago that we had changed incentive plans to include free cash flow. And I think that's been a key driver of the right behavior in the organization. And it's something as a management team we're committed to retaining going forward. So again, that will increase the curiosity of all of our people at CCEP, to not just improve working capital, but to look elsewhere for free cash flow opportunities. And that gives us confidence going forward as well.

Stephen Powers  
Analyst, Deutsche Bank Securities, Inc.

Great. Appreciate that. Thanks, guys.

Operator: Thank you. Our next question comes from Judy Hong with Goldman Sachs. Your line is open.

Judy Hong  
Analyst, Goldman Sachs & Co. LLC

Thank you. Hi, everyone.

Manik H. Jhangiani  
Chief Financial Officer, Coca-Cola European Partners Plc

Hi, Judy.

Damian Paul Gammell  
Chief Executive Officer & Director, Coca-Cola European Partners Plc

Hi, Judy.

Judy Hong  
Analyst, Goldman Sachs & Co. LLC

The first in GB. So, obviously a little bit difficult to read the trends, just given the weather impact et cetera. But your revenue I guess affects the next tax impact was down 1% in the quarter. So maybe a little bit more color just in terms of how much was that driven by pricing ex-taxes? So just trying to understand how much volume was actually down in the quarter. And so, with the revenue being down 1%, how would that compare to your expectations because it seems like the weather did help in the quarter?

Manik H. Jhangiani  
Chief Financial Officer, Coca-Cola European Partners Plc

Sure, Judy. I mean, again, we don't breakdown our volume pieces by market. And particularly given this issue, I think it's even more challenging to give you a specific number. But I think our revenue per case ex the sugar tax continues to be solid. And keep in mind on the volume side, there's a two-fold effect. One is coming from the fact

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that you’re seeing people obviously, based on what we saw as initial sugar tax and sticker shock that comes in from the pricing, choosing not to buy, all right.

But the other most important piece is, remember that the volume impact that's coming just from the downsizing, right. And if you look at that revenue piece, a larger part of what's coming from that revenue decline, ex the sugar tax is the volume coming down as a result of the downsizing on key packs. The 1.75 down to 1.5; and 6-pack, 8 packs going down 6-pack – 4 or 6 packs in the multi-can strategy.

So that's where you would actually see the impact. What we are also seeing which is encouraging is the transactions continue to get better as we have seen the months evolve, which kind of indicates also that there's much more of an acceptance of that new pricing architecture on these sugar products from the consumer. And then finally, both Zero and Diet Coke continue to perform well. But obviously, not enough to offset fully that impact that we would have expected to see.

Damian Paul Gammell
Chief Executive Officer & Director, Coca-Cola European Partners Plc

And just to maybe add, Judy, I mean I think as we said in the statement, that was broadly in line with our expectations. And we've been particularly pleased with the lack of disruption to the business as we moved into those new packages and formats that Nik outlined. Our business in away-from-home remains very robust. So clearly, as you'd expect where the price elasticity is a little bit less, we still see very strong performance on our brands in away-from-home. Going forward, I think, one of the opportunities for us is also to make sure that we continue to feature Coke Classic on our displays and on our activation.

So, as we've come through the sugar tax, that's also been a priority for us. As we've realized, there is still a very robust and loyal consumer user base for Coke Classic. It still remains the biggest brand.

It's still the biggest driver of profitability and cash for our retailers. And as we reshape package offers, there's no reason to believe that that brand can continue to be part of our revenue growth plan going forward. And that's the way we're viewing it. And we'll take a couple of quarters to get through it, but by and large, we're – on the back of the weather as well we're slightly ahead of where we thought we'd be coming into the middle of Q3.

Judy Hong
Analyst, Goldman Sachs & Co. LLC

Got it, okay...

Manik H. Jhangiani
Chief Financial Officer, Coca-Cola European Partners Plc

I'm sorry. One other point, Judy, just to highlight and just to remind you again that if you remember GB, all markets had a great second quarter last year and GB in particular had a very strong volume quarter. So just think about what's you're cycling as well.

Judy Hong
Analyst, Goldman Sachs & Co. LLC

Yes. Got it. Okay. And then, just a quick follow-up on France, so the post-tax increase in July, any early read in terms of what you’re seeing in terms of the tax increases being fully passed on to the retail prices and any sort of competitive dynamics that you can read into at this point?
Damian Paul Gammell
Chief Executive Officer & Director, Coca-Cola European Partners Plc

No. Broadly speaking, I mean, that tax was a reshaping of an existing tax, so it was slightly different to what was happening in GB. So, the impact was always going to be less. By and large — and we've seen the whole category respond well to the tax. Again, we've — absent our customer issue in all of our other customers and channels in France. We were very pleased with the way our businesses performed in the second quarter. So as we strip out that one-off event which, again, is now resolved, we continue to be positive on our French business going forward.

Judy Hong
Analyst, Goldman Sachs & Co. LLC

Got it. Thank you.

Operator: Thank you. Our next question comes from Lauren Lieberman with Barclays. Your line is open.

Lauren R. Lieberman
Analyst, Barclays Capital, Inc.

Thanks. Good morning.

Operator: Thank you. Lauren, your line is open.

Manik H. Jhangiani
Chief Financial Officer, Coca-Cola European Partners Plc

Hi, Lauren.

Damian Paul Gammell
Chief Executive Officer & Director, Coca-Cola European Partners Plc

Hi.

Operator: Thank you. Lauren, your line is open.

Lauren R. Lieberman
Analyst, Barclays Capital, Inc.

Hey. So, Damian, in your prepared remarks, you mentioned efforts that you're putting into kind of, you call it, the fragmented trade. And so, I was wondering if you could just talk a little bit about things you're doing specifically to target more or less [ph] particularly (35:30) it's untracked channels with some of that fragmented trade and where you think in markets the greatest incremental opportunity would be, right, we know Spain obviously has a very big strength in HoReCa. But I'm admittedly less familiar with France in terms of your HoReCa presence and even kind of again that fragmented trade opportunity. So any color you could offer on sort of markets with the biggest opportunity for a fragmented trade in HoReCa would be great?

Damian Paul Gammell
Chief Executive Officer & Director, Coca-Cola European Partners Plc

Pretty much — thanks, Lauren. And that's a topic actually we will cover in a little bit more detail in September. But just to share with you some of the highlights, as you quite rightly say, probably Spain is one of — is probably our most developed market in terms of diversified revenue from home and if you want to call it the fragmented trade. Having said that, even in Spain we see opportunities to further build out our fragmented business, for example, areas like at work, education, health care, are also underdeveloped in our Spanish business.
And if you take that as being our lead market, obviously, as you move back from Spain, big markets like France, GB and Germany, all have an opportunity and are growing faster in the fragmented trade than they are in retail. So when you look at our pack performance or our channel performance, you're seeing our fragmented business growing anywhere between two to three times what we're achieving in retail. Clearly, that's being driven by a number of factors. One, when we put together CCEP, we inherited Europe's largest sales force. So, over 5,000 frontline sales operatives and that clearly is the muscle of our business. But we realize that in a lot of our markets, that asset wasn't being as productive or as effective as it could be. So we spent a lot of time and money putting digital capabilities into the hands of our sales force.

That is allowing us to increase calls per day, in many cases doubling the calls per day a sales rep can do. We are then reallocating that extra call capacity into the fragmented trade. So we're starting to visit customers that we didn't visit, or spending more time with customers to grow distribution on our call range and packs. So that is a multi-year journey.

It's a journey we're very excited about because – and across these channels our brand impact relevance is high. And today in a lot of those channels, you will always find the Coca-Cola Classic and a Diet Coke or a Coke Zero. But the rest of our portfolio is significantly underrepresented. So as we think about the volume being a bigger part of our revenue story going forward, a lot of that volume will come from the channels that we're talking about.

So multi-year journey, I think we're making good progress. It's being driven by digital. And Spain is at the forefront, but even in that market we see opportunity which gets us excited as we look at other big markets like France, GB and Germany. But honestly, Lauren, it's an opportunity across all of our markets and it's something that we believe contributes to our revenue growth in a profitable way going forward.

Lauren R. Lieberman  
Analyst, Barclays Capital, Inc.

Okay. That's so helpful. And then on top of the – just a quick, quick follow-up is that you've mentioned that as volume becomes a bigger part of the equation going forward it comes from these channels. But I'd also think that price mix would also be positive. I mean, as you get growth in these channels, it's going to tend to have a more beneficial price mix than traditional big box retail. So that also suggests great runway on price mix as well.

Damian Paul Gammell  
Chief Executive Officer & Director, Coca-Cola European Partners Plc

Yeah. I think we are delivering very, very solid price mix on a per case level since we created CCEP. Some of that is coming already from progress in the fragmented channels, so that's starting to come through. Obviously, to-date, the bulk of that price mix realization has come from some bold decisions around promotional pricing, delisting unprofitable brands, particularly in Germany, and working with our sales force to pass on headline pricing. All those elements will play a role going forward.

I suppose we're [ph] calling at (39:51) volume a little bit more now because as we expand our beverage portfolio, clearly, that contributes to volume as a lot of these new categories and brands participate in volume. Our fragmented trade strategy delivers volume growth. And as we cycle some of the decisions we made in retail, obviously, that will benefit volume going forward as well. So, we still remain very passive about price mix because we believe that is something that's really sustainable.

But probably a third of our revenue growth going forward, and it'll differ by market, will start coming through in volume as well, which gives us a bit more leverage on our P&L as we start to obviously absorb a bit more through
our supply chain in particular. So again more to share in September on those topics, they're – they're high on the agenda for our meeting in [indiscernible] (40:40).

Lauren R. Lieberman  
Analyst, Barclays Capital, Inc.

Okay. Great. Thank you so much.

Operator: Thank you. Our next question comes from Kevin Grundy with Jefferies. Your line is open.

Kevin Grundy  
Analyst, Jefferies LLC

Thanks. Hello, guys.

Damian Paul Gammell  
Chief Executive Officer & Director, Coca-Cola European Partners Plc

Hi.

Kevin Grundy  
Analyst, Jefferies LLC

I wanted to pick up – this is a question for Nik on cost synergies, which have been clearly a material contributor to the company's profit growth. How do you think about your ability to drive mid-single-digit profit growth as we sort of get to the other side of these synergies? And I guess I ask that, the quick back of the napkin math suggests that your profit growth in 2017 and what you're anticipating in 2018 is relatively flattish if we back out the synergies.

And also to Nik, of course, we recall that you had a productivity program in place prior to the CCEP deal. Is that something we should expect as you sort of make your way through the synergies because it just seems like it is driving the – synergies are driving an outsized portion of the company’s profit growth here in recent years. So any commentary there would be helpful, then I have a follow-up?

Manik H. Jhangiani  
Chief Financial Officer, Coca-Cola European Partners Plc

Sure. So, I think – just to be clear, we were very transparent about that as we went into this transaction that the early years you're going to see the profit growth ahead of that mid-single-digit OI growth guidance because of the fact that we were going to be delivering on the synergies. And we were also focused on making the right decisions and investments to support what will be future profitable top line growth.

So if we then think about what Damian's just talked about, things that we’re doing in terms of growing away-from-home, things that we’re doing in terms of resetting and making sure that the home business is on the right footing. In a lot of ways, to give us improve profitability there, but allow us to do some of the things we want to do in the away-from-home, which was quite honestly stopping us.

So when we were deeply discounting our products in the home business. That was leading to leakage in the away-from-home business that was precluding us from getting up fair share of the growth opportunity there. So I think if we think about the mid-single digit OI growth, clearly we see leverage coming through from the fact that we
will now be seeing volume which we have made strategic decisions and choices to forego because we wanted to reset that base as Damian said.

And then the fact that there is continued focus around price and mix that will come from the channel mix as well as our pack and brand mix going forward. So I think both those will give us that leverage through the P&L.

After that, absolutely to your point, and I've alluded to this several times. Synergy capture does not in any way mean that we don't have opportunities for productivity going forward. And clearly, there will be opportunities for that as we continue to look at our business to stay competitive and stay [ph] fit with (43:44) future. So, there will always be those opportunities, and I think we will talk a little bit more about that when we're together in September as well, so more to come in September.

Kevin Grundy  
Analyst, Jefferies LLC

That's helpful, Nik. I appreciate that. One follow-up if I may, for Damian. A lot of focus on CCBA which has moved a bit slower than I think all parties anticipated at least initially. So, James Quincey has talked about an expectation to receive offers in the coming months. So Damian, any developments there that would change your view with respect to M&A preference to contiguous territories versus regions that are not adjacent to your current footprint, so any update there around M&A and CCBA that specifically would be helpful. Thank you.

Damian Paul Gammell  
Chief Executive Officer & Director, Coca-Cola European Partners Plc

Thanks, Kevin. No change from our side. I mean, I think we've made it quite clear that we would continue to like to grow the footprint of CCEP. We've made our preferences clear in terms of areas that we feel would fit best with our current capabilities and footprint.

We've remained focused on managing what we can manage at the moment, Kevin, which is delivering on our commitments, building a healthy balance sheet, paying down our debts, working strategically very closely with the Coke Company on a multiyear plan. And I think that puts us in the best place we could be in to potentially benefit from any M&A activity going forward.

I honestly, don't have any insights on CCBA. You guys probably know more than I do, to be honest. But clearly, we're watching with interest to see what evolves. But at the end of the day, we can manage what we can manage and that pretty much is within our control today and we remain focused on that.

Just back to your earlier comment as well, I'd also – if you look back at the first two years of CCEP on the side of synergies, on the other side, we also took the opportunity in 2017 to reset our price promo architecture across most of our big markets and we've had the impact of sugar tax in GB this year. And I think both of those were obviously significant events in parallel to delivering the synergies. So just to give a bit more color on your comment on synergies.

Kevin Grundy  
Analyst, Jefferies LLC

Thank you.

**Operator:** Our next question comes from Ali Dibadj with Bernstein. Your line is open.

**Ali Dibadj**
*Analyst, Sanford C. Bernstein & Co. LLC*

Hey, guys. So, just it used to be in the past that a lot of your regions effectively were pulling in the same direction from my perspective. And more recently, since CCEP, but really just over the past year or so, and most questions demonstrate this, it's been a little bit different, right, so there's been more variability in different regions, a little bit more volatility, France and the retail battles a couple times now, Iberia with weather. Today, UK sugar taxes, et cetera.

And so, I have a few questions about those. First is does the volatility or the variability change how you manage and organize the business at all or is everything so decentralized it really doesn't matter, it doesn't put stress on the organization or on delivering numbers, et cetera?

Second, I know you talked a little bit about France with Steve, but what's the broader struggle here? Because we've heard about it before. Is it the Carrefour, the retailer, the unknown retailer isn't happy with the profit splits, is it health and wellness? Is there something else going on there that's broader, so this could be a little bit more recurring?

And then the third is on GB. Again, on the sugar taxes, I get the weather. It's difficult to predict what's going on. It looks like things are going okay so far. Are the things you see as signs of caution through that uncertainty of weather, are there channel shifts going on? Is there market share losses to Pepsi Max, given that brand doesn't have to take taxes? So really trying to get underneath the kind of variability in regions question.

**Damian Paul Gammell**
*Chief Executive Officer & Director, Coca-Cola European Partners Plc*

Ali, I think you got great value out of one question. So let me start and I apologize if I miss anything, but I'm sure you'll come back to it. So, on the volatility by market, I think it's very difficult to compare CCEP to what was before. If you look back, I mean we're now a business that added to previous CCE two of the world's best Coca-Cola markets, Germany and Spain in particular. So, we added a lot of scale and we added two big markets. And if you look back at CCEP, the only market that would have been comparable to either of those may have been GB. So it is a much bigger business.

And that's a great thing for the management of CCEP and I think for the shareholders because it allows us to make choices across a portfolio of markets with scale. So I think if you look at the results for the first half of this year, if you had a market like Spain which struggled due to weather and it was a single business, you would struggle to deliver the results we've delivered. I think you're seeing the power of our portfolio of countries coming through in our results in the same period where you had the introduction of a tax in GB. So, we very much view it as a positive. We manage it strategically, so we're very clear centrally as we do our annual business plans, as we do our three-year planning, what role we expect each market to play in that period, what are the challenges or opportunities by market, and how do we make the right decision so we can meet or exceed our guidance based on those criteria. So, overall, very positive.

And as we build CCEP, our operating model was designed to get the benefit of the additional scale and allow us at the right times to take some difficult choices in a particular market for the longer-term health of the business.
And I think at CCE that was obviously a challenge given that we really didn't have the markets of scale that we have today. If you strip out the markets that we called out today specifically, you'll see across the other eight markets extremely healthy revenue growth year-to-date. So I think our underlying business model is demonstrating the results that we would expect.

On France, it's not a broad issue at all. As I mentioned earlier, as we've gone through the opportunity mapping for France, we clearly saw that our pack architecture was not mature enough to unlock some of the longer-term opportunities for ourselves or our retailers. All of the retailers bar one have bought into that strategy and understand the long-term cash generation that will bring for them and also the long-term profitability. So it's not a wellness or a portfolio challenge. It was really changing pack architecture and that was obviously on the back of us also passing on pricing. And that was the challenge with the retailer in France.

Having said that, when we look at our share in France, clearly, we can become a bigger player in NARTD. We are still very much a sparkling player. And we do see an opportunity to broaden our portfolio, and we're doing it in France with Honest, particularly in tea, Fuze Tea to become a bigger beverage player against the health and wellness trend.

So, nothing I would say structural. Nothing that I believe will impact our growth going forward. In fact, we're quite pleased that we've got through the changes because we do see the power of having a more mature pack mix architecture being a big benefit for us in France. On GB, again, nothing to call out significant in terms of channel mix or shifts. No real change in market share, I suppose.

We've seen the strength of our competitor in the cola light category. We responded, I think, well with Coca-Cola Zero Sugar, but we are now seeing the benefits of our dual strategy as Diet Coke continues to play a bigger role in our GB franchise. So, we wouldn't expect that both of those brands will participate in the growth of the cola light or sugar-free category going forward. There's been no significant channel shifts. As I mentioned earlier, by and large, our away-from-home, our on-premise business has continued to perform well. We have benefited from fantastic weather in GB, although it is raining today. And I would expect, as Nik called out, we'd be able to give a lot more clarity as we get to the end of the year on the longer-term trends, particularly around the sugar tax. But I would say so far, so good. I hope I didn't miss anything, Ali.

Ali Dibadj
Analyst, Sanford C. Bernstein & Co. LLC

You got all of them. Thanks very much, guys.

Operator: Thank you. Our next question comes from Bonnie Herzog with Bonnie Herzog with Wells Fargo. Your line is open.

Sam Reid
Analyst, Wells Fargo Securities LLC

Thanks so much. This is actually Sam Reid dialing in for Bonnie. So, quick question here, you've talked a lot about stepped-up investments in your employees, in your sales force in the past and it really sounds like that's continuing. You know that said, I'm just curious kind of as to where you are in terms of that investment process and how you think about this more broadly in terms of how it will impact your at-home and your away-from-home mix over the long term?
Damian Paul Gammell
Chief Executive Officer & Director, Coca-Cola European Partners Plc

So, that investment is kind of coming from two pillars. One is reflected in our CapEx guidance for both 2018 and beyond. So, a significant amount of our IT investment, which is reflected in our CapEx as being to benefit our frontline sales force, our call centers, et cetera. So, that's pretty much baked into the guidance we've given today on our full year.

On the OpEx cost side, it's really been a productivity drive. So we had that cost in our P&L already. And well we clearly identified that there was inefficiencies getting in the way of our sales force being productive. So, using digital new ways of working on a more segmented approach has allowed us to get more from the same cost base. And we'd expect that to be a benefit going forward into 2019 and beyond as well.

Over time, we haven't guided but we would expect continuously that our away-from-home or fragmented trade will outpace our growth in retail. I mean that may differ quarter-by-quarter. Clearly, our retail business is doing well in a lot of markets, but I think as we look at where we're allocating our sales resource, where we see consumer spending more time because frankly in Europe people are spending more time out of home. They're eating on the go more.

And we'd expect our revenue mix to reflect that trend. So as a guiding principle, we'd expect away-from-home to outpace retail growth going forward. We'd expect small packs to outpace large packs on the back of that. And clearly, that supports our margin and profit goals going forward.

Sam Reid
Analyst, Wells Fargo Securities LLC

Excellent.

Manik H. Jhangiani
Chief Financial Officer, Coca-Cola European Partners Plc

And I would just...

Sam Reid
Analyst, Wells Fargo Securities LLC

Oh, go on.

Manik H. Jhangiani
Chief Financial Officer, Coca-Cola European Partners Plc

Sorry. And I would just add to that one point, Sam, that at the end of the day, we did indicate that some of these investments were going to be stepped up as we continue to see both the synergy delivery and the business momentum, and those are the right investments to get us ready for the future. So, I think if we look at what we will continue to do going forward, that's kind of baked into how we see our business algorithm.

Damian Paul Gammell
Chief Executive Officer & Director, Coca-Cola European Partners Plc

Yeah. And just, I mean, another proof point on our focus on operating margin going forward as we innovate into new categories, if you look at our products portfolio of NPD. It is pretty much all focused in [ph] IC (56:01) packaging, glass, small cans, small PET. So we are quite deliberate about the choices we make in terms of the
categories and how we play going forward to make sure we continue that profit mindset into 2018 – at the end of 2018 and into 2019.

Sam Reid
Analyst, Wells Fargo Securities LLC

No, thank you, guys. That’s super helpful clarity. Really appreciate it. And then maybe on another topic here, it’s really good to see some of the continued strength we’ve been seeing in Coke Zero Sugar, just curious though kind of how long you expect the momentum here to continue. Thanks.

Damian Paul Gammell
Chief Executive Officer & Director, Coca-Cola European Partners Plc

Well, as we look at our consumer data and we listen to our consumers and our customers, I think across our territories we still see the sugar-free, low-calorie, no-calorie trends continuing. So, we’d expect Coke Zero Sugar to continue to be a brand that leads our growth going forward. We’d expect to augment that with a stronger role for Diet Coke and Coke Life. I think that’s something that we’ve missed over the last couple of years. And we’re also seeing the same trend having a positive benefit on brands like Fanta Zero and Sprite Zero. So, no reason to see that slowing down.

We’re also particularly excited about the Coke Company’s marketing platform and some of the package changes we’re making around Coke Zero Sugar particularly moving it to more of a red platform in line with our Coke Classic proposition. That’s something that we’re rolling out starting now in Spain. And initial results are positive. So we can provide consumers with a chance to drink a Classic Coke with or without sugar in packaging that they’re happy with. So, there’s a number of initiatives that we believe will continue to give that brand and that segment momentum over the next two to three years and beyond.

Sam Reid
Analyst, Wells Fargo Securities LLC

Excellent. Thank you so much, guys. Really appreciate it. Appreciate it.

Operator: Thank you. Our next question comes from Richard Withagen with Kepler. Your line is open.

Richard Withagen
Analyst, Kepler Cheuvreux SA (Netherlands)

Yes. Good afternoon. I have two questions. First of all, on GB. Can you perhaps talk a bit about the consumer behavior especially with regards to Coke or Classic Coke drinkers? Have you got any sense of whether they switched out of the Classic Coke brands and where they switched to?

And then the second question, I guess, for Nik, on the free cash flow guidance. Last year, you made more than €800 million in free cash flow in the second half of the year. Your guidance for 2018 suggests a free cash flow in the second half of the year or something like €550 million to €600 million. So that’s quite a big gap with 2017, with second half 2017. So am I missing something over here?

Damian Paul Gammell
Chief Executive Officer & Director, Coca-Cola European Partners Plc

So. Thanks, Richard. On Coke Classic, I think there’s a number of dynamics at play. One, we have proactively downsized some of our packaging. And we’ve also, as we’ve talked about previously, backed off some of our
really deep revenue promotions. So I think the volume number on Coke Classic needs to be looked up through –
with those factors considered.

On a revenue level, we see the brand holding up quite strongly. And I think absent the one-off effects based on
our price mix strategy, in a number of our markets, we're seeing Coke Classic revenue flatten or in some cases
even start to grow again. So I think that's something that we will continue to look at going forward.

If consumers move out of the brand and we have seen that, they generally stay within the category, but they
move to sugar-free option. So again, we see Coca-Cola Zero Sugar playing a role there, but more importantly,
Diet Coke. And we also see some consumers moving to flavored and sparkling water. So initially, they would be
the brands that they would move to.

Also, the tea category starts to play a bigger role, which is why we're also quite pleased with the launch of Fuze.
So, tend to move across a number of beverage options. However, the brand remains with a very strong and loyal
user base. And we believe the changes we're making on pack pricing will support that going forward. But that's
generally where they tend to move to.

Manik H. Jhangiani
Chief Financial Officer, Coca-Cola European Partners Plc

And Richard, on your question in regards to free cash flow, two very key points just to keep in mind that would
explain that. One, remember we delivered almost €250 million of working capital benefits last year and that was
very much back-half weighted. In fact, a lot of that came through towards the end of the year as we had put those
programs and started then seeing the benefits of some of that. While this year, you're already seeing, if you look
at the first half of the year for instance, a very solid performance on operating working capital.

And then the second piece is just the timing of some of our CapEx as well. So, those would be the two main
factors that would have the differences between what you're seeing in half two versus half two last year.

Richard Withagen
Analyst, Kepler Cheuvreux SA (Netherlands)

All right. Very clear. Thank you.

Operator: Thank you. Our next question comes from Bryan Spillane with Bank of America Merrill Lynch. Your
line is open.

Bryan D. Spillane
Analyst, Bank of America Merrill Lynch

Just two quick ones for me. The first one, Nik, I think if you look at cost of goods per unit for the first half, if you
strip out the excise and sugar tax, sin tax, I think it's up about 1%. So, as we're looking into the back half of the
year given what you said about maybe aluminum cost being a little less than you thought, is it still in that sort of
same range in the back half of the year or will it be any different kind of first half to second half?

Manik H. Jhangiani
Chief Financial Officer, Coca-Cola European Partners Plc

No, you will see a step-up in the second half but mostly that's coming from timing issues and when you compare
what the comps were for the second half last year versus what they were for the first half. So the overall guidance
of the 2% to 3%, an indication that the lower end of that range is what we'd have for the full year, means that there will be a step-up in the second half of the year.

Bryan D. Spillane  
Analyst, Bank of America Merrill Lynch

And that – but that step-up is more just a function of the year-to-year comparisons more than something sort of inflating. Okay.

Manik H. Jhangiani  
Chief Financial Officer, Coca-Cola European Partners Plc

Exactly. Exactly.

Bryan D. Spillane  
Analyst, Bank of America Merrill Lynch

And then, my second question is just around CapEx. I think this year, capital spending includes $75 million for the capture of the synergies. So as we're looking out into I guess 2019 and beyond, this CapEx – would you expect the capital spending would maybe step down a little bit?

And then maybe related to that, as we're thinking about a mix shift over time that's maybe more away-from-home and away-from-home packages versus at-home, does that come with any sort of need for investment in manufacturing to make sure you've got enough capacity to produce maybe different types of pack types?

Damian Paul Gammell  
Chief Executive Officer & Director, Coca-Cola European Partners Plc

So, Bryan, maybe on the last comment. That's something that we've been doing since really we created CCEP. So within our underlying CapEx guidance, we've talked about a third cooler, a third supply chain, a third IT as a broad segmentation of our CapEx. Within the supply chain number that we've talked about, we're including the capability to produce smaller packs, more glass packaging, move the cardboard on some of our can packaging. So, we've started to make that investment a number of years ago as we saw the trends accelerating towards smaller premium packs. And we'd be, by and large, we'd expect to be able to deliver on those trends over the coming years within the capital guidance that we've given.

Manik H. Jhangiani  
Chief Financial Officer, Coca-Cola European Partners Plc

Absolutely. So, I think just to add to that. I think a large part of the synergy capture, CapEx spend will be behind us in 2018 – by 2018. And as Damian said, investments in new capabilities have been happening and it's not a one-off, right? You don't suddenly put in 10 new lines anyway. You're going to continue to build on that whether its glass lines, a septic, et cetera. So, I think we feel comfortable with that midpoint of that 4.5% up to the maximum of 5% of revenue. But we'll continue to provide guidance on that. So, we're comfortable with that as our free cash flow guidance.

Sarah Willett  
Vice President - Investor Relations, Coca-Cola European Partners Plc

Okay. Sure.
Damian Paul Gammell  
Chief Executive Officer & Director, Coca-Cola European Partners Plc  

And just – Bryan, just a little bit of context on that. If you're in Europe and you visit any of the supermarkets now across our territories, compared to a couple of years ago, you'll see glass, multi-packs across our brands. You'll see a lot of mini-cans available across our brands. So, we started to diversify our pack mix and retail a couple of years ago, and we've been investing against that. And that obviously reduces our dependence on large PET which again, strategically, we've called out as being a priority for us a couple of years ago.

Bryan D. Spillane  
Analyst, Bank of America Merrill Lynch  

All right. Thank you. Look forward to seeing you in September.

Damian Paul Gammell  
Chief Executive Officer & Director, Coca-Cola European Partners Plc  

Thanks, Bryan.

Manik H. Jhangiani  
Chief Financial Officer, Coca-Cola European Partners Plc  

[ph] Absolutely. (01:05:33)

Sarah Willett  
Vice President - Investor Relations, Coca-Cola European Partners Plc  

Operator, can I just say that we've got time for one more question, please.

Operator: Our last question is from Andrew Holland with Société Générale. Your line is open.

Andrew Holland  
Analyst, Société Générale SA (UK)  

Yeah. Hi. It is just a quick question, just building on some of the earlier questions on phasing of how the margin's going to look in the second half. So, the first half margin was up around 60 bps. You've pointed to a small step-up in COGS in H2, just taking a candor of all the other moving parts. How do you expect the second half margin to compare with the first half in terms of growth?

Damian Paul Gammell  
Chief Executive Officer & Director, Coca-Cola European Partners Plc  

Not at those levels just because you would have the COGS step-up, so I would indicate we've guided towards a slight expansion, excluding the sugar tax impact in our gross margin for the full year. So that would obviously give you the math for the second half.

Andrew Holland  
Analyst, Société Générale SA (UK)  

And when you say small growth in gross margin, would you expect that to drop through to the EBIT margin?

Damian Paul Gammell  
Chief Executive Officer & Director, Coca-Cola European Partners Plc  

Absolutely.

Andrew Holland  
Analyst, Société Générale SA (UK)

Right. Okay.

Damian Paul Gammell  
Chief Executive Officer & Director, Coca-Cola European Partners Plc

At a higher rate.

Andrew Holland  
Analyst, Société Générale SA (UK)

Okay.

Damian Paul Gammell  
Chief Executive Officer & Director, Coca-Cola European Partners Plc

Great. Thank you.

Andrew Holland  
Analyst, Société Générale SA (UK)

But overall, not as big as the first half?

Damian Paul Gammell  
Chief Executive Officer & Director, Coca-Cola European Partners Plc

No, clearly not. Again, go back to timing of what you look at between the first half comps and the second half comps from last year, too. So I think the more important piece is what we've guided towards for the full year.

Andrew Holland  
Analyst, Société Générale SA (UK)

Okay. Thank you.

Manik H. Jhangiani  
Chief Financial Officer, Coca-Cola European Partners Plc

Thanks, Andrew.

Damian Paul Gammell  
Chief Executive Officer & Director, Coca-Cola European Partners Plc

So thank you, everybody for taking the time to join our call today. And just some quick closing remarks from my side. So, overall, we believe we've had a very good first half of 2018. As you've heard today, our focus remains on driving profitable revenue growth in terms of reshaping our portfolio and building a stronger route-to-market. We continue to make some bold strategic decisions for the long term in terms of not just portfolio but also pricing. We're pleased to maintain our profit guidance for 2018. And we're encouraged by the start we've made to quarter three. Cash remains our focus, and we're very happy that we've raised our free cash flow guidance today.
Nik and I and the team look forward to sharing more about CCEP and our growth strategy at our meeting together in September. And thank you very much and have a great day, everybody.

Operator: Ladies and gentlemen, this concludes today's conference. Thanks for your participation. Have a wonderful day.

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