COCA-COLA EUROPACIFIC PARTNERS
H1 2023 Results & Proposed CCBPI Acquisition
Analyst Call Transcript
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CORPORATE PARTICIPANTS OF PREPARED REMARKS

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PREPARED REMARKS

Sarah Willett:

Thank you all for joining us today. I'm here in Manila 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 and accompanied by a slide deck. We will then turn the call over to your questions.

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

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:

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

Before we get into the detail of today's announcements, I just wanted to take a moment to stand back and reflect.

We continue to execute on our clear strategy. We have an unwavering commitment to stakeholder value creation – our retail customers continue to share in our success - since 2017, and we have created more value for them than any of our peers. And indeed our TSR speaks for itself.

We have had a fantastic first half driving an impressive upgrade to full year guidance. Supported by unparalleled in market execution.

Further geographic diversification is reinforced today with our proposed and exciting acquisition of Coca-Cola Beverages Philippines, which would also support our transformation journey in Indonesia.

We are also clear on the strategic choices we make. From simplifying our portfolio to driving a more efficient business whilst investing for the long-term.

And always aligned with The Coca-Cola Company and all our brand partners.

So, now to the agenda. Let's start with our strong first half.

Before I begin, I would like to take this opportunity to thank all of my great colleagues at CCEP for their hard work and dedication to our customers and our business.

I am very pleased with our financial performance, achieving double-digit top and bottom-line growth, value share gains and impressive free cash flow generation. Top-line growth was price/mix led but importantly also supported by solid volume growth. In addition, we grew transactions ahead of volume in Europe, Australia & New Zealand. This collectively has enabled us to raise our full-year guidance today which Nik will cover in more detail shortly. And we have continued to invest in the business for growth across our portfolio, digital, supply chain, sustainability and of course our highly engaged people.

We are focused on great people, great service, great beverages, all done sustainably, for a better shared future. And I will touch on each of these areas as we take a brief look back at the first half.

Starting with great people, whose well-being and safety continues to be our number one priority at CCEP.

I am extremely pleased that even more of our colleagues participated in our global engagement survey this year. We achieved an excellent score, positioning us comfortably ahead of our industry benchmark group. And, we continued to be externally recognised as being a great place to work.

We are committed to building an even more inclusive and diverse culture, we celebrated a number of key events across our business including Pride and International Women's Day, and we supported the Special Olympics with our colleagues from The Coca-Cola Company.

Great service will always be 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 and Norway, and a new PET line in Iceland. On our journey to becoming the world's most digitised bottler, we also continue to invest in our broader digital capabilities.

In fact, our B2B portal, MyCCEP.com, celebrated its fifth birthday last week. And through ongoing investment we are on track to have over two hundred thousand customers generating two billion euros of revenue through the platform in Europe alone.

And our customers continued to share in our success, as we, once again, created more value in the retail channel for our customers within FMCG in Europe and within NARTD in Australia and New Zealand than our peers.

Activation, both in-store and on-line, is key to our success. We have kicked off some great plans for summer, and we have some really exciting plans for The FIFA Women's World Cup, Halloween and, of course, Christmas!

And finally, great beverages – we are extremely privileged to make, move and sell some of 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 seventy five percent of households purchased from our NARTD portfolio, up fifty basis points versus last year.*

Coca-Cola Zero Sugar continues to be a great example of successful innovation, achieving good share and volume growth across all key markets, with volume up five point five percent in the first half, as consumer trends for low and no calorie beverages continue.

In Energy, Monster continued to gain share through innovation, with even more flavours in the Juice and Ultra ranges, and supported by some great celebrity collaborations.

And we also expanded our footprint in the alcoholic ready to drink category with an encouraging start for Jack and Coke.

Moving now to two strategic choices we have made on our beverage portfolio and our partnerships, as we strive to further simplify to grow our business profitably. We believe these choices are right for the long-term success of our business, enabling a greater focus on our priority categories.

In this vein, in Australia and New Zealand, we will maximise our extensive knowledge in the ARTD category by launching new scalable offerings aligned with The Coca-Cola Company.

The category is highly attractive, and one in which we are well positioned for a great future, having recently become the market leader with over sixteen years' experience. It is also of course complementary to our core business from a manufacturing, sales and distribution perspective.

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 during FY24.

As you see here, neither of these choices will have a significant impact to CCEP.

Importantly, we continued to make great progress on our sustainability journey.

We remain focused on our packaging commitments and reaching our ultimate goal of using one hundred percent recycled or renewable plastic in Europe and API.

We recently introduced one hundred percent recycled PET bottles in Indonesia. And in Australia, New Zealand and Indonesia, we moved Sprite to clear bottles making them easier to recycle. So now in line with our European markets.

We continue to invest in sustainability focused technology through our CCEP Ventures, and we are proud to be part of the recently announced Coca-Cola system sustainable venture capital fund.

And, importantly, we continue to be recognised externally. So, all in all, great progress for the first half.

Turning now to our first half performance highlights.

As I mentioned earlier, we are very pleased with our top-line performance. Solid underlying demand in our developed markets, the continued recovery of the away from home channel in the first quarter, and resilient trading in the home channel helped drive volume growth of one percent. I am particularly pleased with the volume growth in Europe in light of the level of headline pricing, demonstrating consumers' love for our brands.

Execution of our dynamic pricing strategies across our markets drove solid revenue per unit case growth of ten percent. Our headline pricing remains ahead of pre-pandemic levels but below realised cost inflation, reflected in our margins, as we continue to prioritise relevance and affordability.

We gained value share both in-store and online within NARTD, and we also continued to win with our customers, remaining focused on delivering fantastic activation, and making it even easier to do business with us.

Our continued focus on efficiency as we close out our FY21-FY23 programmes, together with strong top-line growth, drove strong operating profit growth of thirteen *percent. This supported impressive free cash flow generation of eight hundred and fifty million euros.*

And as I said just now, we have today upgraded our FY guidance.

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

Nik Jhangiani:

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

Let me start by taking you through our financial summary.

So, we delivered total revenue of nine billion euros, an increase of ten point five percent, which I will come back to shortly, while our cost of sales per unit case increased by nine percent. As communicated previously, we anticipated the cost of sales per unit case increase to be weighted more towards the first half given the comparables from last year.

We delivered comparable operating profit of one point two billion euros, up thirteen percent. This reflects our strong top-line performance, as well as the benefits of our continued focus on efficiencies and discretionary spend.

This resulted in comparable diluted earnings per share of €1.85, up seventeen percent.

Free cash flow generation continues to be a core priority, and we delivered an impressive eight hundred and fifty million euros during the first half.

And finally on shareholder returns, we paid a first half interim dividend per share of sixty seven euro cents which we declared in the first quarter and paid in May. As a reminder, this was calculated as forty percent of the full year 2022 dividend.

Now to our revenue highlights.

As we anticipated, the strong growth in our top-line was driven by an increase in revenue per unit case and good underlying volume demand in our developed markets, with overall reported volume up one percent despite lapping strong comparables and of course our strategic portfolio alignment choices primarily in Indonesia but also the exit of bulk water and frozen in Australia.

In Europe, trading momentum continued in the Away from Home channel, with volumes up four percent in the first half, lapping thirty eight percent growth last year. The Home channel continued to remain resilient, growing one point five percent, lapping strong growth of four percent last year. While all markets were in volume growth France outperformed, delivering high-single digit volume growth, and Germany delivered mid-single digit volume growth.

In API, very good trading momentum in Australia and New Zealand was offset by Indonesia, with volume down five point five percent. As I explained, the SKU rationalisation was the main driver of this, and excluding those one offs, volumes in API would have been down one point five percent. More importantly, when you look at both Australia and New Zealand and you back out some of those choices in Australia, Australia was up three percent on a volume basis, and New Zealand and the Pacific Islands were up three point five percent. So, as Damian said, we're really pleased with the underlying strong volume momentum despite what we continue to have to manage through in terms of the pricing environment.

In Indonesia, we did see some solid and encouraging growth in our affordable packs. But softer consumer spending in Indonesia, as a result of the macro softness we referred to at our Q1 trading update, also contributed.

In the second quarter, volumes were slightly softer, down one point five percent, reflecting the strategic SKU rationalisation in Indonesia and tougher prior year comparables, following the removal of covid restrictions, and favourable weather in Europe.

Moving to revenue per unit case which grew by ten percent in the first half. This reflects positive headline price, continued focus on promotional optimisation and revenue growth management initiatives. Encouragingly, we continued to be relevant to our consumers and shoppers and continue to leverage our broad pack price architecture that we have continued to develop over the years.

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

Now to our upgraded guidance for FY23 which reflects our current view of market conditions.

Starting with the top-line, we now anticipate revenue growth of eight to nine percent, an increase from six to eight percent driven by solid underlying demand in the first half and the implementation of our price increases.

As per our previous guidance, top-line growth will be mainly price/mix led, but as I said volume performance has been impressive, driven by headline price increases, with Germany and the Netherlands due to be implemented in the third quarter, combined with the annualised impact of last year's second round of pricing. And so, overall, we expect a moderation of our revenue per unit case in the second half.

Promotional efficiency of course remains a priority. Our consumer-centric approach has a clear focus on maintaining affordability and relevance. For example, in France we have already committed to an additional three months of promotional activity on Coke Zero Sugar and continue to look for opportunities across other markets as well. We continue to manage the business for the longer term with overall realised pricing still tracking below inflation as reflected in our margins. Clearly, we remain focused on improving our margins over the mid-term.

The NARTD category has remained resilient to date, demonstrated by the value growth in all of our markets. And, with our ongoing investment and innovation in our great brands, we believe we can at least maintain or grow our share in this robust category.

We continue to see a dynamic external environment, with consumers increasingly being cost-conscious. With this in mind, we continue to change our recommended price pack architecture to address different consumer needs across the spectrum of affordability and premiumization.

From a cost perspective, we now expect commodity inflation of around eight percent, previously ten percent, driven by lower gas and power and recycled plastic pricing. We are now over ninety five percent hedged on our commodity exposure for this financial year.

We still anticipate an increase of around eight percent on our cost of goods per unit case. While we will benefit from slightly more favourable commodity pricing, this will be offset by upwards pressure through the *concentrate line, as a result of strong revenue per case growth and strong mix, as well as geographic mix headwinds. As a reminder, concentrate accounts for approximately forty-five percent of our cost of goods.*

And, as we look further out, we continue to build cover and we are now over sixty five percent hedged for 2024 and around thirty percent hedged for 2025. We will update, of course, more in due course.

Given our improved top-line outlook and our continued focus on OPEX management, we will now look to deliver operating profit growth of twelve to thirteen percent, an increase from six to seven percent. From a phasing perspective, we now anticipate operating profit growth to be more evenly phased across the first and second halves of the year as I said earlier. Our updated guidance today implies that we expect to improve our full year operating margins by forty to fifty basis points, an area of focus for us as I said earlier.

Please note that these growth rates continue to be provided on an FX-neutral basis, and whilst it is too early to provide finite FX guidance, for modelling purposes we continue to expect to see a translational headwind of approximately 200 basis points for the year based on current rates.

As per our previous guidance, we anticipated an upward trend on our effective tax rate driven by known tax rate increases, such as the recent UK tax rate increase. We now expect our full year comparable ETR to be around twenty-four percent, implying a higher ETR in the second half. This is primarily due to timing of the UK statutory rate increase, which only came into effect in April of this year and, of course, lower reversals of unrealised tax positions.

And finally, we now expect to deliver free cash flow of at least one point seven billion euros, increased from one point six billion euros.

I would now like to hand back to Damian to talk about the proposed transaction.

Damian Gammell:

Thank you Nik. So back to the agenda.

So turning now to the proposed acquisition of Coca-Cola Beverages Philippines – a natural next step for CCEP and an exciting opportunity for two great partners to come together and unlock even more potential in what is already a successful and profitable business in a great market.

So, just over two years on from the acquisition of Coca-Cola Amatil, this would be a great next step for us as we further expand our geographic footprint in the region.

The strategic rationale behind this proposed transaction is compelling. It would underpin our ambitious mid-term objectives <u>and</u> would solidify our position not only as the largest Coca-Cola bottler globally by revenue but also by volume.

We have been reviewing the potential transaction and have invested significant time understanding the Philippines' business and the attractive market in which it operates. And put simply, we are really excited by the journey ahead.

This would add further diversification into an exciting part of the world with a strong local partner who shares our passion and focus on people and culture, innovation, and doing business sustainably. We have talked before to the meaningful benefits of scaling knowledge, best practice and talent across the CCEP family. As we extend to 30 markets, this would naturally amplify our ability to go even further together.

And, by adding the second most populous market in South East Asia, alongside our presence in the first, we would not only significantly increase our consumer reach in a successful and growing market, but would also further support our transformation journey in Indonesia where we see a strong opportunity to share learnings.

We believe this would in turn create value for all our stakeholders and of course further solidify an already strongly aligned relationship with The Coca-Cola Company.

As I mentioned earlier, the Philippines operates in a large and attractive NARTD category, currently valued at around eight billion dollars which would therefore take CCEP's addressable market, in euros, to around one hundred and forty billion. The category is fast-growing estimated at around *ten percent per annum in value terms, so well ahead of CCEP's current group average of 3-4%.*

Within the NARTD category, Sparkling is well established, representing around 55 percent of volume with per caps over four times higher than the average for Asia-Pacific. There still remains attractive headroom for growth when compared to other markets where the category has a rich history and a long-standing relevance to consumers. And, with consumer trends following in their direction, future growth opportunities would include low and no sugar, energy and alcohol. So, lots to shoot for and leverage from the rest of the Group.

It is also a market that comes with attractive macros. The Philippines is the thirteenth largest country globally with solid GDP and population growth and a fast growing middle class. All metrics that are clearly ahead of Europe.

So, all in all, across the fundamentals and the category opportunities ahead of us, this would be a great 30th market to be adding to the CCEP family.

Moving now to the Philippines business. It is the number one beverage supplier, currently accounting for over forty percent of the NARTD category and nearly seventy percent of the sparkling category.

The business serves around one million outlets through an extensive supply chain, supported by nine thousand highly engaged colleagues known as the 'Coca-Cola Tigers'. Like New Zealand recently in CCEP, the Philippines won the prestigious Coca-Cola System Candler Cup best bottler in 2019. And, the Coca-Cola brand has a long 111 year history in the Philippines. It was in fact the first market outside of the Americas where our great brands were introduced.

As an established business with a proven track record, the Philippines has delivered solid top and bottom-line growth. Last year, the business delivered around six hundred and fifty million unit cases which would double the size of our API business. It also generated around one point seven billion dollars of revenue and ninety million dollars of profit before tax.

So, already a business with attractive profitability and scale.

And, like CCEP and Aboitiz, the Philippines has a strong focus on people and sustainability. For example, around 50% of the business' sparkling volume is already sold in returnable glass packaging.

So, to people first. The CCEP family would be set to grow by around 9,000 colleagues to 42,000. Our people would have even more opportunity to grow and develop as we create a more diverse and inclusive culture.

To our legacy, as I am confident you would agree, we have a strong track record of integrating and driving value creation.

As I mentioned just now, we could only benefit from combining our talent pools and sharing learnings and best practices, including our partners, Aboitiz. These would be in areas such as, but by no means exclusively, digital, technology, procurement and sustainability. And this transaction would be expected to support our transformation journey in Indonesia, where the Sparkling category is less developed at around ten percent.

Now I would like to hand back to Nik to talk to the proposed transaction and governance arrangements.

Nik Jhangiani:

Thanks Damian. Now to the proposed transaction.

The proposal is for CCEP to acquire 60% of CCBPI with an enterprise value of around one point eight billion dollars. A business with very attractive profitability and growth prospects as Damian has just talked to.

As CCEP would be acquiring a majority stake, the business is expected to be consolidated into our results from an accounting perspective with Aboitiz's minority stake recognised as a Non-Controlling Interest.

From a financing perspective, the transaction would be primarily funded by existing liquidity, with modest incremental borrowing that we would look to access from the public debt markets. Given our strong and flexible balance sheet, together with our solid free cash flow generation, the transaction would only have a modest impact on our leverage position. We had previously guided to return to the top end of our Net Debt to Adjusted EBITDA range of 2.5 to 3.0 times by the end of FY23. This would now instead be expected to be achieved during FY24.

The transaction would be immediately EPS accretive, and by working together with Aboitiz and The Coca-Cola Company, we would be able to unlock even more potential

for the Philippines. So clearly a great use of our cash and a great deal for our shareholders.

Moving now to Aboitiz, one of the leading conglomerates in South East Asia.

Aboitiz Equity Ventures is a publicly listed company, and brings over one hundred years' experience across multiple sectors including food, power, banking, infrastructure, construction, land and data science. Aboitiz's considerable experience of the market and cultural dynamics together with their strong local connections and proven partnership experience working with multi-nationals like CCEP would, no doubt, be invaluable to us.

Bringing this together with CCEP's proven track record as one of the world's largest consumer goods companies with deep bottling expertise, we believe will be a very very powerful combination.

By working together, Aboitiz and CCEP would therefore be able to unlock even more potential for the Philippines business.

And, similar to CCEP, Aboitiz has a clear long-term investment mindset with a large family ownership. So, all in all, a very complementary partner.

Of course, this is endorsed by The Coca-Cola Company, and we are tremendously excited to be potentially working with the Aboitiz family.

Now, before finishing with next steps, a few comments on governance and how we would work together with Aboitiz and this JV set up.

A strong governance framework would be put in place. The local Board would consist of five members, three appointed by CCEP, including the initial Chair. The two other directors would be appointed by Aboitiz.

CCEP would also appoint the CEO. The highly regarded General Manager, Gareth McGeown, would continue in role, supported by a strong local leadership team.

As expected, although both CCEP and the Aboitiz family are committed to this transaction and partnership for the long-term, an exit mechanism has been agreed in advance should the need arise and subject to a pre-defined initial lock up period.

The Philippines would naturally be incorporated into CCEP's existing API business unit led by Peter West. Peter recently stepped away from the running of the Australia business day to day, enabling him to spend more time across API

with particular focus on our Indonesia transformation, which would extend to integrating this new market on completion.

So finally to next steps. The proposed transaction is subject to the satisfactory completion of customary due diligence by both CCEP and Aboitiz, which is well underway, all parties concluding definitive agreements and the receipt of the requisite regulatory approvals.

Therefore, there is no certainty, at this stage, that the acquisition of CCBPI will be entered into or completed. So, as it stands, the potential transaction, if entered into, would be expected to close around the end of the year.

We will, of course, update you on our progress and provide more details in the course of the next few months.

I would now like to hand back to Damian for some closing remarks.

Damian Gammell

Thank you Nik.

We remain very focused on delivering a very successful rest of the year at CCEP. We have a lot to look forward to in the second half of the year and beyond, with some great activation plans and an exciting innovation pipeline, some of which you can see on this slide.

As we’ve talked about today, we had a strong firs half, driving an impressive raise to our full year guidance.

We’re really very excited about the proposed acquisition of the Philippines business. This transaction demonstrates our commitment to further diversification and underpins our mid-term objectives.

We are equally committed to driving shareholder value creation – not only would this proposed transaction be immediately accretive to earnings and therefore our absolute dividend but does not compromise our deleveraging path, given it will only have a modest impact.

To close, I would like to thank our customers, our brand partners, and our great people, whose hard work and commitment mean we are able to go further together for all our stakeholders.

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

Q&A

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

Q. Afternoon or evening, Damian, Nik, and Sarah. I've got one question on the transaction. It looks like revenue per case is about just under EUR 2.5 for the business, which has a relatively high market share and quite a decent proportion of Sparkling. Could you talk to headroom to grow revenue per case as you've done in your other regions through either our RGM toolkit or portfolio as you bring a bit more strategy and focus to that? And as part of the same question, could you perhaps clarify what the multiple you paid for this business looks at a high single-digit multiple, but I'd love to get some clarification around that.

Damian Gammell

A. Ed, maybe I'll just touch on the first part of your question, and thank you. Yes, obviously, we've got a number of experiences and toolkits across CCEP that we would like to bring to this transaction if it closes. And I think that would allow us to look at the revenue per case and their overall RGM strategy. So obviously, as we get to understand this business a bit more *and learn what is and what has been quite a successful business, we see the opportunity to share best practice and learnings, whether that's from Europe, Australia, New Zealand. And obviously, we see an opportunity to share learnings back in Indonesia. So that combination really excites us. And one of those outcomes would clearly be to see, can we use some of those revenue growth management tools in the Philippines to extract more value from what is, as you called out, pretty uniquely high Sparkling share and a pretty uniquely high NARTD share. So that certainly gives us a platform to explore it. So more to come on that once we get into the business a little bit later.*

Nik, do you want to comment on the transaction?

Nik Jhangiani

A. Yes, sure. So as you've seen, we're paying $1.8 billion on that 60-40 share would be roughly that EUR 1.1 billion. We've obviously disclosed the revenue as well as the PBT. PBT is pretty much a proxy, I would say, for operating income. So when you add back the depreciation impact to get to an EBITDA, you would come out to an approximately 10x multiple.

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

Q. Got it. And congrats on the transaction.

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

Q. Hi, everyone. So many questions. I guess the first thing would be -- a long list. Okay. So I guess a follow-up to Ed's, and then throw in an extra. So the follow-up on Ed's was just what can you tell us the profitability of this business before sort of inflationary times? I was just curious if the margin profile, while great that Philippines makes good money, if the margins were materially higher, let's go back 2 or 3 years ago before there was inflation. I'm assuming it's been pretty significant in the Philippines as well.

And then the second thing was is route to market. I know with Indonesia, one of the big long list of things but to unlock or figure out was route to *market in this very complex and tough to serve marketplace. So what could you tell us about what that looks like in the Philippines today?*

Damian Gammell

A. Yes. So Lauren, maybe I'll just take the second part of your question. Yes. So clearly, there's a lot of similarities in terms of both markets between the Philippines and Indonesia from a route-to-market perspective, a lot of outlets, small outlets, islands. So a high degree of logistics focus. I think clearly, when you look at the results of the Philippines business, they've clearly found a way to execute in the market and create value for the shareholder and that comes down to quite an efficient and, I would say, flexible route-to-market system that we're still learning about. So obviously, taking those learnings back to Indonesia is something that excites us. Clearly, the Philippines business benefits from a much higher per cap. I mean it's a business that should the transaction close, the Philippines will become our oldest market in CCEP, having been here well over 100 years. So that's quite an unusual dynamic.

So the category has got scale. It's got relevance and with that comes a lot of velocity and they've got a route to market that allows that to grow and make money. So while the category dynamics are slightly different in terms of per capita, the volume of outlets, the geography, the impact of islands, etc, very, very similar to what we're experiencing in Indonesia. So we're already taking back some learnings. And I think both countries could collaborate really strongly to build out, particularly on the systems and technology side, some solutions that would work well above market. So more to come on that. But clearly, as we look at this opportunity, it's something that we really felt could create value outside of the Philippines, but particularly in Indonesia. So more to come on that.

Nik, do you want to comment on the profitability and margins?

Nik Jhangiani

A. Yes. So Lauren, it's an interesting question because, I think, to your point, no single market has been immune to the inflationary pressures. But if you look over the last couple of years, both BIG and Gareth, who runs the operation who will be continuing to work with us, and we're really excited about that have been quite focused on being able to achieve pricing in the *market. And they've actually had 3 rounds of pricing in the last 2 years to try and protect some of that margin erosion as a result of the inflation.*

Interestingly enough, and I think this is where we have a strong local partner that can really help us continue to unlock some of the value when you think about some of the structural issues that we can talk more about once the transaction is closed, that will also give us more opportunities in terms of unlocking future margin opportunities as well as how we continue to look at pack evolution to help drive that margin opportunity as well. So I think we've gotten some initial view on that through Gareth and the team. And I think we're excited about the opportunities going forward on that margin evolution as well. So more to come.

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

Q. We've touched on the Philippines, congrats. I just wanted to talk maybe a bit about Indonesia and clearly quite a big impact from the SKU trim down there. Can you maybe just give us a sense of the reception on the ground from customers and maybe how the underlying portfolio, excluding that SKU trim, is performing? And then just what it means in terms of indirect revenue per case and margins going forward?

Damian Gammell

A. Thanks, Charlie. So no surprise in Indonesia. I mean, as we laid out our near-term strategy in that market, clearly, we felt that simplification of our portfolio would unlock value in the medium term, both for us and for our customers. So if you look at the categories that we've decided to exit or streamline, they are not as profitable as Sparkling for us or our customers. So while we haven't guided on the impact of that, clearly it's part of our plan to bring margin to CCEP, but also to our customers on a sustainable basis. So yes, there's a near-term impact. Obviously, you see that in the volume line, but that's as we expected.

It does unlock, I think, a lot more value in the medium term, both from an asset utilization for us in Indonesia, prioritizing our sales force, which is a very large sales force in Indonesia. Using the space that we get in our customers more efficiently for them and us. So as you can imagine, as I mentioned in the Philippines, a lot of small outlets, not a lot of space, so *you've got to be really choiceful about what you put into that space. And I think one of the learnings that we've seen in Indonesia that in some ways, we crowded that space with categories that didn't really create value. So we've executed that now. We'll cycle through that in 2023. And again, that will give us a cleaner platform for '24.*

So no specific guidance on margins, but all I can say is that what we prioritize is Sparkling and that is our highest margin category in Indonesia. So I think for us and our customers, it supports that mid-term value creation story.

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

Q. I have a question on your guidance this morning. You did raise and tighten your top line guidance, which is great, but implies a little bit more modest top line growth in the second half of mid-single digits. I mean you highlighted the expected moderation in net revenue per case. But could you talk about some of the other drivers and maybe what's factored into top line guidance in terms of elasticities and future pricing? And then your guidance also implies greater operating leverage in the second half, which you touched on, but maybe you wanted to better understand the visibility you have on this and maybe a little bit more colour on the drivers of that too.

Nik Jhangiani

A. Yes. Sure, Bonnie. So I think a couple of things to call out. So if you look at the top line, it's primarily being driven by, obviously, the moderation that you would expect because we're getting the benefit in our revenue per case from last year's price increases and everything that we've taken this year as well. And so that's effectively what is driving that. From a volume perspective, clearly, remember, we are also lapping through a very, very tough comp in the third quarter, if you remember last year. So we are mindful of that because July has been quite a wet month across most of Europe, as you probably have seen on the news, which is a bit of a change of what we saw in terms of the performance in May and June this year, which really helped us buck and manage through some of those comps from last year.

I think the other piece that we're cognizant of, obviously, is continuing to remain like I said, affordable and relevant and ensuring that we have the right level of promotional support as well to ensure that our products remain relevant to that consumer base. So I think that's on the top line. So we'll obviously provide you an update and a lot of it will play out based on how August and September, which are critically important months trend for Q3. And then obviously, December is an important month for us, as you know, as well.

On the cost side and the margin piece, that really comes back to the fact that we had always indicated that COGS per case was more weighted towards the first half. And as I said, if you look at the guidance for 8% COGS per unit case and the fact that it was up 9% in the first half, effectively, that's about 7%. So you're getting that type of leverage then coming through to support that OI growth and that margin expansion, as I alluded to as well. So all in all, we feel good in terms of where we are and feel that, that's still a very healthy level of top line and bottom line growth for the year.

Damian Gammell

A. And maybe just Bonnie to add to his comments. I think when we are experiencing above-average inflation on the revenue side that we see that across all of our markets. I think it's really important to focus on volume and transactions, because I think they -- in that type of environment demonstrate the strength of our consumer relationships. So as Nik called out, as we look at the second half of the year, we really want to continue to replicate what we achieved in the first, which is to deliver really good top line revenue growth with price-mix, but also with volume and transactions because I think as we continue to navigate the higher cost of living challenges, making sure that our consumers are still connecting with our brands is really important. And I think that's something that we've reflected in our second half guidance as well.

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

Q. So the Philippines business has been under various different owners over the past 10 years or so. Hoping you could give some perspective as to what CCEP and your new partner plans to do different from previous *owners, what you guys bring to the table that's a bit different and how you're approaching the strategy for the business that would be different?*

Damian Gammell

A. Yes, from our perspective, I think there's a couple of elements that we feel excited about. I mean, clearly, we're going to bring a lot of scale and best practice learning to the Philippines from both within the region with our API business and also from Europe. I think we've got clearly a long-term focus on this business with our shareholders. And clearly, we believe that the Philippines for us and our partner represents a fantastic long-term opportunity for CCEP. And I know our partners feel the same way. We do feel in this instance, having a local partner can unlock more value. And I think that is a different structure to what went previously.

And I also think the business is in a very different place now. I think under the leadership of Gareth and BIG, as you can see from the numbers we shared today, it's a growing business. It's a profitable business. It has momentum. And clearly, we believe by bringing it into the family of CCEP that we can accelerate that value creation. So I mean, a lot of different phases of the Philippine business, but it's a very, very established and old business. So it's managed all those really well. And we clearly believe by bringing it into CCEP now, it's a new chapter that gives certainty to the employees, certainty to our customers. And with the local partner, I think, adds an extra dynamic that we believe gives us more relevance within the Philippine market.

So that's a unique combination that hasn't existed before in the ownership structure. And obviously, we do that with the support of the Coca-Cola Company, which as you can appreciate, is a critical enabler as we look forward in the Philippines. So a number of elements. As we move forward in the proposed transaction and as we aim to close, clearly, that question is something we'd love to come back to with a bit more detail and granularity about how that looks for the next 2 or 3 years. But clearly, that will come probably early 2024.

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

Q. When you bought Amatil, it felt like the Indonesia business was a nice addition and you were really trying to apply your European toolkit to another developed market. But I guess this is a different proposition given that you're buying an EM geography. I guess given that this only delays your degearing by 1 year, I'm interested in the strategic direction you think you'll take going forward. So do you think there's a building a bigger EM presence is the most attractive route to creating value from here? Are you more interested in focusing on DM focused assets? Or is it really just dependent on what assets are available and what those assets bring in terms of value creation opportunities?

Damian Gammell

A. Mitch, so I mean, clearly, if you look at CCEP's value creation story, it will remain predominantly coming from the developed markets of Europe, and we've unlocked tremendous value very quickly from Australia and New Zealand. So I think that supports our cash flow. It supports our value creation story for our shareholders. Ultimately, it allows us to deleverage and then move, as you said, probably a little bit later than planned, but not too much later into returning even more cash to our shareholders. So that part of the story remains the biggest part of the story at CCEP.

As you pointed out, we were excited about the opportunity in Indonesia represented when we did the Amatil deal, 300 million consumers, young, a very underdeveloped market in terms of the category. So we do see continued upside there. What's unique about the Philippines is you may define the Philippines as an EM from an economic perspective, but from our category perspective, it's quite well developed. If you look at it per capita as we showed earlier, it's not obviously a mature business. It's a growing business, but it's got a very strong foundation. So when the opportunity arose to consider, it was always something we had on our radar.

When we acquired Indonesia, we felt there would be potentially one more step in this part of the world to allow us to build scale. And I think by combining the Philippines and Indonesia, we will have achieved that. I think we will have brought markets that have similarities. But as I mentioned *earlier, quite different category dynamics. And I'm confident that we can extract a lot of value from what the Philippines have done to build a Sparkling category and an efficient route to market back into Indonesia.*

But if you look at our numbers, our free cashflow and our profit generation, we will still be very much focused on our developed markets. So a little bit like our commentary Indonesia. I think it's a fantastic addition to our business if the deal closes, but ultimately, it will balance in a nice way what is a really great developed market and cash-generative business. And that obviously will remain our core focus.

Nik Jhangiani

A. Yes. And I would just add to that, if you did take that traditional approach of an EM versus DM even with adding in this market from a revenue perspective, if you looked at that at EM, and Damian rightfully said, it's actually very developed in terms of the category, but it's only 10% of our revenues in Indonesia and CCBI together. So there's still the majority of our business that's coming from the DM side in the classical sense, one. And two, I think you shouldn't underestimate the power of having a larger platform with 2 of the most populous countries in Southeast Asia with Indonesia and the Philippines in terms of how we can think about things from a perspective of synergies, from a digital perspective, from a digitization perspective, etc, and cross learning. So I think we're very excited about that opportunity. And to the point around leverage is really a minor tweak. So I wouldn't be over-indexing on that in any way.

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

Q. I don't know what time of the day, whatever. Good day, everyone. So just 2 kind of quick ones related to the Philippines. Nik, you -- I think what you inferred in answer to the earlier question was roughly $180 million of EBITDA. And I believe what Coca-Cola tends to disclose when they were exiting, I think EBITDA in 2017 is 178. So similar, I guess, today versus what it was in 2017. But just kind of interested because you did mention inflation just -- so what the path has been was, had the EBITDA and EBITDA margins improved and maybe we've taken a step back on inflation. So just kind of some perspective there?

And then the second, if just if I look across kind of where consensus estimates are for next year, I think some folks have put share repurchases in their models. And so just maybe some thoughts there in terms of how we should be thinking about that now given this transaction, should we be thinking about maybe pushing share repurchase out a little bit further in the future?

Nik Jhangiani

A. So let's take the second one first because just to be clear, we had never guided towards any kind of share repurchases outside of what people decided to put in their models. So I can't help you change their models. But if you're looking at it from an angle of what this does, as we had said, this would have taken us to the top end of our leverage by the end of this year. If you think about the size and scale of the 60% based on the $1.8 billion that we'd be paying in dollars, you're talking about EUR 1 billion, right? And that's significantly less than what we generate in free cash flow.

So really from a timing perspective, this is really a tweak, like I said. And again, we've always said we would continue to work towards that midpoint of our net debt-to-EBITDA ratio and accordingly then be able to consider absent other M&A, which obviously we don't see anything on the horizon today, but as we all know, that's opportunistic. Clearly, our commitment to being shareholder friendly and maintaining an efficient balance sheet is unchanged. So I think the modelling can work pretty well to be able to tell you when that might come in. So for argument's sake, that could be a 2025 event, absent some of the other areas that I talked about.

In terms of, obviously, the fact that you're looking at a 2017 number is a while away given the fact that we had COVID, and then you had a significant inflationary impact as well. I think the team has done a great job. But keep in mind, these are 2022 numbers that I have given you. 2022 clearly also had some issues that I referred to in the broader comment around some of the structural issues, which had an impact on both the top line and the bottom line, which clearly we would expect to start seeing improving in this year and the years going forward. So I think once the transaction closes, Brian, we'd be able to give you some more information as to how you might be able to model that. But clearly, keep in mind, there were some one-offs structurally that caused that number in 2022 to be what it is.

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

Q. Damian, Nik, just curious on the timing of this transaction. Why now when you're still busy integrating Amatil, was there some urgency from the Coca-Cola Company to get this done? Just love to get a bit more perspective there, please.

Damian Gammell

A. Sanjeet. No, not at all. I mean we felt it was the right time. I think if you look at the results that we've delivered 2 years into the Amatil transaction, I think we're even ahead of our expectations. And as you know, Nik and I always had very high expectations of the business, but clearly, we feel very comfortable with the leadership of Peter across API and the talent that we've acquired. So that gave us comfort to look for bigger opportunities in the region. So we felt this was the right time. Clearly, we've got to go through a process probably to the end of year to get it closed. So from a kind of implementation integration phase, you're looking probably 24. So that's 2.5 years after the Amatil transaction closed. So for us, we can be a bit impatient, Sanjeet. So we felt it's a good time, and we found a good partner. So we're very happy with the timing.

Nik Jhangiani

Q. And the balance sheet allowed it as well.

Damian Gammell

A. Yes.

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

Q. And just for perspective, when did you start working on the transaction? And was it always the plan on day 1 to incorporate a local partner?

Damian Gammell

A. Well, we've been looking, I suppose, probably predates Amatil. So as we looked at acquisition opportunities that we felt could create significant value for our shareholders, obviously, Amatil at the time came out as a priority. And obviously, we've demonstrated that was the right decision. We had also looked below that at the same time at other bottling assets that we felt were valuable and creating value. And through that process, we had identified the Philippines. And then pretty much over a period of time, we explore that with the Coca-Cola Company. And then obviously, through that process, we explored a local partner as being a good option to unlock some more of that value.

So yes, over a number of months, as you can appreciate, these things take time. I'm glad we got to the day that we could announce it, but clearly, we've got a bit more work to do to close it, and that's our priority at the moment.

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

Q. And just a quick follow-up for Nik. Can you just give us a bit of a sense of how commodity costs are shaping up for '24 for the portion that you've hedged to date?

Nik Jhangiani

A. Yes. I think the portion that we've hedged to date, obviously, remember, we don't look to try and beat the market. We're always trying to make sure that we're getting the certainty so that the business can plan appropriately. I would say to you, generally, we've obviously gone in when we've seen the right trigger points. But I said it's a combination of that and uncertainty. The most important piece that you need to keep in mind that still a little open is on sugar, and that's probably the element that we're working on right now for a couple of our markets. And again, we'll be able to provide you with some more colour on that as we go through the year. But clearly, you're seeing not the same levels of -- absent the sugar piece of what obviously we have seen in the last couple of years, particularly with gas and power, easing a lot, some of the recycled PET costs coming down, etc. But then again, it's a volatile market, right, in terms of how oil prices have reacted *over the last 10 days. So I feel good about where we're covered for now, and we'll provide you more updates in due course.*

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

Q. Great. And just to be clear, at this stage, you're seeing commodity costs inflationary, not deflationary, but to a lesser degree than in recent years, that's the message?

Nik Jhangiani

Exactly.

Nik Oliver – UBS, Managing Director, European Consumer Staples

Q. Just one on liquidity in Europe because I guess with most liquidity still on the U.S. line, there are a number of investors who would like to own CCEP but can't. Anything that you can share with us on broader approaches to getting more liquidity in Europe?

Nik Jhangiani

A. Well, listen, the only approach to getting more liquidity in Europe is actually doing an equity offering in Europe, which we are not currently planning or contemplating in any shape or form. So the potential unlocker there could be what might happen in the U.K. with the FCA's announcements and what the FTSE then might do, which is towards moving to a single segment. So getting away from what is the standard and premium listing segment to a one single segment. Clearly, if the FTSE maintained its current rules which obviously, we'll wait to see in the fall what they come out with once the finalization of the FCA's position, then that would mean that from a size perspective, we would become a FTSE 30 company. And like I said, if the rules do exist and we get fast tracked just based on our size, then we would immediately be a part of the FTSE index, which naturally would drive more liquidity, either pre, during or post. So back to an event that we will continue to monitor. And I'm sure all of you are monitoring it as well.

A. Yes. Well, yes, we are. But yes, I guess, in terms of timing, I guess, I think maybe autumn, I think, is when they're, is the next update.

Nik Jhangiani

A. Correct. Autumn is on the FCA would give that update because the consultation period should then have been through. And then the FTSE obviously, is working in the background, we are assuming, to be able to hopefully affirm its rules, which I said is that if both happened then hopefully, we would get included into the index just based on our size and our liquidity and then that would be tested at periodic intervals on how that liquidity then moves and how our trading liquidity happens on that exchange, which, in some ways, comes back to my point around that pre, during and post. But the more that happens, the more that supports us than remaining as a part of that index.

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

Q. Damian, I'm wondering if you could just give us a very short history lesson on the FEMSA situation. They had bought back. They had bought 51%, I think, of the business. They sold it back to Coca-Cola. I think if I recall right, there was labour issues, there was a sugar tax, some other issues. So maybe kind of give your sense of what happened, what went wrong in that go around, and where things stand on the labour or sugar, any of those sorts of factors that led to that outcome?

Damian Gammell

A. Robert, I mean it's quite a while since that period. And honestly, I don't have the history. I think you've probably just outlined it better than I could have. And I think to be fair, I think FEMSA are probably the best people to talk to around their learnings and experiences. I think I can look at the last 3 to 5 years because I think it's just a bit closer in time. I think some of the elements that disrupted the business like sugar tax, etc, is in the base now. Certainly, when I look at the business, and I speak to the team locally, there's been stronger top line growth, good value creation, profitable. So I suppose we're looking at it based on what we see today in the past couple of years and really going back to those days, I'm not sure will add a lot of value. But clearly, if you're curious, but I think you did a good summary. I'm *sure FEMSA will be able to answer that better than we will. All I can say is we're just really excited based on what we've seen and what we've looked at. And I think, again, it's a great soft drinks business, and that's unusual in this part of the world, I suppose that's what excites us.*

Nik, do you want to add any?

Nik Jhangiani

A. Yes, Robert. All I would add to Damian's comments is remember that the way the deal was constructed, it did have a put and call option, which obviously gave FEMSA that flexibility or that ability to sell that back or exercise that put. So we haven't taken that approach. We have a very long-term mindset as do our partners, the Aboitiz. We believe this is a very attractive business with an attractive growth profile, a very developed Sparkling category as we talked about, with high shares, high NARTD share and a great management team. And I think for us, we look at it more in terms of looking forward with a strong long-term mindsets.

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

Q. Great. And you referenced regulatory issues. Is there anything unusual on the regulatory side that we should be aware of or anything that gives you particular caution? Or is this just somewhere kind of normal procedural things that just take time?

Nik Jhangiani

A. Just to be clear, I didn't mention regulatory issues. I said regulatory clearance, which is...

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

Q. That's what I meant. Sorry, that's what I meant.

Nik Jhangiani

A. Yes. Absolutely. Which is just a normal process with any transaction, which we don't anticipate any issues, but obviously, you need to plan sort of timing of that post agreement. So yes, that's all it is, Robert.

Richard Withagen - Kepler Cheuvreux, Research Division - Research Analyst

Q. Yes. I want to get back to promotional effectiveness. I think Nik or Damian, one of you two mentioned that, as it helped to get to the 10% revenue per unit case growth. So what changes are you putting through and which tools help you to achieve the improvement in promotional effectiveness? And then maybe, Nik, if I can quickly squeeze in, what kind of cost of capital are you assuming for the Philippines transaction, please?

Damian Gammell

A. Thanks, Richard. So I suppose on the promotional effectiveness, it's been a multi-year journey. I think it started particularly in Europe. And then obviously, it's followed in Australia and New Zealand where so the first step was to broaden the number of SKUs and pack offerings that we presented to shoppers and consumers, and we've done that quite successfully. An example will be our mini cans or new small PET in some of our markets. Then we've overlaid that with some really good data and analytics tools that allow us to really go back and look at what has been the impact of any given promotion in our market. And then we measure that against clearly what did it mean for our customers' profitability? What did it mean for our profitability. And most importantly, what did it mean for the shopper. So did it add shoppers, did it grow frequency, is it grow penetration, the growth transaction size. And over many, many quarters, we build up a really solid database of what really works in what environment.

And as you can appreciate, in Europe, really in the back half of last year, we started to pivot some of our promotional effectiveness against some of those more affordable packs because we realize with the cost of living pressures, energy prices, etc, that a number of our shoppers are probably becoming more value conscious than they've been previously. So that allows us to kind of discuss with our customers pretty much against the same aligned objectives. They want to retain shopper loyalty. They want to *retain brands because that's where they generate higher margin, particularly cash margin. And then we look at the mechanics that will lock that. So it's quite a good process now, and it's something that has unlocked a lot of value in Australia and New Zealand, and it's something that we've built into our routines now. So it's not a one-off. It's part of the way we do business.*

The more we do, the richer the history of data gets, and that allows us to make even smarter decisions going forward. We are also embarking on a new SAP platform, and that will allow us to have a fully integrated system across all of our markets, which will include our proposed transaction in the Philippines, and that will even make it more seamless. So looking forward to that, that will take a bit of a while. But in the meantime, we're using the same tool everywhere. So that's exciting.

Nik, do you want to comment on cost of capital?

Nik Jhangiani

A. Yes. Richard, we've looked at a range of 9% to 9.5% of cost of capital for the transaction.

Carlos Alberto Laboy - HSBC, Research Division - MD, Global Head of Beverages Research, and Senior Analyst, Global Beverages

Q. Yes. Damian and Nik, will you -- do you think you'll be able to secure some form of an LTRM model in the Philippines for ensuring that you can comfortably exceed your cost of capital there looking out over the long term. And then sort of related, the backbone of the Philippine affordability strategy is refillables. Is it your intention to grow or to reduce refillables in the Philippines? And how do you view the role of refillables over the long term there?

Damian Gammell

A. Carlos, yes. So I mean I think we've been working on the LTRM with the Coke Company across all of our markets and the Philippines will be no different, and that model will allow us both to achieve our financial goals and our growth goals. So I think we've done that quite well in Europe. And in the old Amatil territories, we will do the same in the Philippines. So we're *already having those conversations. So I feel good about that.*

I think refillable is one of the strengths of the Filipino business when we look at it, both in terms of driving affordability and relevance. So we see that as a key part of our future. Clearly, we'll look at how do we extract value from that pack and from the supply chain. As we look at our investments going forward, clearly, it's an area that we'd look to see if we can optimize. As you know, we've got a big refillables business in Europe, both in glass and in PET. So when you combine the Philippines, we're a sizable bottler in terms of using refillable packaging. So we're working with the company [TCCC] on some new initiatives around universal bottles, flow harmonization. So that will allow us to maintain that affordability, which we know is critical, particularly in markets like Indonesia and the Philippines, but also unlock value. And I think that's critical.

So yes, very excited about it. It's about 50% of the Sparkling business. It's growing. We expect it to grow in the future, and it's something that we see as a core part of our proposition, not just in the Philippines, but we use it across all of our markets where it makes sense. And I think that will continue Carlos.

Damian Gammell

A. Thank you, operator. And again, I just want to say a big thank you to everybody for joining us today. As you can appreciate, it's been a long and exciting day for all of the team here in Manila. And I just wanted to kind of end with a few closing remarks.

I think most importantly, I'm extremely pleased with our strong first half performance and our ability today to raise our guidance. I mean that performance, whether you look at the top line, the volume growth, the free cash flow generation has allowed us to take the next step in our journey, which is obviously we're very excited today to announce the proposed transaction of the Philippines bottling business with our local partner. And I think that's something that sends a new era for a business in this part of the world and also supports our Indonesian business going forward.

And then finally, as you'd expect from CCEP, we remain fully committed to shareholder value creation. We see the proposed transaction to be accretive to earnings. It has a very modest impact on our leverage. And *again, I think, demonstrates the strong free cash flow this business allows us to make the right choices for all our shareholders and our customers as we continue to look forward to a growing business at CCEP.*

So thank you again, and look forward to speaking to you all soon. Have a great rest of the day.

End