COCA-COLA EUROPACIFIC PARTNERS
Q4 & FY 2023 Results
Analyst Call Transcript
23 February 2024

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, 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 today, 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. We will then turn the call over to your questions.

Unless otherwise stated, metrics presented today will be on a comparable and FX neutral basis throughout.

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

Slide 3 - Executing & delivering on our clear strategy

Thank you, Sarah, and good morning, everybody. Many thanks for joining us today. Before I begin, I just want to take this opportunity to thank all of my great colleagues at CCEP for their continued hard work and dedication to our customers and our business. And obviously, today, we welcome our new colleagues joining us from the Philippines, a great coke market and a great addition to the CCEP story. So welcome. And again, a big thank you to everybody at CCEP for your ongoing hard work.

2023 was another great year for CCEP. We continue to execute on our clear strategy.

We have an unwavering commitment to stakeholder value creation. Our retail customers importantly continue to share in our success since 2017. We've created more value for them than any of our peers. And indeed, our TSR speaks for itself, validated by entering the NASDAQ 100 Index late last year, we've paid a record dividend last year and now returned more than EUR 6 billion to shareholders since 2016.

We are clear on the strategic choices we make. We're making the right decisions on our portfolio to drive a more efficient business for the long-term. And from today, as I mentioned, we welcome Coca-Cola Beverage Philippines to the CCEP family, the acquisition having now formally closed. This creates an even more diverse footprint for CCEP, provides the opportunity to leverage best practice and talent, including supporting our exciting transformation journey in Indonesia. I'll come back on both markets a little bit later.

And as always, we are supported by our strongly aligned relationship with the Coca-Cola Company and our other brand partners.

Slide 4 – FY23 Key messages

So now to our full year key messages. I'm really pleased with our performance in 2023, delivering on all key metrics.

We achieved solid top and bottom line growth, value share gains in the market and, as always, an impressive free cash flow generation.

Top line growth was price/mix led, but also supported by solid volume growth in Europe, Australia and New Zealand, where we also grew transactions ahead of volume.

We continue to invest for the long-term in our portfolio, our digital journey, our supply chain, sustainability and, of course, in our people.

We are stronger and better business. We're more diverse and robust in our categories. They remain resilient despite some of the ongoing macroeconomic and geopolitical volatility.

This collectively makes us well placed for full year 2024 and beyond, underpinning our commitment to create continued shareholder value.

Slide 5 – Great people, great service, great beverages

As I talked about before, we are focused on great people, great service, great beverages, all done sustainably.

So now let's take a brief look back on last year, starting with our great people. We achieved an excellent score in our global engagement survey, positioning us comfortably ahead of our industry benchmark group. And we continue to be externally recognized as being a great and diverse place to work. This included our 2023 inaugural entry into the Forbes top 200 World's Best Employers and the top 100 World's Top Companies for Women.

Great service and execution are always a key priority at CCEP as we strive to make it even easier for our customers to do business with us. We continue to invest in our supply chain, like new state-of-the-art can lines in Australia, Norway and Great Britain. And we were recognized for our great service in the Advantage survey results where we ranked #1 globally among our top retailers, up from last year.

On our journey to becoming the world's most digitized bottler, we continue to invest in our broader digital capabilities. For example, around 85% of our volume is now captured digitally, including our B2B portals, which represent nearly 15%.

And finally, our great brands and beverages. We are extremely privileged to make, move and sell the world's most loved drink brands. We continue to invest and innovate to make them even better and appeal to even more consumers. In fact, in Europe, over 75% of

households purchased from our NARTD portfolio, up 70 basis points from the previous year.

Slide 6 – Done sustainably, for a better shared future

And now let's look at our sustainability journey, where we continued to make great progress.

We've achieved 55% recycled plastic content, up from 48% last year. Having surpassed our 50% commitment, but our efforts do not stop there as we remain focused on our ultimate goal of a 100%.

We continue to invest in sustainability focused technology to our CCEP ventures arm, and we are proud to be part of the Coca-Cola System Sustainable Venture Capital Fund.

A big milestone was the validation of our carbon emissions targets by the science-based targets initiative across all of our markets, including API. This includes both our 2030, 30% greenhouse gas reduction and our long-term 2040 net-zero targets.

And importantly, we continue to be recognized externally, retaining our inclusion on the CDP's A List for climate and maintaining our MSCI AAA ESG rating.

Slide 7 – FY23 Performance Highlights

So now turning to our performance highlights.

As I mentioned earlier, we delivered a solid top line performance. Solid underlying demand in our developed markets, alongside grading in-market execution, drove volume growth in Europe of 0.5% despite what you will all recall was a very mixed summer in terms of weather. Excluding the strategic choices we've made, we saw underlying volume growth in Europe of 1% and in Australia and New Zealand of 2%.

In Indonesia, we made good progress with our long-term transformation journey, which I will come on to in a bit more detail later.

Execution of our revenue and margin growth management initiatives, along with our dynamic price and promotion strategies across a broad pack offering drove solid revenue per case growth of 8.5%. Headline pricing last year, although ahead of pre-pandemic levels, was below

realized cost inflation as we continue to prioritize relevance and affordability for our consumers.

Now to the NARTD category overall. It remains resilient, growing in volume terms by 8% -- in value terms by 8% in Europe and 9% in API. We gained value share both in-store and online and continue to win with our customers, supported by some great activation.

Our strong top line performance, together with our continued focus on efficiency as we close out our full year '21 to '23 efficiency programs, drove strong operating profit growth of 13.5%.

This in turn supported impressive comparable free cash flow generation of just over EUR 1.7 billion and the return to the top end of our target leverage range, as guided.

I'd now like to hand over to Nik to talk to more detail to the financials. Over to you, Nik.

Slide 8 – FY23 Financial Summary

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

Let me start by taking you through our financial summary. We delivered comparable revenue of EUR 18.3 billion, an increase of 8%, which I'll come back to shortly.

COGS per unit case increased by 7.5%, broadly aligned with our guidance of around 8%. This was driven by our increased revenue per unit case, driving higher concentrate costs through our incidence pricing model, inflation in manufacturing and commodities. High single-digit growth in commodities reflected higher sugar and aluminum pricing, partly offset by lower gas and power and recycled PET pricing.

This equated to gross margin expansion of around 80 basis points with Europe ahead of that number.

We delivered comparable operating profit growth of EUR 2.4 billion, up 13.5%, reflecting our solid top line growth, the benefit of our ongoing efficiency programs and our efforts on managing discretionary spend. This equated to operating margin expansion of around 60 basis points, reflecting our focus on returning to our 2019 operating margin baseline. In line with our guidance, our comparable effective tax rate increased to 24% from 22% in 2022. This is largely due to the differences in the mix

of taxable profits across our different territories and known tax rate increases, such as last year's U.K. tax rate increase to 25%, which comes into full effect in the 2024 calendar year for the full year.

This resulted in a comparable diluted earnings per share of EUR 3.71, up 12%.

Free cash flow generation, as Damian referenced, continues to be a core priority, and we delivered an impressive EUR 1.7 billion on a comparable basis, which I'll cover in more detail shortly.

Our returns on invested capital increased by 120 basis points to 10.3% on a comparable basis, driven by the increase in profit after tax and our continued focus on capital allocation.

And finally, on shareholder returns, we paid a record dividend per share of EUR 1.84, up 9.5% versus 2022.

Slide 9 – FY23 & Q4 Revenue

Now to our revenue highlights.

As Damian mentioned, the strong growth in our top line was driven by an increase in revenue per case with reported volumes down 0.5% for the year. This reflects the strategic choices we made driven by our SKU rationalisation in Indonesia and the exit of bulk water across a number of our markets, mainly in Australia, Germany and Spain. Excluding these one-offs, volume overall would have been up around 1%.

Specifically, in the fourth quarter, our volumes were up 1%, reflecting resilient consumer demand, supported by great Christmas activation and in-market execution.

Revenue per unit case grew by 8.5% for the full year. This reflects positive headline pricing, continued focus on promotional optimisation and revenue growth management initiatives.

However, we are not complacent. Although consumer spending has held up reasonably well, we fully understand that some of our consumers are feeling the pressure. And we are seeing some shifting into retailer brands across a few categories, less in colas and flavors, but also more shopping and discounters. And this channel will and -- has and will continue to remain a core focus for CCEP, where we continue to grow and gain share.

Our consumer-centric approach remains focused on maintaining affordability and relevance for all consumers. We have great brands across a broad price pack architecture, which enables shoppers to access our products across a wide spectrum of price points. It is essential now more than ever that we continue to balance premiumisation for those that seek it, with more affordable packs for those that need it. For example, in Spain, we've activated a popular and affordable price point on the iconic 1.25 litre pack to continue to drive frequency and household penetration.

Revenue by segment is referred to here with more detailed commentary by geography in the release.

Slide 10 – Core brands supporting volume growth

As mentioned just now, underlying volume growth of around 1% was driven by core brands where we continue to invest. Here are a few examples.

Coke Zero Sugar continued to achieve good share and volume growth across all key markets with volume up 4% as consumer trends for low and no-calorie beverages continue. In fact, these now account for approximately 50% of our total volumes.

In Energy, Monster continued to outperform, driving full year volume growth of 14%. Fantastic innovation continues to drive recruitment and distribution, including the launch of Monster Green Zero Sugar, which has had a great start.

Sports volumes were up 9% with Powerade growth across all markets, driven by great activation and continued favorable consumer trends in this category. We will look to replicate the fantastic Women's World Cup activation in Australia and New Zealand last year alongside Coca-Cola Zero Sugar as we look ahead to the exciting pipeline of sporting events favouring our European markets this year.

Fuze Tea outperformed with volumes up 23%, reflecting continued growth across Europe, especially in France and Germany.

And finally, we launched Jack & Coke with very encouraging results in the fast-growing ARTD drinks category.

Slide 11 – Portfolio - being more choiceful on where we want to play

Briefly now to a summary of the strategic choices we're making to ensure we grow our business profitably and sustainably. We are being more choiceful about where we want to play, as you can see here.

The Indonesia 60% SKU rationalisation was successfully executed, and Damian will talk to that in a bit more detail later.

We've already touched on the strategic exit of low-margin bulk water across a number of our markets, and this has now largely been cycled through.

And as we announced alongside the half year results last year, we have made some further strategic choices on our beverage portfolio and partnerships.

In Australia and New Zealand, we will maximize our extensive knowledge in the ARTD category by launching new scalable offerings aligned with the Coca-Cola Company. In this context, our partnership with Beam Suntory will come to an end in the second half of 2025.

And in Europe, our partnership with Capri Sun will come to an end this year.

As you can see here, neither of these choices will have a significant impact to CCEP. They are the right ones for the long-term success of our business, enabling a greater focus on priority categories and with our 2 key brand owners, the Coca-Cola Company and Monster.

Slide 12 – Our next phase of efficiencies enabled by digital tools, data & analytics

Now on to OpEx and our efficiency programs.

We've now closed our delivery of our full year '21 to '23 program, which, as I mentioned earlier, supported our operating profit growth in 2023. The entire program ultimately amounted to approximately EUR 375 million of benefits, adding up to more than EUR 700 million in total, together with our first post-merger efficiency program initiated in 2016.

At our Capital Markets Day, we announced a new efficiency program aiming to deliver EUR 350 million to EUR 400 million of incremental savings by full year 2028.

Overall, yes, it's a big number, but we feel very confident in its delivery.

It will largely be enabled by leveraging digital tools, data and analytics. Of course, this is not an area that's new to us. We've been investing in digital capabilities for many years. And as Damian said, already 85% of our volume is captured digitally.

For this next phase, we're moving from 4 legacy systems that we're still operating with today, to one system S/4 HANA. That's going to be -- that's going to enable us to take a huge amount of standardization into our processes and ways of working over the next multiple years.

Our large base in Bulgaria and our outsourced service providers will be pivotal. Already, our capability there has been transitioned from a more traditional shared service center to being a lot more focused around not just reporting, but analytics and robotics. And there's a lot more we can do to build out capability beyond finance to people and culture, supply chain and the commercial areas of our business, while incorporating our new and established shared services center in Manila that we're very excited about.

We said when we announced this program that the savings would be multiyear from 2024 through 2028. With respect to this year, we anticipate savings of around EUR 60 million to EUR 70 million, which back to the previous slide, will help offset inflation.

And naturally, there will be cash costs associated to deliver this program. These have been included in our mid-term comparable free cash flow guidance of around EUR 1.7 billion per year.

Slide 13 – FY23 FCF

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

We generated EUR 1.7 billion of comparable free cash flow in full year 2023, and this slide lays out the key components, including ongoing restructuring cash costs, as I referred to.

Recognizing the importance of targeted investment, we spent around EUR 700 million in CapEx, excluding leases on supply chain examples, which Damian gave earlier, digital and other technologies as well as cold drink equipment.

And as you know, working capital remains a core focus for us, and I'm really pleased that we delivered yet another year of significant benefits taking the cumulative amount to approximately EUR 1.3 billion since 2017.

Finally, you can see our comparable free cash flow excludes the one-off receipt of proceeds from the disposal of core royalties of approximately EUR 90 million in Australia related to the acquisition of Amatil back in 2021.

Slide 14 – Returned to top end of target leverage range as previously guided

And now for our leverage and balance sheet. We ended 2023 with net debt to comparable EBITDA ratio at 3x. This means that we returned to the top end of our target leverage range of 2.5 to 3x 1 year earlier than originally guided, thus firmly demonstrating the pace of deleveraging since we closed the Amatil transaction in mid-2021.

Given the timing of today's closing of the Philippines acquisition, this does not include that related impact. Having said that, this will only have a modest impact on our leverage. And given our strong focus on driving cash and further working capital improvements, we anticipate that we will return to within our target leverage range during this year. This, while remaining fully committed to our strong investment-grade ratings.

Slide 15 – Mid-term objectives

Now to a quick reminder of our midterm objectives, which we updated at our last Capital Markets Day. They remain unchanged, and hear more for context as I come into our full year '24 guidance

Slide 16 – FY24 Guidance

which nicely brings me into our full year '24 guidance, which is aligned with these midterm objectives.

The guidance reflects our current view of market conditions and is based on an adjusted and comparable basis, which from a modeling perspective, assumes the Philippines was included in our business from the start of last year. As you may have already seen, we did today

provide a separate release incorporating full year '23 adjusted financial information for selected metrics for the Philippines.

Please note that these growth rates are all provided on a comparable and FX-neutral basis as it is really too early to provide specific FX guidance. Of course, we will update you as the year progresses.

So we expect comparable revenue growth of around 4% and COGS per unit case growth of around 3% to 4%, both of which we'll talk to shortly.

With our continued focus on OpEx, as highlighted earlier, we will look to deliver comparable operating profit growth of around 7%.

On interest, we do expect our underlying interest costs to be broadly flat, equating to a weighted average cost of net debt of around 1.3%, which clearly reflects a very attractive debt maturity profile. The Philippines transaction has been funded through existing liquidity and incremental borrowing with a mix of euro public debt issuance completed in November '23 and local peso borrowings. Therefore, this newly acquired debt now takes our total weighted average cost of net debt for this year to be expected around still a very attractive level of around 2%.

As I referred to previously, we do anticipate an upward trend on our effective tax rate, reflecting differences in the mix of taxable profits across our markets and known tax rate increases. We, therefore, expect ETR to increase to around 25% this year, up from 24%, including the full transition to the 25% tax rate in 2024 in the U.K., as I referenced to earlier. We will continue to update you on our expected ETR, including our assessment of any uncertain tax positions during the course of the year.

On CapEx specifically, given the opportunities that lay ahead, we expect our CapEx guidance to be the top end of our range of 4% to 5% of revenue. This largely reflects 2 areas: firstly, the upweighted digital investments we are making and I spoke to that earlier; and then also in the context of our new efficiency program which will clearly be supported through those investments.

And secondly, having now closed the Philippines transaction, which underpins these midterm objectives, we plan to invest a bit faster near term in this established and fast-growing market to position us for long-term success, and Damian will touch on that a bit more later.

Given both opportunities are more near-term in nature, we anticipate that our CapEx will be at the top end of our range for the next 3 years or so.

And finally, we do expect to deliver comparable free cash flow of around EUR 1.7 billion, which will be after the tax cost associated with our efficiency programs.

Slide 17 – FY24 COGs

Let me provide a bit more color on the COGS guidance before handing back to Damian to talk top line, Indonesia and the Philippines.

So on COGS, clearly, these comments are based on what we know today, which per unit case we expect to increase by about 3% to 4%.

Our concentrate costs are tied to our revenue per unit case growth, as you know, albeit much more balanced with volume compared to last year.

We anticipate low single-digit commodity inflation. This reflects significantly higher sugar pricing in part offset by lower pricing in the other commodities. And from a hedging perspective, I'm pleased to say that we are now approximately 80% hedged for full year 2024, including the Philippines.

Of course, we continue to see inflationary pressures in labor within the manufacturing line. However, these will be broadly offset with lower gas and power in our plants and our continued focus on efficiency, as I talked to earlier.

Finally, on tax, we have the throughput tax impact from the Netherlands, change in soft drinks excise tax from EUR 0.08 to EUR 0.26 per liter with the offset, obviously, within revenue.

And with that, I'll hand back to Damian. Damian?

Slide 18 – 2024 Top-line opportunities

Thank you, Nik.

And now I'd like to spend a bit of time on the revenue opportunities for 2024. We expect top-line growth this year to be much more balanced between volume growth and price/mix compared to last year.

As Nik said earlier, our main priority is to continue to remain affordable and relevant to the consumer. And as such, we continue to manage the business for the longer term with our overall realized pricing tracking below inflation today. We are, however, still seeing some inflationary pressures across the industry, albeit lower than last year. To that end, we've already closed pricing negotiations in a number of our markets for this year.

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

We will continue to invest in Coca-Cola Zero Sugar and Powerade, taking the success from the Women's World Cup in Australia with some fantastic activation plans around the key sporting events of the Olympics in France and the Euros in Germany.

We have some exciting innovation plan for the Coke portfolio, including 11 flavour extension being launched both for Coca-Cola original taste and for Zero Sugar.

In flavours, we will be launching a new tasting Fanta and also driving a label-free, more sustainable Sprite pack in GB.

We will build on the success of Jack Daniel's & Coke, already the #1 alcohol ready-to-drink value brand in GB, coming with all our packaging this year alongside the launch of Absolut & Sprite.

Energy will benefit from the wider launch of the very well-received Monster Green Zero Sugar and the launch of new and exciting flavor extensions and Reign Storm.

And refillable glass remains a focus where we will continue to invest and will become even more relevant with the inclusion of the Philippines for over 45% of the volumes are sold through refillable glass.

Slide 19 – Philippines: great strategic move

So now on to the Philippines, a great strategic move for us, the best use of cash and a good deal for our shareholders. The transaction creates an even more diverse footprint for CCEP within what will now be renamed APS, Australia, Pacific and Southeast Asia.

The business is established with a proven track record, and it operates in a highly attractive and growing market, led by a great local team.

It provides the opportunity to leverage best practice and talent, including supporting Indonesia's transformation journey where the sparkling category, as we know, is much less developed.

We very much look forward to working with our like-minded, now joint venture partner, Aboitiz, one of the leading conglomerates in Southeast Asia. Their considerable experience of the market and cultural dynamics will no doubt be invaluable to us as we unlock even more potential together for the Philippines business, and, of course, all aligned with the Coca-Cola Company.

Slide 20 – Philippines: Established & well-run business

Just by way of a reminder, the Philippines operates in a large and attractive NARTD category. Currently, it's valued at around EUR 8 billion, and therefore, takes CCEP's addressable market to around EUR 140 billion. The category is fast growing, estimated at around 10% per annum in value terms, so well ahead of CCEP's current group average of 3% to 4%.

The market comes with attractive macros. The Philippines is the 13th largest country globally with solid GDP and population growth and importantly, a fast-growing middle class, all metrics that are clearly ahead of Europe.

Within the NARTD category, Sparkling is well established, representing around 55% of volume where per caps are over 4 times higher than the average for Asia Pacific. There remains attractive headroom for growth when compared to more developed markets.

Future opportunities would include low, no sugar, energy, ARTD, so lots to aim for and leverage from the rest of the group.

And it's a very established business. Last year, the business delivered around 655 million unit cases, translating into APS representing 1/3 of the total volumes for CCEP. It generated around EUR 1.7 billion of revenue and EUR 105 million of operating profit, so already a business with attractive scale and profitability.

Slide 21 – Philippines: Transaction now complete

So, as you know, the transaction completed today.

As we have acquired a majority 60% stake alongside Aboitiz, we will consolidate the business into our results from an accounting perspective with their minority stake recognized as a non-controlling interest.

The business delivered solid top and bottom line growth last year, although some of this did reflect the return to a more normalized performance following adverse weather in 2022, which affected sugar availability.

The transaction is, therefore, immediately EPS accretive, and as Nik said earlier, has a modest impact on CCEP's leverage in 2024. Our strong focus on capital allocation and our long-term mindset will ensure we invest in this established business to support the market's long-term 10% growth expectation. The transaction gives us the opportunity to reset the growth ambitions for this business, and so our capital plans today reflect that.

And lastly, before you ask, we will not be talking to specific synergies in relation to the Philippines. They sit within our overall guidance for CCEP. Of course, just like we did with Amatil, we see many opportunities to share learnings and best practices in areas such as digital, technology, procurement, sustainability and indeed shared services, given there's already an established capability in that area in Manila.

So our legacy -- as I'm confident you would agree, we have a strong track record of integrating and driving value creation. So we've already started and look forward to share more with you in due course.

Slide 22 – Indonesia

So from one exciting market to the next, I just wanted to close out with an update on where we are with Indonesia.

As you all know, we are in the early stages of our long-term transformation journey, and we are making good progress. Unfortunately, as highlighted previously, consumer spending remains under pressure, generally impacted by wider market inflation and the reduction in fuel subsidies. So clearly, that's not helping us right now, but we remain focused on the longer-term opportunity.

As I said earlier, the Sparkling category in Indonesia is much less developed than in the Philippines at less than 10% of the NARTD category.

We've successfully executed our portfolio plans. We now have a much tighter portfolio. We're focused on winning in Sparkling and ready-to-drink tea.

Beyond the brand portfolio, we've completed a new price pack channel strategy, which incorporates a deeper understanding of the Indonesian consumer sensitivities and affordability.

We're working on building out new drinking occasions across the calendar beyond the must win Ramadan period. This is a picture of the annual Jakarta fair, the biggest consumer event in Indonesia where we executed our biggest activations yet in 2023. And alongside the Coca-Cola Company, we are focused on younger consumer recruitment.

We are taking the right decisions to reengineer both our cost base and the route to market for the longer term. We've implemented a comprehensive productivity program while starting to move our largely direct route to market to a more fit-for-purpose and indirect model.

We are starting to see progress, a few examples of which I will share on the next slide.

Slide 23 – Early days yet we remain confident in our future in Indonesia

Just to talk to a few here.

Sparkling transactions, a key metric are growing ahead of volume and Coke trademark is achieving decade record volumes in what is a traditionally Sprite-led market.

As you would expect, we are fully aligned with the Coca-Cola Company on our brand priorities in Indonesia, a good example being the recent

launch of Coca-Cola Zero Sugar and Sprite Zero, a really great opportunity for the future and off to a promising start.

As I said just now, we are focused on recruiting younger consumers. We step changed our approach to Gen Z, incorporating nearly 900 influencers with a combined following of nearly 370 million, that's more than me, one of which is on the slide here with around 1.3 million followers alone.

On sustainability, we are owning our circularity journey from day 1 through the right partnerships and investments. You can see here the significant progress we've already made on recycled content, supported by the first-to-market launch of 100% recycled PET bottles in Indonesia achieved through an industry partnership recycling facility just outside of Jakarta.

And importantly, despite all of the change, our colleagues are highly engaged in the fact that had a CCEP average, which is great to see. So we remain confident in our future in Indonesia, and as always, look forward to updating you more in due course.

Slide 24 – Closing remarks

So finally, to our closing remarks. As I said at the start, 2023 was another great year for CCEP, delivering on all key metrics.

We continue to execute on our clear strategy.

We continue to invest for the long-term in our portfolio, our digital journey, supply chain, sustainability and, of course, in our people.

We are a stronger and better business, more diverse, now including the great market of the Philippines, and robust, and our categories remain resilient despite ongoing macroeconomic and some geopolitical volatility.

This collectively makes us well placed for the full year 2024 and beyond, underpinning our commitment to create continued shareholder value.

To close, I would particularly like to thank our customers, our brand partners and again, our colleagues whose hard work and commitment meaning we're able to go further together for all our stakeholders.

Slide 25 – Q&A

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

So over to you operator.

Q&A

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

Q. So just on the guide of 4%. I appreciate it's pretty early days and some consumers are feeling a bit of pressure, but could you provide perhaps a bit more color on some of your assumptions? I mean, on volumes, I think you're talking to a better balance between volumes and price/mix, which I think implies some volume growth. I think on the price piece, look, it's clearly going to stop to taper, but you do have a bit of a carryover from pricing taken Germany, Q3, GB end of Q2? Mix has been a really good driver through most of 2023 and should continue to '24. You've got these very mixed summer weather comps. You've got the Olympics. You've got the football, you've got the Philippines, I guess, growing ahead of group.

What are we missing?

Nik Jhangiani

A. You're not missing anything. (inaudible) It's a great summary. We should just have recorded you and played you back. But I think let's start with your point on volume. So we clearly see volume coming back and it was good that we exited the year with volume growth. And again, keep in mind, 2023 underlying with these strategic choices and exits clearly plays through.

So, when you go into 2024, I would say you're looking at -- of that 4%, at least 1/3 plus coming from volume, all right? So we see that momentum, which is good. And it comes back to what Damian and I have both said on the call, we will continue to balance that in terms of what we see from an angle of the affordability and continued focus on premiumisation. So clearly, looking at volume growth.

If you look at that carryover of that pricing, you're absolutely right. We have 2 of those markets that came through in the second half. So there's

a carryover impact of that. And then clearly, as we've seen inflation moderating, that I called out, you will obviously see more balanced 2023 -- '24 pricing, most of which that has happened in Q1 that we've actually been able to land so far without any disruption, which is positive.

On the mix one, it's a good point that you raised. Clearly, on our business, we've continued to have good mix, and we will continue to see that into 2024. Keep in mind, these numbers include the Philippines, which is at a much lower revenue per case. And so effectively, that mix benefit that we continue to see, gets wiped out as we rebase with the lower revenue per case coming in from the Philippines.

And then you've also got that impact of the Netherlands tax that I called out. So again, we'll continue to update you on that, but I think very much volume led with good pricing carryover and some more moderate pricing into this year as well. And again, supported by what we want to do on the promo side as well to balance that affordability.

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

Q. And just to clarify, on the 8% revenue per case within Europe, I think you mentioned that price is running below inflation, inflation probably running 5.5% or 6%. So you're probably getting 1/3 of your benefit in revenue per case from mix. Is that math broadly right? I mean is that one of the reasons why you're confident that your brands remain affordable and you're not going to get the same elasticity impact you're seeing across other parts of Staples?

Damian Gammell

A. Yes, I think that's fair, Ed. I mean I think if you look at our Q4 volumes, and I'll just talk Europe, Australia, New Zealand, I think they are very solid. So I think we've been very focused on retaining shoppers and consumers because, as you know, if you lose them, the cost of getting them back is always a lot higher. So very pleased coming out of Q3 where we had some tough weather comps. Q4, we saw volume growth return in our developed markets of Europe, New Zealand and Australia. So I think that balance is serving us well. It's what we've built into '24.

I think as Nik called out, on top of that, we've got some -- as you called out, actually better than we could. We've got some great brand innovation.

We have some great assets, particularly in Europe with the Olympics and the EUROS. And clearly, as we move into Q3 and the summer, hopefully, we will get a normalized somewhere in Europe, but who knows after last year. But yes, so that's pretty much a good balance between enough price, but not too much to really derail what's been a great consumer story for many years in Europe, in particular.

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

Q. My question is just on the Philippines. Now it's all completed and you're able to kind of look at the business properly. When you think about the first year in the business, which areas do you think you can see -- get most traction on, now you're kind of fully in control there? Where do you see the most low-hanging fruit? I think you mentioned kind of no and low sugar and Energy, but if you're able to kind of speak about what's going to be the focus for the next kind of 12 months?

Damian Gammell

A. Yes. Thanks, Matt. I mean we've been really excited about this opportunity since it presented itself. And we've been working very, very hard with the team, Garreth's team locally and our team, to have a great day 1, which is upon us. So that's a milestone. As we've been looking at that business -- I mean, clearly, it stands out within that region, has been a great Coca-Cola business. So we fully also expect to learn as well as to bring ideas to that business.

Initially, I think areas that we've talked with the team about where some of the capabilities from CCEP could add value, certainly in key accounts, our world-class key account management program, the analytics tools that we've been using on pricing and price elasticity in Europe. Our digital journey around the frontline capabilities, we believe that can add value. Clearly, we operate a very large supply chain.

So we certainly believe that a lot of our expertise in that space is an area that we could bring to help improve customer service levels and drive stock availability a bit more. We are also committed with our partners to invest in that business. So some of the benefits we bring is capital and certainly stepping up some of the investments as we see the growth outlook even stronger going forward.

So it's an area that we'll continue to learn. I'm confident in those areas, we've got capability. I'm also really excited about the learnings we'll get from the team in the Philippines, particularly to continue to support our journey in Indonesia. I think their availability, obviously, the category relevance, they've managed affordability extremely well on refillables. That's an area that we've always been looking at in Indonesia. So I think it's a great example of -- we'll bring value, we'll get value from that team into our other businesses. And obviously, that's a story we'll update you as we go. I think it will be an exciting conversation on our next Capital Markets Day.

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

Q. Just curious, you talked a lot more about affordability, consumer pressures, particularly in Europe. And you mentioned discount channel. I know that's been a focus for the team for a very long time. But I was curious if you could update us maybe a little bit on how much of your, -- (inaudible) some of the answer, but roughly speaking, how much of your volume goes through the discount channel, where you stand in terms of category exposure there? Is there opportunity to expand the categories that are represented discount channel? Anything particularly you're doing on new pack sizes and so on as it becomes more important?

And then things you're able to leverage from your discounter experience and success into more mainstream channels as we go through this period of tougher consumer confidence?

Damian Gammell

A. I think we've been in that environment for over 1 year now. I think if you look back at our commentary during 2023, we talked a lot about maintaining relevance and affordability. So I think that supported our volume growth, and it's something we'll continue in '24. You're absolutely right. I mean as shoppers come under a little bit of pressure, we do see the discount channel performing extremely well.

Candidly, that's been a story in Europe for a long, long time now, as you know, particularly in our markets like Germany, but really broadly across retail and also now in Australia. We see the discount channel being a key partner for our growth.

Within that, we've got 2 categories we're prioritizing, which is really our core Sparkling portfolio and Energy. Both of those are performing very

well with those customers in Europe. We're very conscious about pack size and formatting. As you know, we've had a 1.25 liter pack to hit a price point that we felt was more relevant for their shoppers. We continue to work with them on technology.

In Australia, I'm very pleased we've got some cold drink trials front of store, so as we try and bring a mix benefit into that channel as it grows. So there's a lot happening. And I think we're also leveraging with our other customers some of those insights because I think that affordability mindset goes beyond discounters. I think all retailers now continue to be focused on maintaining relevance. They obviously are conscious about their own market share.

So a lot of what we're doing in terms of pack pricing goes beyond just that discount channel, as you call it, to broader retail. Great supply chain efficiencies. So very attractive in terms of cost of doing business for us, which clearly supports our margin expansion and our profit growth. So yes, very pleased with how we're doing.

And as I mentioned, it's built on many, many years of experience. I think when we first created CCEP, one of our call-outs was to leverage the success of our German business, with Aldi & Lidl in particular, across what was then the legacy CCE business. And if you look back, that's been a big, big driver of our growth. So more to come. But as you rightly call out, they are -- that's a winning channel in retail, and we're winning with them, and we want to continue to do so.

Nik Jhangiani

And Lauren, the only thing I would add is it doesn't change our focus on the premiumisation piece and what continues to be a whole ladder of pricing opportunities for our shoppers and consumers to enjoy, whether in traditional retail and actually more so even in some of the discounters, where we are getting small packs in. We've got coolers in Germany. So it's all kind of merging in a way in a positive direction.

Sanjeet Aujla - UBS Investment Bank, Research Division - Analyst

Q. Just coming back to the Philippines, please. You spoke a little bit about 2022 being held back by lack of the sugar availability. Has the full benefits concerning 2023 -- So is that really a clean base on which to work from? Or is there more to come in 2024? And I think the

disclosures margins there are around 6%. Are there any structural factors holding that margin back? Or would you expect that to get back into double-digit where it was a few years ago over time?

Damian Gammell

A. Maybe, Sanjeet, I'll talk on the first piece and then hand over to Nik. Yes, so I think 2023 was a more normalized year. So I think the business cycled out of what was a very challenging 2022, both from a weather perspective, leading to basically a shortage of sugar, which the team then had to allocate across the portfolio.

So they did a great job. That was pretty much done by the end of '22. So 2023, you could look as a normalized base in terms of availability of sugar. We can talk about the cost of sugar, that's a different debate. It has got a high cost, relatively speaking, but -- we know that, but from an availability perspective, definitely a more normalized year.

On margins, Nik, do you want to?

Nik Jhangiani

A. Yes, sure. I mean I think part of it just comes back to what Damian said. So firstly, just reiterating the point in terms of 2023, when you look at the performance and you can see the growth, clearly, 2022 growth was held back by those shortage issues. And hence, that's played out very nicely when you look at both the top line, but very importantly, the operating profit growth year-on-year. So good base.

Clearly, from a margin perspective, there's -- if you talk about structural issues, I would say the main one really comes back to some of the cost of that commodity, in particular relative to where the world market is. And there's a lot of work that the teams continue to do locally to see what can be influenced. Keep in mind, obviously, if you go back to Europe, for instance, if you remember, it was quite a protected industry for a number of years, and then it started coming off when there was more latitude in terms of imports, et cetera.

So that will -- that is something clearly that will support it. And then I think the team is doing a great job in terms of more packaging options that will continue to drive margins, looking at newer categories they just launched into Energy. They've just launched ARTDs. So all that will continue to support that margin growth story. And as Damian referred to earlier, clearly, there are some opportunities as they come in. Greatly

run business with great leadership team, but there will clearly be some opportunities for best practice sharing both ways as we welcome them into our family.

Damian Gammell

A. And just to close out, it will probably come up on CapEx because we talked a little bit about CapEx in our release. Clearly, we do see opportunities in the Philippines around capital unlocking margin over time, both particularly on supply chain and building a more efficient supply chain. And we're also curious about the role some of our technology platforms can play in the Philippines. So that kind of plays back to that CapEx number that Nik talked about earlier.

And I think that's not a 1-year journey, let's be clear. But as we do look at it, we do think investing a bit more in the Philippines will over time allow us to get margins that we feel are more representative of a business of that scale of that market. So more to come on that.

Nik Jhangiani

A. Yes. And that will support the growth aspirations that we have in that market. And very importantly, it's built into our free cash flow guidance as well.

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

Q. Damian, you mentioned landing pricing in a number of markets year-to-date. Just wondering if you could expand on that? Which markets? Where did you get pricing? And certainly, there have been some headlines related to competitors about retailer pushback and de-listings in certain European markets. Any color you could provide on the state of retailer discussions and pushback and de-listings would be helpful.

Damian Gammell

A. Yes. Thanks, Eric. I mean just to kind of step back a little bit, I think we've kind of taken a multiyear approach to pricing. I think I commented on that actually this time last year that, when we look at pricing, we're looking beyond the calendar year because we think it's a more strategic conversation. And we have been pricing slightly behind some of our competitors, and as we talked about, slightly behind inflation. And we recognize our retailers as much as our consumers are also under some

pressure around offering affordability in the cost of living kind of backdrop that we have.

Just to echo something Nik called on, we are fortunate that despite that, we've got a lot of premium packaging that we've listed over a number of years, mini cans, glass in retail. So I think we're playing a good balance of allowing consumers who want to spend a bit more on our products and brands to do so, while also making sure that consumers who have that affordability mindset remain in our franchise.

So to that end, we've been managing pricing for '24 well back in 2023. I suppose to kind of pull in practical terms, all of our markets have the pricing in place that we expected coming into 2024. 2 markets in Europe will probably come a bit later in the year, which would be GB in Germany. But beyond that, we've landed in a pretty good place, both in terms of headline price and promotional pricing.

And again, it's a topic that's sensitive for our retailers. We respect that. We're proud that we're delivering a lot of value growth for them year-on-year more than anybody else. So I think we're in a good place on pricing, which kind of comes back to what we've been talking about. And I think back to Ed's point, we see volume as being a bigger part of that story than in 2024, which I think is great.

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

Q. Congrats on the Philippines acquisition. I wanted to drill a bit more into the Philippines, but particularly on the margin point and how you see balancing margin expansion in the country, but also the need to be very cognizant of ESG? For example, I think you said refillable was 45% of the mix today. Like does that have to come down over time to drive margin expansion in the Philippines? And how does that all play in with things like the extended producer responsibility on single-serve plastic for example, in Philippines?

Damian Gammell

A. No -- I mean straight answer is no, we don't see the need for refillables to come down. Actually, on a normalized level, our gross margin on refillable is usually pretty strong given the reusable nature of the bottle. So the challenges in the Philippines really go beyond any one

pack size. Obviously, affordability is key. So we've got a pricing strategy there that recruits and retains consumers, or GB is a big part of that. We've called out that on a gross margin level, clearly, we've had a headwind on sugar. It's more expensive there in reality. So it's not really a pack specific conversation.

We see refillable as a big part of our future there. We also see a part of our future in Indonesia. We believe that will support margin expansion. I think it comes back down to what we kind of talked about a bit earlier, which is we see opportunities for efficiency and productivity in the supply chain. We see opportunities to bring some smarter RGM thinking particularly in key accounts. As we grow volume, we expect to get leverage on the P&L in the Philippines, that will support margin expansion.

We have got maybe a midterm opportunity around Zero Sugar. We've been pleasantly surprised at the success of that in Indonesia. So that's something we're going to bring into the conversation with the team in the Philippines.

So overall, I think the margin story will evolve, but it's certainly not an RGB issue. And we are clearly committed to our sustainability goals. So yes, no plans to reduce RGB . We believe it's going to be part of that margin story going forward. As I said, generally, it's got a better gross margin profile due to the refillable nature of the pack. So that will stay.

Nik Jhangiani

A. Yes. And Charlie, there's a bit of a technical or mathematical issue, because in 2018, there was an excise tax introduced in the Philippines, and that's continued to increase. Remember how we account for that, that's grossed up in revenue and grossed up in your COGS. So as that increases year-on-year, it's purely mathematical that your absolute gross profit will grow. But in margin percentage terms, it just comes down because of the fact that your revenue is higher, and hence, you get a mathematical element.

Clearly, if you normalize for that, if you're looking at performance over the years, there'd be almost a 500 to 700 bps improvement in that margin if you start normalizing for that. But that's the reality of the way we have to account for it. So just keep that in mind as you look forward as well.

Damian Gammell

A. But 6% is a good place.

Nik Jhangiani

A. There you go. That's on the operating profit, yes.

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

Q. I wonder if I could just ask a little bit more about the efficiency program that's kicking in this year. You flagged the EUR 60 million to EUR 70 million of benefits in 2024. How do you think about the timing of that? Is it going to be a little bit more perhaps H2 weighted, given the changes you're making? And then as we look forward into the remainder of the program, how do we think about modeling this going forward? Will it be linear delivery for the following sort of 4 years? Or is it fair to assume it'll be a bit more front-end loaded to 2025 and 2026?

Nik Jhangiani

A. So to 2024, yes, it will be more second half weighted, the numbers that we've given you. As Damian said, we continue to look at ways to continue to drive efficiency, and some of that obviously does mean we just have to look at the way we do things today. Then as you go into '25, '26, '27, I would say it is probably going to be more linear because there will be phasing of bringing in some of those programs, and part of that will also be linked to our drive towards standardization and more digitization with the S/4 HANA implementation.

So I would call currently, that's more linear, but we'll continue to give you more updates as we finalize the program.

Bonnie Lee Herzog – Goldman Sachs Group, Inc., Research Division – MD & Senior Consumer Analyst

Q. I actually had a couple of quick follow-ups from earlier questions. First, on volumes. Just curious to hear how they trended during Q4 and then so far this year?

And then second, could you comment on consumer elasticities? And if you've seen any changes of late, given either the challenging macro backdrop or maybe from some of the pricing you've put through?

And then finally, maybe just a little bit more color on your business away from home versus at home and sort of how you guys see that evolving this year?

Damian Gammell

A. So quite a few follow-ups you got in there. That's not bad for one question, as always. So volumes, as you saw in the release, improved in Q4. And I think if you strip out some of the one-offs that Nik alluded to, held up really well, I think, particularly compared to other categories. So I think we've enjoyed good volume performance. It has been a similar environment for the consumer over not just the last quarter or even in this quarter, I think it's been -- we talked a lot about 2023 that, that affordability mindset and cost of living pressure has existed. So we're well into it. Volumes are holding up.

For 2024, I would say it started in line with expectations. I think we're excited about a couple of events earlier in the year this year, Ramadan, particularly in Indonesia, starting earlier and Easter -- and Western Europe is earlier. So I think that's going to give us good momentum coming out of Q1. We're well set up for both of those big festivals and events. And then clearly, as we look through the year, we know that, as I mentioned few times, we have got an opportunity to hopefully enjoy a more reasonable summer in Northern Europe, and that will certainly help on volume as we go through the second half of the year. That also plays into your last question.

I mean I think we see strong revenue growth in away-from-home and home. We see volumes holding up in home market. I think depending on the country you're in, I think away-from-home volumes were a little bit under more pressure based on obviously weather coming out of Q3. What we've seen away from start strongly, particularly in markets like Spain, have just been there recently and very, very strong growth in away-from-home. So we'd expect that to continue through the summer in Europe.

And obviously, as we look at Australia and New Zealand, again, coming out, we also see strong volume growth as well. So yes.

Nik, I don't know if you want to add anything?

Nik Jhangiani

A. No. I would just remind you, Bonnie, a lot of the work that we did during and post-COVID, realizing for a period of time we were just going to be a home business is how do we improve the profitability both for our customers and for ourselves in the home channel as well.

So to Damian's point, while we see good growth in both channels from a profitability perspective, that's in some ways fairly neutral to us, which is a good thing because we just want to grow where the consumer wants to be and where we can offer them a full range of great brands and packs.

Damian Gammell

Well, thank you, operator. And again, thank you, everybody, for joining us. I know it's a little bit earlier than usual for those of you in the U.S., so I appreciate you getting up a bit earlier. But for good reason, to hear about a great 2023. And on the back of that, I just want to again thank all of my colleagues and our customers. As Nik pointed out and as we've talked about today, we will continue to invest for the long-term growth of our business, both in terms of volume, revenue and in terms of the sustainability journey we're on.

We've got a lot to look forward to. It's going to be a busy year at CCEP, both with the Philippines and some of those big sporting events that I talked to across all of our markets this year and the ongoing transformation in Indonesia. We are well placed for '24 and beyond. And now, as we've talked about our new family member, the Philippines taking the number of markets we operate within, to 31.

So Nik and I look forward to talking to you again next time, which will be to update you on our Q1 performance. Thank you very much.