COCA-COLA EUROPEAN PARTNERS

Deutsche Bank dbAccess Global Consumer Conference

11 June 2019

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PRESENTATION

Stephen Robert R. Powers *Deutsche Bank AG, Research Division - Research Analyst*
All right. Okay. Great. Good afternoon. Thanks, everybody, for joining us. I'm Steve Powers, the U.S. beverages, household, personal care and tobacco analyst at Deutsche Bank. I'm thrilled to welcome one of the best performers in my coverage in the last year or 2, Coca-Cola Enterprise -- sorry, Coca-Cola European Partners.

With us today are - sorry about that. I know. I know that was bad. With us today, CEO, Damian Gammell, who's going to run us through a presentation before we open it up to a little bit of Q&A. Joining us for Q&A will be CFO, Nik Jhangiani. And we'll shortly have them both here.

And it's over to Damian.

Nik Jhangiani *Coca-Cola European Partners plc - CFO & Senior VP*
Yes, he just asked me, "Can you just say it's great to be in this UBS conference?"

Stephen Robert R. Powers *Deutsche Bank AG, Research Division - Research Analyst*
Ha Ha. Touché.

Damian Gammell *Coca-Cola European Partners plc - CEO & Director*
Great. Thank you. Well, good afternoon, everybody, and thank you for taking the time to join us. We're going to try and use the time as best as we can between a quick update presentation and take some time for questions.

I'd obviously like to caution that what we are going to talk about today just contains some forward-looking statements. We are over 3 years together now as Coca-Cola European Partners. So we've enjoyed a great 3 years since we've put our businesses together. But critically today, what I'd like to focus more on is what excites us about the future of our business.

And just a couple of call-outs. Clearly, we operate in a very dynamic and growing segment in NARTD in Western Europe. We balance that growth with a leading market position. We continue to build out a very strong and exciting portfolio of brands and packages, particularly with partners of The Coca-Cola Company.

I think critically for any company operating in Western Europe, we're also very much focused on creating value jointly with our customers. We believe that's a key metric in terms of sustainable shareholder returns for us. And if you look at our numbers from last year, we managed to grow our customers' revenues by over 7%. So again, certainly a top of the class performance in terms of revenue growth for our customers in Western Europe. That's all underpinned by a team of very talented, engaged and capable people, over 24,000 colleagues across Western Europe. So that clearly gives us a very exciting footprint for the future.

But beyond that, why do we believe and what gives us confidence in delivering or exceeding our mid-term objectives? We've got a solid track record. And as I mentioned, we know we're operating in a market that's growing 2% to 3% CAGR. We have taken the opportunity since we created CCEP to invest back in our business. We are taking a more scientific and segmented approach to our market. I'll talk a little bit about that later.

We are blessed with the world's best brands in this category. We cover more customers than anybody else in Western Europe. And we have the largest sales force across Western Europe. We have a very solid but flexible balance sheet. We are leading the sustainability conversation, particularly around plastics. And I'll show that later in my presentation. And as I mentioned, we are more aligned than ever with our colleagues at The Coca-Cola Company.

Before we get into our commercial and business strategies, I just wanted to take a little bit of time to talk about our great people strategy. Clearly, as we created CCEP, we focused on delivering top line growth, we focused on delivering our synergies and we focused on taking a more longer-term view of our business in Western Europe. And a critical part of that was to make sure we have great people in place to deliver and capture the opportunity we know that is in the marketplace.

Recently, we've launched our people strategy and we've continued to see progress across CCEP, whether it's in the area of safety and health and safety of our employees, which is paramount, whether it's through our development programs and a number of digital-enabled programs, like Juice and Genie and critically towards our goal of at least 40% of our organization coming from a more inclusive and diverse background. So it is an area that we will continue to focus on going forward. But it is providing the capabilities and most importantly the culture we need to continue to grow our business.

Why do we believe that's important? At the end of last year, we took some time out before our last Capital Markets Day and decided to take a more longer-term view of the opportunity across Western Europe. And what we saw was clearly that growth is going to continue and volume growth is going to play a role in our business going forward. And combined, that will generate an incremental EUR 30 billion of potential revenue for CCEP over the next 10 years, so quite a strong amount of growth and quite a lot of cash to go and play for.

When we looked at where that growth is going to come from, we knew we had to reorganise and change the way we go to market. So coming out of last year, we've moved away from what was quite a traditional way of looking at a consumer goods business and having your home or retail business and your away from home into 12 much more specific clusters. And we believe that's important from a revenue growth management perspective. But it's also very important because a lot of the new brands and packaging that we're bringing to market require that segmented mindset.

So not all brands and all packs should be found everywhere. So it allows us to look at our business much more strategically and it allows us to match the brand proposition much better with the execution we need at an asset level. So this segmented approach is rolling out across CCEP as we speak. It's focusing on the consumer, the channel and then the packaging. And it allows us to unlock a lot more occasions across our markets.

As we build out the segmentation, we also called out some of the key capabilities that exist in CCEP and some of the ones that we wanted to develop further. So like all bottlers, we have a passion for execution and winning at the point of sale. We clearly have some fantastic customers that deserve and demand world-class key account capabilities. As I mentioned, we've got the largest sales force across Western Europe, so being able to drive distribution across that segmented universe.

We continually strive to improve our customer service and a lot of our investment and technology is delivering against that commitment. Digital is part and parcel of all aspects of our business. And we have an excellent digital advisory committee of externals that continually challenge the way we think about that agenda going forward. Our synergy program allowed us to create a more agile and dynamic organization. And we took the opportunity as we came out of the first 2 years of CCEP to sit down with The Coca-Cola Company and talk about a better and more innovative way of working together. So all of those capabilities underpinned that growth opportunity.

Just to stop a little bit and talk about our sales force. So clearly, as a bottling business, one of our primary responsibilities is to deliver world-class execution and distribution of our brands across all of the outlets at CCEP. We've partnered with salesforce.com since the beginning to build out what we believe are world-class, leading-edge tools that allow our sales force to do three things.

One, improve the customer experience, so when they're talking to our customer, when they're having that engagement, that's on a digital platform that allows our customers to fully understand the value proposition that we're proposing. Secondly, it allows the sales force to have a clearer focus on execution. So as we think about the picture of success by outlet, we can instantly upload and download that to our over 6,000 frontline sales organisation. And then finally, it allows us to drive increased productivity and optimised sell time. So through this program, we've been able to achieve 30% to 40% productivity improvements in our existing sales force. That has created a space and the opportunity to bring a lot of those new brands and packages to market.

We've also backed it up with continued investment in our outlet call universe. As we bring more SKUs, we're conscious that we need to create more space and outlet to allow those brands to be sold. And that goes across our core sparkling range right through our NPD, our tea, our energy category. And we've also been able to deliver on that calls per day of our sales force. So as we broaden our brand portfolio, we also broaden the bandwidth of our sales force. So we allow those brands to be carried through a much more efficient and productive sales force. So increasing our calls per day, increasing the number of assets we call on a monthly basis and increasing our call distribution space. And that drives our top line revenue.

Clearly, we know that we have many different consumer need states across Western Europe. We spent a lot of time with our partners at Monster and The Coca-Cola Company and with Capri-Sun, for example, looking at the brand portfolio we need to win by occasion. So in order to simplify that, we've kind of looked at across 5 different universes: clearly, our core sparkling business, which continues to grow and drives a lot of great free cash flow and a lot of profitability for sales our customers; the hydration space, large dynamic category but an area where you need to be very careful about where you play in terms of generating a good return on premium; tea, 2 great brands in this space now, Honest Tea organic and Fuze Tea, which is performing extremely well; a very diverse and expanding energy portfolio, most recently with the addition of Coke Energy; and we're also looking at driving a new part of our business around ready-to-drink coffee and also some plant-based beverages. So we're matching that enhanced sales force capability with a much broader and more diverse packaging and brand portfolio.

This is reflected in our annual business plan. So I just wanted to share with you an example of the alignment we now have with The Coca-Cola Company. So as we went to the opportunity mapping, we narrowed that down into a 12-month period, what are the 10 priorities that we want to work across all of our business units and with our customers on? So no surprise, trademark Coke, still our #1 priority, still the biggest driver of category value for the market. And what's probably different to this compared to a few years ago is you're seeing Coke Light and Diet Coke playing a bigger role in our portfolio. So we're excited about that. But right across all of the opportunities, you can see some very interesting brand and pack plays that support the guidance that we've given you for 2019 and beyond.

Some highlights year-to-date. And some of you would have picked up a lot of these in our trading update. We talked a lot about last year the amount of value we've created for our customers. I'm very pleased that year-to-date, we've also delivered another incremental EUR 219 million of revenue for our customers across all of our markets. So we continue to be the leading supplier in terms of revenue growth for our customers.

We've had some strong start to the year across some of our brands, particularly Zero Sugar Coke continues to perform well. We're excited that Coke Light is back in the market in a number of our countries. Fanta continues to do well. And our Monster Energy portfolio continues to build on the momentum that we've created over a number of years. We are also continuing to invest both in capacity and technology. We've commissioned 5 new lines since the beginning of the year. They are can and glass lines as we continue to build out those package formats. And most importantly, we continue to see increased shareholder returns both from our dividend and through our share buyback program.

As we look at some of the longer-term challenges, I just wanted to share with you today a few slides around our This is Forward commitment. So as you know, we were one of the first companies globally to come out and make commitments, particularly in the area of packaging. We are committed to having all of our packs 100% recyclable. We are committed to moving towards 100% collection of all our packs across Europe. And we have an initial target to use up to 50% recycled PET in our plastic packaging.

When we look at that in a little bit more detail, you'll see that manifesting itself in some changes that we're making today, for example, moving our cans from multipack plastic packaging into cardboard, so a better pack for consumers, a better pack to communicate on and clearly a better pack for the environment. We're also taking some bold steps on brands like Sprite, traditionally in green PET, making it very difficult to recycle. And across most of our markets, we're moving out of that green format into clear, which again supports our commitment to having a more sustainable business.

Probably the area that's getting most focus is around what are we doing around plastic waste. So clearly along with our industry, we want to do a better job at ensuring that what we sell gets returned and gets reused. And against that, we've set a clear objective to move to 100% collection. Today, we're at 74%. So compared to a lot of parts of the world, that's a high number. But compared to the standards that we've set ourselves, it's not high enough. So we want to move to a place where whatever people drink and wherever they enjoy our brands and our packages, those packages are returned and reused where possible. So across all of our BUs, we've taken initiatives. We're currently in dialogue, particularly in GB and Scotland, on a deposit recovery system. We started that dialogue in France. We are running deposit recovery systems in Germany & Norway. Both very successful. So you will continue to see package recovery being a big part of our story across all of our markets.

The good news is we know what the good system looks like. We've had the benefit of some of the most efficient recovery systems being in our markets, like in Scandinavia and particularly in Germany, where we get a very high recovery rate. We get a very high reuse rate. And we have a system most importantly that's easy for our consumers to use. So we know what good looks like and we're bringing that picture of success to our key stakeholders and to our customers to ensure as we build our collection streams, they are sustainable and they ultimately make it easy for consumers to do the right thing and for our suppliers like ourselves to reuse packaging.

One of the areas that we want to focus on is reusing more of the plastics. So we buy and are probably one of the largest purchasers of recycled PET in the world. So in 2019, we'll buy over 60,000 tonnes, which will allow us to get our recycled rate beyond the current 28% level. We're working very much with the downstream providers to get access to more recycled PET material. So it is a limited market at the moment. It is expanding. And over time, as that expansion continues, we will be able to achieve at least 50% recycled PET in our bottles.

But the agenda goes way beyond packaging. So we're very conscious that one of the biggest threats to our environment is CO_2 emissions. So as we continue to look at plastic and packaging and doing the right thing in that space, we're also very much aware that, that goes beyond just the plastic and packaging debate and we're continuing to reduce our greenhouse gas emissions. 100% of our electricity purchased in 2018 was from renewable sources. We have removed over 160,000 tonnes of sugar from our products since 2010. And we've had an 11% reduction of water usage rate across CCEP. So very much a holistic sustainability strategy looking to make progress on packaging, on waste, on recycling, on reusing material, on CO_2 reduction, on water usage and on using the best and most sustainable energy we can in the business.

All of that, we believe, supports our focus on driving sustainable shareholder returns in 2019 and beyond. So we do see quality profit growth of 6% to 7% flowing through to EPS of 10% and 11%. We do see a 40 basis points improvement on our ROIC. We will continue to generate in excess of over EUR 1 billion in free cash flow, which allows us to make the right choices for our business going forward. And we will continue to maintain an optimal capital structure with our net debt-to-EBITDA between 2.5 and 3x. So that allows us to meet our 50% dividend payout and to execute our share buyback program up to EUR 1 billion. So again, pretty much in line with what we've talked to you about before.

It also flows through to our mid-term objectives, where our guidance calls for low single-digit revenue growth; operating profit in the mid-single-digit range; EPS also at mid-single-digit; our dividend payout at 50%; we expect our CapEx to be in around 5% of revenue; and again that will allow us to expand our return on invested capital as we go forward, all of which will be supported by a free cash flow generation of at least EUR 1 billion.

So hopefully, that gives you a flavour of why we believe CCEP is a great company to invest in and to partner with and a great place to work. We'll continue to build on that solid track record of performance. We do operate in a market that is growing and is very dynamic. We are taking the decisions today to invest in the capabilities that we know we will need to win tomorrow. We are transforming our business model to be much more segmented and to drive much more revenue diversification by brand, by pack and by channel. We are blessed with the world's best brands, right across the NARTD categories.

We have over many years built unrivalled customer coverage. We have those relationships to leverage. We have a very solid and strong and flexible balance sheet that allows us to make the right decisions for today and tomorrow. We're very conscious of the challenges that are coming in the areas of sustainability. And we firmly believe in doing the right thing for our environment and for our communities. And we do that all with a very aligned relationship with all our franchise partners, but particularly with The Coca-Cola Company.

So that's CCEP 3 years in. And we really like to throw it open now for some questions. Thank you.

QUESTIONS AND ANSWERS

Stephen Robert R. Powers ***Deutsche Bank AG, Research Division - Research Analyst***
Okay. Great. If you have questions, raise your hand and we'll try to work you in. I think one of the things that's really striking about the story as it relates to this year is it's coming off of a really strong innovation year last year. It feels like there's even more going on inside the portfolio this year. So maybe just hit the high points of the things that you're excited about, some of which are scattered about in front of me. And also what has enabled or what underlies this sort of acceleration of innovation, which we see across the Coke system, not only in Europe but more broadly?

Damian Gammell ***Coca-Cola European Partners plc - CEO & Director***
Yes. So I mean I think we're clearly benefiting from The Coca-Cola Company's Beverage for Life strategy and mindset and we're also benefiting from our partners at Monster also having a very aggressive innovation pipeline. So fundamentally, the brand custodians have really brought a lot of innovation to us as a bottler. And I think that's a global conversation. I think what's -- what we've been able to do is also innovate on the core. So I think when we talk about innovation, clearly whether it's Coke Energy or a new Monster variety or taking Aquarius out of Spain and rolling it out across Europe, there's clearly innovation on the brand portfolio. But there's also innovation on packaging. So if you look at our revenue delivery, particularly our revenue per unit case, a lot of that comes on pack mix. And that's on brands like Coke Classic has being a huge success for us as we've provided more innovative solutions around premium packs, so mini cans.

One example I've given to a lot of the meetings here is that if you go to supermarkets across Western Europe now, you can buy glass. That's a big change, great consumer experience, great price for our customers, great margin for us. So what we feel comfortable about is innovation is not just NPD. That is a big part of it. But innovation is also around brands like Fanta, Sprite. The new Diet Coke and Coke Light packaging, some of which we stole from the U.S. Now that's a great innovation on a great brand that needed an uplift. So all of that combined gives us confidence for 2019 and has been a big part of the momentum. Clearly, as a bottler, that challenges us, so we've got to be able to deal with the complexity. We've got to have the capacity. So I just touched on some of that in my presentation. We have been putting in particularly glass and cans because that's where the growth is coming from. And that new segmented model allows us to deal with complexity in a way that allows us to continue to drive margins and profit.

Stephen Robert R. Powers ***Deutsche Bank AG, Research Division - Research Analyst***
Okay. Great. Actually, I wanted to start with actually some of the packaging stuff and the sustainability that you highlighted in your presentation. The 74% collection that you said as a relative constrained recovery rate, can you talk about how that varies across your markets? And then I've got a follow-up really to it.

Damian Gammell ***Coca-Cola European Partners plc - CEO & Director***
Yes. So suppose one of our standout markets is Germany, where we see collection rate above 95%. And that's on the back of a well-understood and well-run deposit collection

system that we're a part of. So I think that's certainly what we would say is best-in-class, I think, globally. And we've got Scandinavian markets that are on the same place. And in markets where we don't have a formalized collection system or deposit, it drops to a range of between 50% and 70%. And part of the challenge is it's hard to measure, right? Because there is no system, so you've got to -- it's hard to get an accurate number on it. So we know that when you bring in a system that allows consumers to easily bring back the packaging, it works.

And that's really what we're aiming for, is a system that's not disruptive to our customers, that does the right thing for the environment and for our stakeholders and makes it easy for consumers. And I think the German model is probably the closest to that. So wherever you buy beverage, generally you can bring it back. That has two benefits. The most important thing, it's good for the environment. Secondly, it provides a higher quality pool of reusable packaging for recycling. And one of the reasons that we're at 28% and want to get to 50%, and we want to go faster, is that it's very hard to buy food-grade quality PET to use again. So as you build up the recovery system, you also create the secondary pool and then it becomes pretty much a circular economy which is what we're aiming for.

Stephen Robert R. Powers ***Deutsche Bank AG, Research Division - Research Analyst***
Yes. Which leads to the next question because right now, I think when people think about this from the outside, it looks like a cost, a burden, something to overcome. And I guess I'm wondering as you look through and look to the future, can some of these investments actually yield an enhanced ROI as you look forward in time? Or is it truly just a cost you have to overcome?

Damian Gammell ***Coca-Cola European Partners plc - CEO & Director***
No. We certainly do look at it as a cost. I mean I think we look at it as the right thing to do for the environment. We look at it as something that our consumers and customers expect from our brands. We also know that when people look at the category, where there is a very high return rate, people feel better about the category because clearly they know the packaging is being reused. There's also, over time, it should drive more positive economics in the secondhand PET market. Because when there's limited supply, clearly it can cost more. We are paying more today for, which it sounds crazy to some people, for recycled PET than we are for new PET, which is kind of another market. It's usually the opposite. And that's purely because there's a lack of supply. And that's because there isn't an efficient recovery system. So one will feed the other. And then over time, both of those, we believe, will be value-enhancing for ourselves and our customers.

Stephen Robert R. Powers ***Deutsche Bank AG, Research Division - Research Analyst***
Okay. Great. So back to some of the innovation. I think the one, the Coke Energy launch, has probably generated the most discussion, I had to say. So I guess a little bit about how you're approaching that launch, how it fits in with the Monster portfolio and what you're expecting from it in this first year.

Damian Gammell ***Coca-Cola European Partners plc - CEO & Director***
Yes. So I mean we're excited about the energy category generally. I mean we've had a great number of years with Monster. We see that continuing. Our share in that segment, depending on the market you pick, is 15% to 20%. So we definitely have a lot of headroom to grow. It's a category that's growing mid-single-digit anyway. So I think there's no doubt there's space for more than one brand in that segment. And clearly, what's different about Coke Energy, it's also pulling in the world's biggest brand into that segment. And it's sitting between your classic soft drink taste with an energy proposition. So it is quite different to what we're offering with Monster.

So we feel, and our customers have believed it as well, that it can play -- both of them play a great role for them and for us. So it's early days. We went first in Spain. We're now rolling out across all of our markets. I mean initial feedback, as soon as you put the Coke brand in any beverage, you get a lot of trial. So a lot of people want to try it, they're curious, they want to taste it. So that's working. Our customers like it. We'll get some indication as we move through the summer on repurchase rates. I think that's when we can kind of give some more feedback on how the brand will do. But our innovation a month -- our pipeline and innovation a month continues to grow full pace.

Stephen Robert R. Powers ***Deutsche Bank AG, Research Division - Research Analyst***
So on just following up on the early launch on Coke Energy, any sense for the incrementality of shelf space that you're gaining from Coke Energy versus cannibalization, either of Monster or brand Coke?

Damian Gammell ***Coca-Cola European Partners plc - CEO & Director***
Yes. So we're very clear where it should go, which is away from Monster and brand Coke. And we've given ourselves some clear targets around where we like to see it on shelves. And we're executing against that. I mean over time, we'll be able to give more qualitative figures on what's -- where's the switching come from, what were they drinking before, so all those normal consumer metrics. But that's going to take a number of months until we get into the market.

Stephen Robert R. Powers ***Deutsche Bank AG, Research Division - Research Analyst***
And then on the other side of the energy portfolio on Monster itself, you talked about an objective over the next 3 to 5 years to double that Monster portfolio. Can you give us a sense of when you think about their -- as you described it, robust innovation pipeline, what in their pipeline do you see the most runway for?

Damian Gammell ***Coca-Cola European Partners plc - CEO & Director***
So we're definitely seeing the Ultra variants perform really well, so sugar-free. We're seeing new innovations like Mango Loco is phenomenal. The image, the color of the can is just bringing a lot of consumers in. We're also looking at the coffee propositions, which are also

great-tasting product. So they've got a range of product innovation that we believe allows us, and I think it was Nik who set the goal, on doubling our Monster business. It's a good goal. And again, when you've got a share of 15% to 20% in a category that's growing, it's a very achievable goal.

Nik Jhangiani ***Coca-Cola European Partners plc - CFO & Senior VP***
Let me just say one thing that it's not just about innovation because there's still a lot of distribution opportunity that we have. Today, even where we have Green Monster, we don't necessarily have all the variants of Ultra, right? So it's actually getting more distribution as opposed to just focus on innovation is a very important piece of that growth as well.

Stephen Robert R. Powers ***Deutsche Bank AG, Research Division - Research Analyst***
Okay. And maybe just the last question on the energy category, there's been a lot of focus from a U.S. perspective on performance energy and in Monster's portfolio, REIGN. Is that a brand that you see porting over to your markets? And where are you in that discussion?

Damian Gammell ***Coca-Cola European Partners plc - CEO & Director***
Yes. I mean that's the benefit of partnering with a company like Monster. I mean we get all of the learnings and the insights from West Coast U.S. that are shaping the category there. And we can look at what are, we believe, similar consumer needs exist in Western Europe and take ready-made solutions in. So we haven't made any final or firm decision on it. But it's something that we're excited to keep looking at because I believe performance energy at some level will be part of the European energy category. I mean will it be as big as it is in the U.S.? We don't know, but it's certainly a category we can play in.

Nik Jhangiani ***Coca-Cola European Partners plc - CFO & Senior VP***
You've got BANG and NOCCO that are both there. And so the category exists. And with REIGN and Hydro, I think there's a great opportunity to build on that.

Stephen Robert R. Powers ***Deutsche Bank AG, Research Division - Research Analyst***
Okay. The other large launch in terms of discussion at least is the Costa Coffee ready-to-drink launch, which I think hits the market this week or, sorry, this month. Just talk to us about what you see in ready-to-drink coffee broadly, not just with the Costa brand, but you mentioned Monster, you've got Honest Coffee in the market and where Costa fits in and what you think it can become.

Damian Gammell ***Coca-Cola European Partners plc - CEO & Director***
Yes. So I mean we were, I think like everybody, really excited about the Costa acquisition by KO. And clearly, we operate in U.K., its home market. So we've got over 2,500 stores. We've got a brand that's really well-known and loved by lots of consumers in GB. So for us, it was an easy step to move into ready-to-drink, I mean, build great brand

awareness. And for those of you, if you can try the product, great product delivery. So as you say, that will kind of start hitting the market as we go through the summer. And we think it's going to leverage the existing brand equity of Costa. Beyond GB, we are looking with Honest but potentially with Costa and with Monster at having a number plays in ready-to-drink coffee.

It's still a relatively small category in Western Europe compared to other parts of the world, but it is growing. If we can participate in that and make a return, we will. And I think at least now we've got a brand portfolio that can allow us to do that. So we'll probably look market-by-market in terms of what's the best proposition to lead with. Clearly, Honest is a brand we're rolling out across Europe. So that will build brand awareness. Monster has already got great brand awareness. And we'll continue to speak with The Coca-Cola Company to see what their vision is for the broader Costa brand outside of GB. And based on that, we'll see what the role is for ready-to-drink Costa.

Stephen Robert R. Powers ***Deutsche Bank AG, Research Division - Research Analyst***
Great. And I think maybe what's underappreciated in the innovation pipeline is just how much work you're doing on the core Coke brand and on sparkling in general. A lot of that, as you mentioned in the presentation, comes from package mix. How much more runway is there from a package mix perspective? And how does that drive from your capital allocation decisions in terms of making sure you've got capacity built correctly a couple of years out?

Damian Gammell ***Coca-Cola European Partners plc - CEO & Director***
So maybe I'll...

Nik Jhangiani ***Coca-Cola European Partners plc - CFO & Senior VP***
Sure. Yes, enjoy your Coke. So we are doing a lot in terms of innovation in the sparkling portfolio. And just to put into perspective, when you think about red Coke or Classic Coke, we have over an 80% share. But then as you go into Light and Zero, we have about a 60% share. And then you go down into sparkling flavors, like Fanta and Sprite, we have a 30% share, right? When you go into mix, we probably have 15% to 20% share. So it just highlights for you the opportunity that's out there. A big focus continues to be on the packaging elements and what we can do, mini cans, glass bottles. And if you look at some of the points that Damian highlighted is we're looking at our capital spend.

We're being choiceful of the new line investments that we're making. And we're probably disproportionately investing in glass and cans because we see that's where the growth is coming. But more importantly, too, for us, we can drive that growth because it's a better margin for us, too. So clearly, when we're looking at our capital decisions and our choices, we're making some bold decisions in terms of where the market is potentially moving or how we can find, steer it and guide it in that direction. We believe if that's managed in the right way, it's very much something that is within what we would -- what we've laid out as our CapEx to NSR ratio of about 5%. So we're comfortable with that.

Stephen Robert R. Powers ***Deutsche Bank AG, Research Division - Research Analyst***
Okay. You made a lot of investments over the last couple of years. If we go back to Damian, a lot -- some of what again you alluded to, how much of that work has been done? I think about some of the supply chain automation and the work you've done, investments in more and empowered sales force, consumer insights, sales force automation. Should we think about that as a lot of heavy lifting was done utilizing the synergies post merger and now we're more in a runway -- more steady runway situation? Or is there more incrementality to come?

Damian Gammell ***Coca-Cola European Partners plc - CEO & Director***
Yes. No, I think as we looked at it, we certainly got through in the first 3 years a lot of heavy lifting around -- particularly on the synergy capture. And clearly, we articulated the cash cost of doing that. And we're exiting that program now. So if you want to call that heavily lifting or value creation, whatever you want to talk about, I think that period is definitely behind us. As we look forward, we're very comfortable with the CapEx range that we've guided. And that's against that growth opportunity mindset. So that's against investment in capacity, which Nik touched on. It's about investment in technology, which I talked about. And it's investment in call space. So we feel we can meet or deliver on our growth expectations within that 5%.

I suppose the other area that we're continuing to look for now is ongoing productivity and efficiency. So as we come out of the synergy program, we still see a lot of opportunity in our business to run it more efficiently and to drive more productivity. And as we look at volume coming up as part of the story, that helps drive productivity. But clearly, a lot of the money we spent in early years in technology, as people learn and start to use that technology, we'd expect productivity to come out of that. And I suppose one real example is the calls per day that we're getting from our sales force. So that will continue, so that productivity and efficiency mindset has continued post synergies.

Stephen Robert R. Powers ***Deutsche Bank AG, Research Division - Research Analyst***
Okay. Great. We have a question upfront right here.

Unidentified Analyst -
So at Deutsche Bank, when our investing clients make money, it's always because they followed our recommendations. And when they lose money, it's never our fault. I was really interested to hear what you said about importance of partnership and being best-in-class when it comes to driving profits growth for your clients. How do you go about assessing the attribution there? How is it that if you deliver 70%, I think you said, for your partners, how is that calculated in terms of what you've done versus, I don't know, what everyone else has done, whether it's marketing spend or other types of investment or other inputs?

Damian Gammell ***Coca-Cola European Partners plc - CEO & Director***
Yes. So I mean it's tracked independently, so the data we share, and that is Nielsen. So

you can look at -- and they cover all the category. So it's quite easy to get a list of what suppliers are delivering incremental growth. So we use third-party data because we think that's obviously independent and it gives us access to what our other suppliers are doing. And we look at it beyond beverages. So we take a very broad view of who are we competing for or against for airtime with our customers, for space in store, for collaboration and therefore, it's a very wide lens. So we then look at that 7% growth. It's very easy for us to share with our customers what's driving that, whether it's a brand initiative, a pack initiative. Some of it is operational efficiency, like less out of stock. So we look across the value chain.

And we know that's important to stay relevant and to be part of their growth story. Probably the biggest insight we got when we went to our customers was we took a decision to change our incentive plan at CCEP to include free cash flow when we did the merger. Because we realized cash is great and we realized we had to pay down our debt and we realized we needed to invest. When we took that lens of cash, we also took it to our customers. And we started to speak to our customers about the cash flow generation we bring to their business. And surprisingly, that's not always the conversation that suppliers have with customers, usually we've got margin. So that growth, coupled with strong cash flow, is what we're prioritizing so we stay relevant. So that's the shape of it.

Stephen Robert R. Powers ***Deutsche Bank AG, Research Division - Research Analyst***

All right. It wouldn't be a CCEP discussion without cap allocation. Now once you generate that cash, right, what do we do with it? And I think investors have been very happy with the cash return, large dividend increase, nice, steady buyback, both of which can continue and potentially increase. But how do you weigh potentially increasing those cash return versus the other stated intent of capital allocation in terms of M&A?

And within that, we know about -- we can revisit your territory versus your various prioritization of M&A. But it feels to me, in some of the recent discussions, that you're a little bit more open even to brand bolt-ons, something that's always been part of the conversation. But has that -- am I right to hear that as a little bit more in the forefront of the conversation? Or is that a...

Nik Jhangiani ***Coca-Cola European Partners plc - CFO & Senior VP***

First is very much to continue investing in the business. Ultimately, as a partner, we have a responsibility for best-in-class execution, availability of our products, et cetera. So we will continue investing in that business. And that's the first priority. Second, as you said, we have raised our dividend payout ratio to a 50% rate now. We started out at a much lower rate. So we've gotten to that level. And we feel for now that's a competitive rate. So I wouldn't be looking at an increase in our dividend payout ratio outside of obviously the increase in dividends per share as earnings continue to grow. Then I think if we look at the opportunities for use of that excess cash, clearly value-creating M&A is our focus. And I think we've talked about our priorities is being: one, geographic expansion; two, brands and building out a portfolio, but I don't think we want to do that independently, we want to do that jointly with The Coca-Cola Company; and then third are the things that we need to buy from a capabilities perspective that we feel is just going to take too long to build in-house or it's just quicker and it's the right thing to do.

So I think that's our priorities in terms of M&A. Geographically, I think we've been very clear. We'd like to go into developed markets. Contiguous European developed markets would be ideal. But we're very open to developed markets. And I think while we would look at other opportunities, I think that would change a little bit the investment profile of us if we decided to go into -- in merging or developing markets from a volatility perspective, from a level of investment perspective, et cetera. So we never say never, but that wouldn't be our first priority. Acquisitions, we would look at that. I think there will be small bolt-ons. There's nothing large of scale that is so regional to our market or specific to a certain country that wouldn't be The Coca-Cola Company kind of...

Stephen Robert R. Powers ***Deutsche Bank AG, Research Division - Research Analyst***
You mean from a brand perspective?

Nik Jhangiani ***Coca-Cola European Partners plc - CFO & Senior VP***
From a brand perspective, right. So Tropico is an example of a brand that we acquired here with The Coca-Cola Company. And it was seeing an opportunity in the flavor space. And we said, "Let's go out and get that." And then third is capabilities. And CCEP Ventures is a great example of that as well. Now absent all that, we're still not going to drive with an efficient balance sheet, right? And we're committed to that 2.5 to 3x net debt-to-adjusted EBITDA, which automatically means with the free cash flow we generate, there's opportunity for incremental shareowner returns. And does that take the form of share buybacks, special dividends? That's something we will continue to assess with our Board annually.

Stephen Robert R. Powers ***Deutsche Bank AG, Research Division - Research Analyst***
Okay. I think we have time for one last question from the audience.

Unidentified Analyst -
Damian and Nik, we've not touched on the sugar today so far. I think the sugar tax was introduced in U.K. last year or the year before. So probably you can just touch base on that topic overall, again your learnings from the U.K. and potential risks or how you're going to handle them for the rest of the U.K. or Europe.

Damian Gammell ***Coca-Cola European Partners plc - CEO & Director***
Yes. So you're right. We went into last summer with the sugar tax hitting GB. Prior to that, I think we did a really good job reformulating a lot of our brands and taking sugar out. So that's a learning that we've applied across all our other markets. So as long as we don't compromise in taste and as long as we can deliver what our consumers want, that reformulation strategy is now part of our overall proposition. The second learning was when the tax came in, having more variety of pack sizes so to allow the consumer to access the brands at different price points is important because as the price goes up 10%, 15% on the

tax, affordability becomes a challenge. So we also learned that in GB that having different smaller pack sizes available but at the same price helps.

And I think both of those as well as a good dialogue with our customers allowed us to get through the sugar tax in GB pretty well last year. And then we had an extra kicker, which was an amazing summer. So in our business, good weather always helps. So we were fortunate as we went through the sugar tax implementation to have a big uptake in sales on the back of great weather. So I mean that's something we could manage, but it helps. But the first tools, we've applied across all our other markets. And currently, we don't see any other sugar tax interventions coming in our business. That can change quickly, we all know that. But at the moment, if it does happen, I think we're much better prepared now than we were 18, 24 months ago.

Stephen Robert R. Powers ***Deutsche Bank AG, Research Division - Research Analyst***
Okay. On that, I think we have to wrap it up. Thanks to Damian, to Nik and to Coca-Cola European Partners.

Damian Gammell ***Coca-Cola European Partners plc - CEO & Director***
Thank you.