Coca-Cola Europacific Partners PLC (CCEP)
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<<Edward Mundy, Analyst, Jefferies>>

Good morning, good afternoon, everyone. My name is Edward Mundy. I'm the beverages analyst here at Jefferies. A very, very warm welcome to the Key Drivers Conference that we're having at Jefferies and even warmer welcome to Peter West, who's the General Manager of API for CCEP, that's the Australia, Pacific and Indonesia Business Unit.

<<Peter West, General Manager, Australia, Pacific and Indonesia Business Unit>>

Hi Ed and hello to everyone as well.

<<Edward Mundy, Analyst, Jefferies>>

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So without further ado, Peter, again, very, very warm welcome to you. Thank you for joining us. I really appreciate you making the time all the way from Australia. So by way of background for those who are not as familiar, the API business unit is about 20% of CCEP. They joined the CCEP group in May 2021. And I think the business is going from strength to strength. So, I'd love to get a bit more of an introduction to the region of API as a growth region to CCEP. And what in your mind makes you excited about this region, Peter?

<<Peter West, General Manager, Australia, Pacific and Indonesia Business Unit>>

Yeah, hi, Ed. And just as a quick introduction to everybody. I've been with CCA for three years before our acquisition and then the two years since. So I have a very good perspective on the sort of before and after of the change. I'm 35 years in the industry. I had 20 years with Mars, and I'd say at the heart of my training was that across pet food and confectionary. The last role I had with Mars, I was running their chocolate business in Continental Europe based out of Belgium. And I also had a global marketing responsibility. I worked for a biscuit company for six years in Arnott's, which is a leader here in Australia. And I had four years in dairy, which made me deeply appreciate cost management and cost productivity because of the low margin structure.

So I'd say, Ed is I'm incredibly enthusiastic about the API region. And it probably starts with CCEP's ownership. It's the fundamentals of the Australia, New Zealand business, and then it's the potential that exists in Indonesia. And if I just sort of expand on those points, I'd say for CCEP ownership, having different owners in my career. I have a perspective of what makes a great owner, and it's more than just financial muscle. I think the key thing to me of a great owner is somebody who brings expertise. And when you're operating in categories that have 5% to 6% growth.

Having somebody that can assist you, bring learnings but also been in my mind, be open to learning. And I think that makes CCEP incredibly strong. So the way I describe it to my team is if you want to get fit, you might join a gym. You might train with others, but if you train with a personal trainer with others you're definitely going to get fitter. And that's what it's been like for us coming in, because now we're part of a very sophisticated system with lots of knowledge and there are two way learnings, but there's no doubt we feel we're a fitter organization. In talking about the Australian, New Zealand business, I might sound like our local government in terms of the positivity that I have.

And it starts by the fact that we have strong population growth, and it is powered by immigration. But if you take the numbers here in Australia, a third of our households weren't born in Australia. And if you go to, it's like at least one of the parents like one – nearly 50% are born overseas. And I think that brings a work ethic of people who are immigrants, who are really out to prove themselves to seek a better life for themselves and their family. And there is a real sort of can-do attitude that goes with an environment where there's a fantastic climate.

I think if you want to be a growth business, you've got to be in a growth category. Beverages is a wonderful category because of its open nature and, the sort of fundamentals of the category on growth are good. And then the good news for us is that our core categories are driving that growth. So Cola flavors, the sports category, the energy category, sparkling water, they're the sort of key drivers of the growth. And then our market share positions both in Australia and New Zealand are incredibly strong. And our away from home positions are incredibly powerful.

So I think that sort of sets the business up well. And then Indonesia just represents great long-term potential. And when you look at the predicted GDP growth of Indonesia, the population, the mix in the younger population and I believe the clarity of the strategy that we're executing under CCEP ownership gives me a lot of confidence about the future.

<<Edward Mundy, Analyst, Jefferies>>

Thanks, Peter. We'll dig into some of the markets in a moment, but I guess, from an integration standpoint, could you talk to some of the key milestones so far as the business has become part of CCEP?

<<Peter West, General Manager, Australia, Pacific and Indonesia Business Unit>>

So, Ed, when my friends say to me, how's integration going? And I'm like, brilliantly. And that's because nothing beats performance. And if you are performing well and we did have a successful 2021, a strong 2022, and we've kicked off well in 2023 and feel we've got a strong program. What that allows you to do is to plan for the future. And you can be future orientated in your program. So performance helps, when you're in shortfall, you're doing gap recovery, when you're behind, you tend to do more explaining and you have to spend more time to take your stakeholders on that journey. So the performance has allowed us to sort of be future focused on where the value is. I think that when you sort of pair it back, we did a really good job at day one integration.

And I think one of the areas that I sort of salute to the organizational model is how to get the balance between local market accountability and then the scale and expertise. And I've probably been in organizations that are various levels on that continuum, but I think that CCEP really nails that combination. What it did on day one is that we got the structure right from the start that really leveraged functional expertise with the accountability of the local P&L. So that was incredibly strong.

I think we're very clear on the requirements on sort of day one reporting and governance. And what we then did is established a value realization committee. And the value realization committee really went to some of the observations that were in the business case of CCEP and we fully embraced those opportunities. So when we read the opportunities that we weren't sort of sitting there going, no, that's not it, but they'll learn. We were going, no, we agree with that.

Some of it were on a journey and some of it we're still learning, but we would certainly embrace that. So we grabbed the value realization committee which was made up of members of the executive leadership team, and we then went to all the key tasks that had to be nailed to make the integration work. And the sort of headline of that was for Australia and New Zealand, it was faster because of the core competence in Europe and the likeness of the market. And for Indonesia, it was further, and that's – that we had to set the foundation to set the business up. It has operated for a long time and it's underperformed.

It's not going to be the magic of a click, but we had to therefore set the foundation. And it was very refreshing to have that sort of set it up for the long-term for me personally. So for the Australian program, under sort of faster flavors was our key issue. Within six weeks of the deal being done and us being a part of CCEP, we did a sprint on flavors. We'd identified that it had underperformed, but we then started to utilize a lot of the expertise and success that had happened in Europe and to replicate to bring some innovation to market.

And there was an important strategic reason against our key competitor, which is they're able to generate some of their display in Cola or off the back of flavors. And we needed more success there because it was actually going to be an enabler of our Cola success.

So we did that work straight away. And we implemented it last year and we're starting to really see the benefits of that. So what the value realization committee also allowed us to do was to get focus so the decision to exit our beer business, the decision to sell the Amatil brands, some of those would've been quite difficult as an Australian listed business because it would've been seen to be giving away sort of growth platforms.

But in reality was the profit contribution was incredibly low. And even if you are widely successful in those categories, you unlock it to get scale and allowed us to get absolute focus when it came to our role and the role of the coke company and then going to our customers with a coherent plan.

I think the thing that I was surprised the most by, in that integration with CCEP was when we presented something that was good, like to be told it was better than Europe surprised us. Because in multinationals, you can get a lot of stuff sort of rammed to the market, but if there was something that was better, we would be told, hey, that's better than we do it and we need to take it. So that learning agility of the organization, I think that goes to the heart of the leadership of the organization.

I thought that was incredibly powerful. And then for Indonesia, it was actually to make sure that we took our time and if it was just under Amatil, I'm not sure we would've had the patience of that, which is how do we get it right for the long-term and making sure that we fully understand the moves. And it's also been a series of sequenced moves, so very happy with how integration's gone, and I think it's the benefit of having a like Butler with lots of expertise who's bringing that expertise to more markets.

<<Edward Mundy, Analyst, Jefferies>>

Thanks Peter. I guess, if we were to double click on Australia, which is the big chunk of the business, and it's the part that there are some small learnings to be applied from CCEP in terms of how they've created a huge amount of value within Western Europe. How important has it been to have a much clearer category vision? When you go to the customers and you talked a little bit about what you've been doing with flavors, what you've been doing with beer, where are we on that journey and sort of what are the early sort of success stories you are seeing as you've redefined the portfolio?

<<Peter West, General Manager, Australia, Pacific and Indonesia Business Unit>>

Ed, one of the things I was intrigued by just following CCEP, when it was European partners was the turnaround in Western Europe. And I was sort of intrigued that before it was formed, there'd been some volume decline and not much rate, and then all of a sudden volume improved and got – and rate growth. And so I was intrigued about, well, what was that secret sauce? And what were the drivers? And I think there were three key things were my learning of CCEP. I think the first area is how to be the number one value creator.

And that gets benchmarked in two ways, is that you're looking at NARTD specifically, and then you are stepping back and saying, of the large suppliers to this customer, and especially in grocery, but also for our liquor business, what's the level of growth that we would need to generate to play a strategic role with that customer, or the most important role.

And if you're setting a vision to be the number one value creator, therefore the most important for your key customers, what's the level of growth? And in my mind that sets a growth ambition. And I think what we sort of lacked is a bit of that external orientation about what success looks like. And I think that's been a key driver of the success in Europe. So we've tried to embrace in that in that ambition, but there's also a benefit when you go back and tell your customers about it. So in one of the documents that was sent to me by one of our leading customers, we've got a 37 share, we are a 47 share of the growth that we've had in NARTD on a MAT basis, and we're also their largest value driver of all the package goods supplies that they have.

So it just reminds the customers of the importance of your role. So I think that was foundation number one in my learning. Foundation number two, which I think has been very strong is a lot of focus on what the headroom for growth is. And it looks at it by category and it looks at it by customer, and you're starting to set more of a vision of where you're going to be shaping the growth. And that's why the focus on the core portfolio and the category matters so much because it's so big and it's doing so well. And I think that's rejuvenated our focus on the core.

And then the third enabler is understanding profit pools. And I would say we understood our own quite well, but to understand which subcategories generate the most profit, because they're not all created equal. And you can look at some things as being incredibly attractive, but there's no return. And it also goes a little bit to margin structure. And I think in package goods, the old adage of, being number one is wonderful, two is terrific, three is threatened, four is futile, plays out when you look at the profit pools. And those things then provide an absolute powerful guidance to where you're going to focus, where you can make the biggest difference. And ultimately then it changes the growth profile with your customers and you can go to the customers with a coherent view of how you're going to grow the category.

And we also took inspiration from the GB market we're much better at how they presented their sort of category growth than what we were doing. So that's my interpretation of why I believe CCEP in Europe was successful. And I think that's the inspiration that we've taken away in API.

<<Edward Mundy, Analyst, Jefferies>>

And as you've elevated that relationship with your retailer customers, can you talk about some of the improvements to your business in terms of the commercial strategy? One of the things that we've heard quite a lot about is how the depth of promos has started to come down a little bit. I mean, how was it for many, many years in Australia? Where is it today and what type of volume elasticities have you seen off the back of that, if any?

<<Peter West, General Manager, Australia, Pacific and Indonesia Business Unit>>

Yeah, I think, look, one of the key areas in the business assessment of Amatil by CCEP at the time was the level and depth of price promotion. And when we looked at that opportunity, we did try and maneuver our way, and it was some degree of unsuccessful and – we were unsuccessful doing it in 2019. But the benefit, when there's multiple markets, what you learn is that it takes time to readjust those price points and the benefit when you're not – two-thirds of the company's profit, you can actually find your way within a quarter to adjust some of those price moves.

When you've got other markets to learn from, you also have the courage to be able to do it. And I think the key thing that we've probably learned is not just how it adjusts back and the volumes do recover, but we have learned that we've been able to give other packs in our range oxygen to survive that or oxygen to flourish that didn't. And the big growth that we've had, it has been in small packs.

So what that looks like is a six pack mini can. It's a 10 pack of our regular 375, and it's a 12 pack of one PET 300 mL. And if we look at the volume versus 2019, that range, we would expect by the end of the year that small pack range is probably going to be up something like 90% in volume. And that small pack range and energy have been really the key drivers of our growth.

So having some of that learnings from overseas, having some of that courage. And then what we've really identified is the growth in small packs and therefore the growth in transactions that we've enjoyed off the back of it. I think as we've had visitors here, one of the things that our visitors would look at is how strong we are in front of store, how strong we are in coolers, the number of coolers that we have what it represents of sales and profit for us in our customers. And that's probably been the key takeaway as we've had various visitors here to the market.

<<Edward Mundy, Analyst, Jefferies>>

And in terms of the consumers adapting to the smaller packs, has there been any I mean, how would you sort of characterize their reaction to that? Have they adopted it pretty well? Or has there been a little bit of pushback?

<<Peter West, General Manager, Australia, Pacific and Indonesia Business Unit>>

It's a reminder to me, Ed, of just it's a super impulse category, and if you can get the pack hierarchy executed in store, the impact it makes, I mean, like, I've worked in impulse categories. There's nothing like this because the penetration of the category is so high. And that's probably why fundamentally, I believe impulse categories are – SKU management becomes critical. Because if you can get those emerging packs, those ones of high appeal, make them visible, make them available, have them in the right display. And I think our growth's been so high, we just don't know what the full potential, because every time we do stuff, we're sort of chasing the capacity and the forecast because of the level of growth. So, we're still trying to find the full potential of that range.

<<Edward Mundy, Analyst, Jefferies>>

And as part of the portfolio keynote, there were a number of disposals but both in the non-core portfolio to The Coca-Cola Company as well as exit beer, cider and dairy. Is that process done now? And how do you think about the benefits of that both vis-à-vis your customers and then also, as you manage your troops in terms of, having fewer things to do and then doing them with more focus?

<<Peter West, General Manager, Australia, Pacific and Indonesia Business Unit>>

Yeah, probably it's my earlier point is that beverages is a super impulse category and therefore SKU management is so fundamental because of the impulse nature. And so for us, we try and drive the business through our high SKUs that represent 80% of our revenue, that's about 80 odd SKUs and making them really strong and visible. And then in our tail management, we try to be very clear on the role and we want to have sort of rewarded complexity. And what rewarded complexity looks like for us is that it provides incremental revenue but it has a margin structure that would support the small nature and that we do see it having growth potential into the future.

So we recognize that not everything's going to be a blockbuster overnight. Within our existing portfolio, we look at the growth levels that happen on a one year and a three year. And if those combination of factors are okay, then we sort of feel like we feel that we can really focus on getting the core portfolio right. There has been a real benefit to how it's unlocked efficiency and more capacity for our business. And there were some areas where we probably had duplication where we weren't being rewarded. So the example I would give you is in our 375 mL can range, we had a pack range that we sold in the home channel, and we had a pack range that we sold in away from home. And it was on this basis that you could manage channel pricing. The reality is we just weren't managing channel pricing, and if we get channel pricing right, we just need one range.

And for us, that was eliminating the duplication that we had a tray and shrink range. We went to just the home channel range and we could do it because we had price under control. But what it meant was that the packer that does that line is much quicker, and therefore we were slowing the line down to do the range, the tray and shrink and unlock two million cases of extra capacity that comes for free. Likewise, if you go to bulk water, there could be a role for that in the grocery channel, there can be some overhead recovery, but when you start getting the growth in the 300 mL PET CSD, then you go from having something that's fundamentally overhead recovery and small margin to something that gives you more like your standard CSD margin.

So the simplification of the business is, I would say is a growth strategy. And it's also then an efficiency of what it unlocks for the business. The benefit by exiting beer and cider as an example is a benefit of focus. And so we had a one and a half share of the beer market, if we did wild – if we were wildly successful because of the way that's structured with taps to from on-premise to off, we might get a three share. If we were really good, we might have got $7 million to $10 million of profit, just wasn't worth the focus, Ed.

And instead, we can focus on a category like RTDs where we make it in our factory. We do it through the same can supplier gets delivered on the same truck close to our core competency. If you go 18 months ago, there was a seven share point difference in RTD between us as the number two and Diageo is the market leader in the MIT, we've just passed them as the market leader for RTD with our Beam Suntory partnership. So we're the sales team, we're spending a lot of time on beer and the complexity of beer that's just focused where we have a right to win. And we're seeing the benefits of that focus.

<<Edward Mundy, Analyst, Jefferies>>

And one thing we've not talked about for Australia's also coffee, coffee and alcohol are relatively sizable part of your business. They're certainly relative to CCEP's European business. You just mentioned that how – you're doing well in alcohol with RTDs and the momentum you're seeing in that business. But could you perhaps talk a little bit about coffee sort of what's the role of coffee? Again, it's something that's relatively early on in CCEP's western European journey, how's it developed in Australia and I guess what are the learnings for Western Europe there?

<<Peter West, General Manager, Australia, Pacific and Indonesia Business Unit>>

Yeah, so how I like to think whether I integrate the business or run it slightly separately is an evaluation. And I start from, do we buy the raw materials in the same spot? Do we make it in the same factory? Do we sell it to the same customer? And in the customer I go a double click, which is, do we deal with the same buyer? And then when you look at the sort of usage occasion is it the same sort of usage? So there are benefits for coffee for a raft of our QSR customers, but what we try to do is manage it as a standalone business that leverages where it makes sense for the core soft drinks business. At the heart of making that strategy work, work is that we're a commercial roaster and scale matters, and getting scale in roasting is really important.

So that's why we have a very strong focus in our grocery business with the Grinders brand. And it's done incredibly well over the last five years. And that provides scale to our roasting. And then we're able to leverage the delivery system that goes with soft drinks in that we deliver to 94% of postcodes here in Australia on a fortnightly or less. And what we then are able to do is have the power of that distribution system. And then the second thing we leverage from soft drinks is the power of the national customers. And so our strength as Grinders is that we are not going to be the boutique brand that's at your local artisan coffee shop. We're going to be the supply for people who want a national roasting solution. So if you go to Hungry Jacks, which is the – in the Burger King, we supply the coffee for them, they're a great partner. Ampol is another example of a great partner in the petrol and convenience channel that we supply.

So we really try to then leverage the scale customers that really matter. And then what I would say about the coffee business, if you're in coffee is, the cost of those machines are so excessive. You've got to put it into velocity outlets. And so you don't want this mass distribution that you might have in soft drinks. You go for meaningful distribution and you go for the outlets where there's enough velocity. So we know what an average coffee shop looks like, we know what the super coffee shops look like, and then we go for the ones that we think we have a right to win. So some of the examples from the soft drinks would be bakeries, they sell a lot of soft drinks, they sell a lot of coffee. That's a real sweet spot as an example of the type of customer that we focus on.

<<Edward Mundy, Analyst, Jefferies>>

So just to sum up on Australia, which is the big part of the business, integration's going well, there's a good underlying growth dynamic in the market that seems to bounce even further post-COVID, the commercial strategy is really kicking on and I think the future's looking quite bright. Is there anything you'd add to that, Peter, before we move on to some of the other markets?

<<Peter West, General Manager, Australia, Pacific and Indonesia Business Unit>>

We're really happy with the progress that we've made. There's always more to be done. So each visit I will have from Damian and Nik, there's never a shortage of opportunities for improvement. And there's still more that we are leveraging because we're still only early days into our CCEP journey and there's still more scale and more scale benefits, that we're tapping into.

<<Edward Mundy, Analyst, Jefferies>>

Good. So if we move over to New Zealand, which I think is, it's a well-known secret, this is probably one of the best run businesses within the Coke bottling network. Could you just sort of provide a bit of background to those are not that familiar with, why is this such a good business? What is it that makes it so special?

<<Peter West, General Manager, Australia, Pacific and Indonesia Business Unit>>

Yeah, so I see that we are benefactors of years of good decision making in New Zealand. That's had a compound effect and that goes to the accolade of Chris Litchfield who runs the business and his leadership team. I think there was an important inflection point where the challenge in Australia and New Zealand at the time was very similar, and the Australian business went left and New Zealand went right, and the decisions that New Zealand made fundamentally were right. And Australia suffered the consequences of perhaps some of the decisions.

At the heart of that winning strategy was making sure the channel mix and the customer mix was right. And the growth philosophy of the New Zealand business was to make small stores bigger in terms of sales and large stores to grow smarter and really to get that combination between large stores and small stores. And then on my first visit to New Zealand, what I really gained a deep appreciation is not being as fixated just about what's the cost of doing something or the cost of a rep. But really what's the cost to serve that enables a profit to serve. And sometimes large companies don't have surprisingly the level of grip that you'd expect on cost because sometimes costs just get allocated or they get allocated generally and do you really know to the detail.

And I think it's probably that Chris did an accounting degree as a background as we don't probably have that mix. And I think he bought that power. And we really embraced that in the Australian business that ultimately by having an understanding of cost to serve that leads to profit to serve. So some of the decisions that people might make about cost of – do I send a rep in or do whatever. Relationships are still important in small stores. We're partners that help drive their profitability. And so therefore, some of the things that we do in New Zealand have demonstrated the power of that investment. So I would say that has leveraged a growth mindset. And then what New Zealand does the best I would say in the Coca-Cola system is Right Execution Daily and their fixation on RED as a growth platform. They set very high pictures of success standards of what execution should look like.

And we certainly, as we took the Board there, and there's a lot of pride from Spain. There was obviously a little bit of banter about would it live up to the expectation. And I think for the Spanish Board of Directors, they looked in and said, wow, this is perhaps one of the best market business they've ever been on, and it's because of the Right Execution Daily. So they use that to drive their growth, but they also use it to assess the lost opportunity. And as they then would understand the differences in executional standards, they know that it drives revenue. So they're the things that the New Zealand business are best at. And I know for our GB team who spent time with us in Australia and New Zealand. They would've taken some of those key takeaways of what they learned from Australia and what they learned from New Zealand.

<<Edward Mundy, Analyst, Jefferies>>

So obviously, the RED focus, the sparkling focus is very, very important. But from an execution standpoint, what is – what exactly is Right Execution Daily? What are the things that the team in New Zealand are doing that other others would seek to emulate?

<<Peter West, General Manager, Australia, Pacific and Indonesia Business Unit>>

Well, I'll tell you what we've stolen in Australia and applied from New Zealand, and that is that there is a way to assess Right Execution Daily on points that you have different channels and different customers. You have different levers of performance and you set different points against, but every store gets a point. There's not too much perfection that's in the market because they hold to a high standard and they understand the levers that will drive performance. So when you look at an impulse category, facings matter, branding matters, point of sale matters, how your blockbusters appear on what shelf matter. So the fundamentals of execution and what's amazing about that business is that you can do a store walk in most countries and you'll come across, yeah, that's not our store, that we don't look as good here. Like, you always find – it's hard to find that in New Zealand like you could be there for a week and you might find a couple, but it's just the consistent of store after store that looks the same. And that's been done through consistency.

<<Edward Mundy, Analyst, Jefferies>>

It's no secret that Australians and Kiwis and many of the European markets are very, very competitive. You said we see that in the sport. What are the main things that you think they've taken away as they've come from market visits to New Zealand? One of the things they've pinched as they've gone back to. I mean, you mentioned it a little bit in Australia, but what are the things Europeans are looking to pinch?

<<Peter West, General Manager, Australia, Pacific and Indonesia Business Unit>>

Yeah, look, I would applaud CCEP is a learning organization. And I think one of the areas of strength that we certainly have is in data and analytics, because we have a direct store delivery business in both Australia and New Zealand. And we've also invested in analytics that we really understand the sort of store level performance. So from an Australia perspective, we would see on our NARTD store level performance to about 88% of our business. And when you take the same customer, none of their stores stay at the average. They have, well, they have some stores at the average, but they have a lot above and a lot below. And soon as you double click and then say, well, what's different? You'll find things like cold drink operates differently within their network.

It will be drink incident conversion is different across their network. How key selling weeks work and what pack sell is different. And soon as you stop moving from the average to form some meaningful clusters of performance, then you can really drive because of the super impulse nature of the business. So I look across our customer base, and I would've said for years, I would've assessed on who's going to win. I'd say, well, fundamentally, what's their leadership like? What's their supply chain? What's their store network? But the fourth one now for me is how they're using data? And I think it's our ability to partner meaningfully with customers. And I think where we're unique is we get to see all the channels. And because we get to see all the channels, we get to see the movements, movements by geography, movements by behavior, a new outlet opens in a food court. We get to see where the volume moved and how quickly and how it's bounces back.

So I think our level of information, and the big future for me within that is precision execution. And once you've got that data, then the way you can adjust it at an execution, I think in an impulse category really matters. And I think it'll lead to differences on how we partner with our brand partners on innovation. So where do we need brands of maximum distribution versus meaningful? Where do you start and how do you build it over time? Because it is a category that does require some time and patience to make innovation work. So I think the power that's going to come in data and analytics, and I think it advantages the market leader because we get to see a cross-section of customers and channels.

<<Edward Mundy, Analyst, Jefferies>>

Peter, let's move over to Indonesia. Country with young growing population, very big population. And it's a bit of an outlier within the soft drinks world. Can you provide a bit of background into sort of what is the opportunity in Indonesia? Why are per capita consumption so low? And sort of what's the strategy to try and get people to drink more sparkling?

<<Peter West, General Manager, Australia, Pacific and Indonesia Business Unit>>

Yeah. So the way I think of the category in Indonesia is I think about water as sort of one category, because so much of it is about access to clean drinking water as a key driver. And then I look at more value-added beverages. And against that sort of value added, we probably hold more like a 20 share. And then if I sort of was looking at my expectation, what would happen in the category of the value-added beverages is as GDP improves, disposable income improves, and people move from subsistence living, then they look for things that are better tasting some areas of enjoyment. And so therefore, I would say the profile of the continued growth of the economy will allow value-added beverages to be more meaningful relative to water, which is still about access to clean, safe drinking water.

And then I'd say where our business historically is that we haven't been consistent. And if you sort of then look at the dynamics of what it takes to win with the customer base, with competitors, we probably, and I'd say as CCEP have come in, we haven't been clear on the prioritization. And I sort of have a philosophy that if you don't have prioritization, you actually don't have a strategy because you're not standing in store in an impulse category, really seeing where you can win. And I think over the years, we've been focused on sparkling out, tried to take on competitors but we've lacked that consistency. So I think, the fundamentals that will happen with growth in the economy, I feel good about. But we have to be very consistent as we move forward.

<<Edward Mundy, Analyst, Jefferies>>

I think capita consumption at the moment of non-alcoholic ready-to-drink is around about the three liter level. I think that's what you disclosed last year at the CMD. Asia is around nine. We see a lot of other emerging markets that maybe not even as wealthy as Indonesia, having higher per cap. So there's just an enormous opportunity in Indonesia. I mean, why do you think per cap just haven't developed in that market?

<<Peter West, General Manager, Australia, Pacific and Indonesia Business Unit>>

Yeah. Well, I would say, in the work that we had completed is if you stand back and say, 75% to 80% of food and beverage gets sold in general trade stores. And then if you just said, well, how many SKUs do those stores actually sell? And on average there'd be something like eight to ten. Now some of the more gold customers might have two fridges within that outlet. But they have a limited number of SKUs. And then if you look at the competitors that have done well, whether that's in water or tea how many SKUs are they trying to execute? And the answer is three to five. And because it is an impulse category, you have to make your blockbusters visible and available, facings do matter.

And we just haven't had that level of absolute focus on getting it right. I always sort of have a perspective, can I stand in a store? Can I stand in front of a fridge and can I get your prioritization? And the way ours looked was like a rainbow. We had a bit of everything and we'd celebrate that we did. But if you then looked at velocity and said what was right for the store and what was going to really drive, then we needed to get the portfolio under control. So I do think that's fundamental. So I do think the executional elements have been fundamental to performance. There's undoubtedly an opportunity with us and the coke company about how do we really drive sparkling per capita rates. And that's the opportunity that's really at hand.

<<Edward Mundy, Analyst, Jefferies>>

So if we think about the portfolio that maybe a couple of years ago, I mean, you mentioned it was a sort of rainbow style portfolio. I think you started to address the portfolio with SKU rationalization towards the back end of 2022. How is the portfolio look today relative to let's say a couple years in terms of that focus?

<<Peter West, General Manager, Australia, Pacific and Indonesia Business Unit>>

It's a dramatic difference. So we've gone from over a 100 to 140. There would only be, there'd be few places that would've 40, it's more the portfolio that is for some different QSR customers, some different licensed customers. I think one of the best examples that I could provide is the – way that the market works is that with your official distributors, you target a raft of what would be industry gold and silver customers. And then you have sub wholesalers or wholesalers who buy from distributors who help you get the breadth and the reach. So for us, if we looked at our 400,000 customers that we were supplying directly. 25% of them were only buying cup water and cup tea. And they weren't buying anything else in our portfolio.

And so what that demonstrated is that we probably didn't have some of the industry gold and silver customers that we thought we did from a velocity. And we've certainly been proving that in test markets that we've been doing. And what it also indicated was for our sales team is that they were happy that they got ranging. But the issue that had was cup water and cup tea wouldn't make money. Now if you sell parts of your portfolio that did, you might say the customer made money, but to have 25% of your direct customers not with sparkling, just shows how much opportunity was at hand.

So I have this view. If you want to set up a good person to do a good job, then you've got to simplify what they do. And then you've got to provide the training and the training when people, it's been easier to sell cup water and cup tea. A bit harder to sell some of the other parts of the portfolio. You've got to be able to focus the portfolio to allow that to happen. The benefit that we get of that simplification does flow through to supply chain. So, if we look at, we've converted one of our water lines to therefore making PET carbonated soft drinks. And then you start to get some efficiencies of your capital investment into the future, as well as some of the footprint that we'd hold in our factories.

<<Edward Mundy, Analyst, Jefferies>>

And in terms of the categories that you were selling that's now been sort of narrowed down, can you just remind us sort of what is it that you're not focusing on and how have the customers taken to that?

<<Peter West, General Manager, Australia, Pacific and Indonesia Business Unit>>

So there was parts of sparkling that we've rationalized. But we've sort of got the business back to saying, we're fundamentally a sparkling business. The tea we've got very strong local competitors. You've got to be able to continue to participate to learn, because it's such a large part of it. And we've kept a very narrow range in orange juice. And by that I'm saying three SKUs in a very narrow range in dairy. I think the surprise for us is actually dairy has performed quite well. And the dairy categories actually performed quite well.

So by keeping that participation, we continue to learn. But what that has meant is that categories like sports that we are in are the water category that we are in, cup water, cup tea all of these areas that didn't have a margin structure, didn't have a right to win, made the business more complex than it needed to be and got in the way of execution that we are faced into. So it's been a significant change for the team. I think in my career, Ed, I've always had – you don't understand because we also, this doesn't make money, but its role is and I sort of never buy the logic that you've got some things that sell and you have to surround it by things that don't sell. So I think it really helps the organization in its focus.

<<Edward Mundy, Analyst, Jefferies>>

Could you talk a little bit about the seasonalization of sellers of soft drinks within Indonesia, I mean, Ramadan I think is quite a big occasion. Sort of how skewed is the business towards that? And how do you go around creating more occasions as part of the opportunity to increase per capita consumption and incidents of carbonated soft drinks.

<<Peter West, General Manager, Australia, Pacific and Indonesia Business Unit>>

I think the first one is, I'm very excited that people like our portfolio in Ramadan because if you think about that, it just shows that people feel good about bringing it out to social sharing. It says something that they like the brands, that they like the taste. If you're going to bring something out to share with family and friends, there's got to be some endorsement that you're making by the nature of doing that. So I think actually provides some strong endorsements to the foundations that we do have. What we'd also say is that we've actually underleveraged the whole raft of festive occasions that operate in both geography and different ethnic sectors of Indonesia. So for example, last year we activated Independence Day, which we'd never done before. And then we find by region the sheer number of occasions.

It is a bit embarrassing sometimes, Ed, when you say, okay, well, how many people? And you hear the numbers by different geographies that are celebrating. We're talking populations bigger than GB or bigger than Australia in many of them. And our ability, therefore to localize the sheer number of festive events that happen over the course. The key really in building repertoires in my experience, is that you tend to form your repertoire of brands. That is the number of brands that you would buy at a younger age. And you do take it with you from a generational, and therefore, the areas of recruitment become very important in partnership with the coke company. It's why gaming is very important. It's why music, it's why sport, the areas of passion that our brands are fully integrated, that are forming a bond with local Indonesians at a younger age.

If you sort of stand back and say, in my experience why people don't buy different categories, and I've worked in a number of categories, the key one at the starting point was don't think of it. So is it high on their awareness? Is it something that they're considering? I can't afford it. Therefore, getting the value proposition right, making sure that it's affordable. I don't think about it in terms of being visible and available. So therefore the points of interruption, the amount of point of sale that we have in store. And so a lot of those fundamentals just getting right and then being consistent. And if you chop and change your advertising, if you chop and change your positioning, your recipes, then you're going to find it harder to build repertoires over time.

So there is a model for us to follow on how to do that. But it is a long game. The turnaround in me and people, the energy of the country, the enthusiasm of our local team, I mean, I think anyone wants to get that goes there, wants to stay there and work because it's so exciting as a place and a future opportunity for CCEP. But it's a long game that we're playing.

<<Edward Mundy, Analyst, Jefferies>>

And one of the things that happened recently was the ownership structure was simplified a little bit. CCEP pulled out the 30% stake that The Coca-Cola Company owned in that business. I mean, what does that actually mean in real terms as you simplify that ownership structure?

<<Peter West, General Manager, Australia, Pacific and Indonesia Business Unit>>

Yeah, I mean, I think it shows the confidence of The Coca-Cola Company in CCEP would be my sort of first interpretation of it. I think it would show the alignment that the system has to the strategy as we are moving forward. It recognizes the long game and then it's really the confidence now to move forward with our areas of expertise. And I think therefore it just makes the role sort simpler and it's like the sale of the Amatil brands. It just continues to provide absolute role clarity and expertise for each respective party.

<<Edward Mundy, Analyst, Jefferies>>

Can we talk a bit about sustainability? I know that you're doing some – it's very important to the broader group, sustainability, but there are some specific initiatives going on in Indonesia. Can you perhaps touch on some of those and provide a bit more colour around that?

<<Peter West, General Manager, Australia, Pacific and Indonesia Business Unit>>

Yeah, so look, the Indonesian business has a strong history in sustainability and it's led a series of leadership actions. I'd say it's focused on water stewardships. It's been very high. Our packaging reduction and as well as make sure our products are recyclable and sugar reduction. But undoubtedly the number one challenge because of the growth will be in plastic and ensuring that we have local capacity and capability to handle recycled content. So the first move that we did was making sure that we had supply through rPET. We formed a joint venture and that was with a local company who has built the first facility. It's a fantastic site to visit. It would be right up here with any of the world in terms of the quality of the production and the investment that's been made.

So we're very confident of that and it's going to need some continued investment just with our growth. But we've got a local partner in Dynapack who is running that with us. What we tried to then follow was the learning out of Mexico. And what Mexico had was a PetStar model where you have to be able to drive the collections that becomes the key. And so with our focus on collections, it was establishing a non-for-profit entity. That role of the non-for-profit is to make sure that there's price structure on everyone in the value chain. And there are also – there is to make sure that we're hitting our human rights obligations and to make sure that we can stand behind the integrity of the supply chain that exists. Fundamental to doing that is that every person in that channel or in that chain, has to be able to make money.

And so it goes to the price that we will buy it at from our joint venture and then it goes to everybody in the value chain being clear and then that builds the loyalty across the board. So the good news is the rPET plant is up and working it's producing to a high standard. We've got rPET content now in our PET. What we are then continuing to build is the future infrastructure of the collection points. But I'd say within the Coke system, it's very clear that there's one of two models. There's essentially a DRS or a CDS model and that tends to be more developed markets, or there's the sort of Mexico PetStar, which is you've got to be able to drive collections and then put it through a facility. And at that stage you have to make some investments to make it happen.

So it's been put in place. We're feeling really good at the progress. It does put a bit of pressure on competitors because we sort of have this view that if competitors don't match you, then they become dinosaurs and then they start getting pressure to what the potential implications are if they don't go down this track into the future. So perhaps having a smaller share of the market allows us to take that position, but it does create a lot of pressure on others to sort of demonstrate that sort of sustainability leadership.

<<Edward Mundy, Analyst, Jefferies>>

Peter, at the start of our discussion, you mentioned that you worked in industries with more difficult margin structures than perhaps API. I think margins peaked back in 2010 in the Coca-Cola Amatil business, clearly pivots has got in the way and then we've had all the inflation on the other side of all that. So it's still quite noisy in terms of that. But do you see a route back to historical high margins and sort of what are the levers that in your mind will allow you to get there?

<<Peter West, General Manager, Australia, Pacific and Indonesia Business Unit>>

Yeah, so without trying to do a history of the business because it peaked and fell and wasn't sustainable. So doing the upgrade that CCEP did last year on top and bottom line reflects the confidence that it has not only in Europe, but in API. I suppose the confidence I have is that, we need to be accretive to the performance of Europe. I think the fundamentals tend to be a bit stronger to allow us to play that role.

And then Indonesia won't really move the needle in the next couple of years, but it has the potential to really move the needle. So, when we became part of CCEP, our number one aim was to do much better than the past to be accretive to the performance of CCEP. And then the third one was to provide consistent results over time and that consistent improvement. So, we see ourselves being a key contributor and both Nik and Damian are very clear on their expectations behind the market commitments that we've made.

<<Edward Mundy, Analyst, Jefferies>>

Well, I think, time is running up. I've probably got time for just one more question. When I asked Damian recently, what was the biggest upside surprise from his perspective from the acquisition, and it was really culture, the fact that the business is integrated seamlessly and that he can see the real benefits from learnings from the API business over to Europe. I mean, and what in your mind has been the biggest upside surprises over the last, what is it 18 months or so?

<<Peter West, General Manager, Australia, Pacific and Indonesia Business Unit>>

Yeah, so having worked in many multinationals, I do think the operating model that CCEP has, threads the needle of local market accountability. The unit of performance being the country, being the P&L. And then having enough structure that sets that country up to be successful. We would say to people – I would say to people, if you want to set your own budgets and go and run your own company, like we've got to sort of strive for the level of improvement. But when it shows you the levers and the expertise that you can tap into, then you really get confidence about where you can take the business into the future. I think the learning nature of CCEP where we have presented stuff that they've responded to actually then provides the goodwill both ways because then all of a sudden you start saying, well, we need to steal the perfect serve from Spain.

It's been set up by years and years of consistency in their investment, and we need to replicate that. And it doesn't matter how many stores we have today, all that matters is that we know how many it is, and we're setting a target for where we want to be, and it's a long journey. So I think all of those things work two ways. It does just show the benefit of being acquired by another Coca-Cola bottler. So it's not like we've got somebody who doesn't know the category, doesn't know the business. And then I'd say the relationships with The Coca-Cola Company are incredibly strong and there's no confusion of whose role it is to play. And our role is all about how we partner with those powerful brand owners and how we execute. So I think all of those things have actually made our life easier. And therefore, we can really focus on the things that matter.

<<Edward Mundy, Analyst, Jefferies>>

Well, Peter, our time is up. So listen, on behalf of Jefferies and everyone listening, really want to take the time to say thank you for joining us today and congratulations on the success so far, and wish you every bit of future success in the years to come. And we look forward to seeing how we're going from strength to strength.

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