Coca-Cola Europacific Partners PLC

Capital Markets Event & Q3 Trading Update Webcast Transcript

2 November 2022

Corporate Participants (All CCEP unless otherwise stated)

Damian Gammell - CEO

Nik Jhangiani - CFO

Ana Callol - Chief Public Affairs, Communications & Sustainability Officer

David Martin - Director Digital Sales & Marketing

Jantine Grijzen - VP Group Revenue & Margin Growth Management

Jose Antonio Echeverria - Chief Customer Service & Supply Chain Officer

Manolo Arroyo - The Coca-Cola Company, Chief Marketing Officer

Peter West - General Manager API

Sarah Willett - VP IR & Corporate Strategy

Sol Daurella - Chairman of the Board

Stephen Lusk - Chief Commercial Officer

Veronique Vuillod - Chief People & Culture Officer

Presentation transcript

Sarah Willett - VP of IR & Corporate Strategy

I'm Sarah Willett. I know most of you, if not all of you. So welcome here today. And for those of you that joined us this morning, I thought we had a great market tour at Asda and Tesco's.

There are a couple of breaks this afternoon, and I'll feed through logistics at the back end of the day for those of you that are joining us this evening. Basically, we've got the WiFi up on the screen. So if any of you haven't caught that already, here's your chance. So, without further ado, forward-looking statements, I'll cover that, and then handing over to Damian, our CEO.

Damian Gammell - CEO

Thank you, Sarah.

So thank you for being here. It is a little bit cozy. We deliberately wanted to host you at our offices for 2 reasons. I think it's great for our people to see you here, and it's also a lot cheaper than London hotel prices at the moment. So we felt it was a better use of our cash. So a little bit cozy, but we'll take plenty of breaks. And hopefully, we'll get a chance to get to a good Q&A session at the end of today.

So big welcome on behalf of everybody at CCEP. What I'm going to talk about today and all of my colleagues is really represented by over 30,000 really engaged and passionate employees at our business. So it's great to be the messenger. But clearly, that's built on a lot of people who are with us today in spirit, but thankfully, they're out making, selling and moving all of our great brands as we tell our story today.

So just to the agenda. I'm sure you've seen our Q3 results, so I'll spend a little bit of time on that this morning -- or this afternoon. And then we've got quite a lot to cover. And we deliberately took the view that we haven't been with you for quite a while and a lot has happened and a lot is happening. And we felt it was really good to get into some good detail around what we're passionate about as a business, but also for you to meet a lot of our colleagues who are running our business and driving a lot of the great results that we'll talk a little bit later.

So, who will you meet today? I'll shortly hand over to our great Chair, Sol Daurella, for some opening remarks. You'll meet a lot of our team at CCEP. I'd like to really thank Manolo. Where's Manolo? He's the Chief Marketing Officer of The Coca-Cola Company, has taken time out of a very busy agenda to be with us today. So thank you for that Manolo.

And clearly, we're joined by a number of advisers in the room. Thank you. Some of our banks have joined us, and particularly, I'm very pleased for our shareholders that are here today. So thank you for being with us. So, we're going to cover a lot. As we go through, each of the team will introduce themselves and tell you a little bit more about our CCEP story.

So, before that, I'd like to just hand over to Sol for some opening remarks. Thank you, Sol.

Sol Daurella - Chairman of the Board

Good afternoon. Well, thank you very much for joining this Capital Markets Day. And I want to join Damian and welcome you all to this event. I can't imagine a better way of starting this day than with the market visit, where I'm sure you've seen our great execution and also very importantly, met some of our most talented frontline people. It is thanks to them that all that we're going to explain to you today really happens. They are the ones that make all this happen. So it's important for us that you also met them.

Well, I am very proud of this business and what we have achieved since the formation of CCEP in 2016, for all the value creation we have achieved. With this track record as well as with the acquisition of API, I feel very confident in the future of our business, in spite of the uncertain times we have ahead of us. And of course, led by a great, great management team that most of you will met already -- have already met, but some of them, you're going to continue to meet today.

So, with this, I pass on back to Damian, and I hope you enjoy the meeting.

Damian Gammell - CEO

Thank you, Sol. So the good news is Sol will be with us all evening until late at night with Nik, I think is the deal that we struck.

So thank you, Sol. So just on to our Q3. So I'm sure you've all had a chance to digest what was really another great quarter for CCEP. So we're really pleased with the results we could post today. On top of that, clearly, it's a milestone to also take up our full year 2022 guidance. I mean really across all of the performance indicators of our business, we've really had a very strong first half of the year, and indeed, that continued into Q3, which obviously gives us confidence as a management team to post a brighter outlook for the full year 2022, raising our guidance on the top line, bottom line and certainly myself and Nik's favorite topic, raising our free cash flow guidance as well, which we're particularly happy with. So clearly, a great foundation for our Capital Markets Day.

I did note that there could be in the room that someone wrote that you've got to expect good results on the day of the Capital Markets Day. But Sarah, correct me if I'm wrong, I think we set the date for this a year ago. So as good as we are, we didn't really predict that we were going to come out with such a strong quarter, and we certainly didn't predict that we'd be operating with some of the volatility that we talk about as we go through today.

So overall, really happy with the Q3 results. Great foundation for another great year at CCEP and clearly gives us the confidence as we've laid out a bigger and bolder set of targets in the midterm, which we'll talk a little bit later. So right across the board, strong revenue momentum, great profit momentum and clearly great free cash flow.

It kind of goes back to what Sol talked about. As a business, we've got a very rich history. I know a lot of you have been with us for a lot of that journey. It really goes back to the '50s, to the genesis of our business with the Spanish bottling operations and the families who remain really committed shareholders today in our business all the way through a number of milestones, which obviously was the CCE deal, and then obviously, we looked at the creation of Coca-Cola European partners.

And then as Sol mentioned, a really great deal at a great time, and I'm really happy Peter is here to represent that deal, the acquisition of API. And around that, as you can see in this slide, a number of other very important milestones, particularly in the area of sustainability and also starting with our new journey, which starts today at our first Capital Markets Day since 2019.

This is a slide I'm particularly pleased with because as we laid it out, I think it tells a really good story about how quickly we've grown as a business, but more importantly, the value creation that is really at the essence of our culture at CCEP. We're firmly focused on creating value for our shareholders, our customers and clearly doing that in a sustainable way.

If you look back, and again, I'd point back to June 2013, quite a while ago in some ways, but in the history of the Coke system, quite a short period of time. Very big and bold moves by the Spanish bottlers to consolidate what was already probably held up as one of the best Coca-Cola businesses in the world. So those families came together to form Iberian Partners. That took a business that was already in great shape to an even higher level and really was the catalyst for a bigger and bolder vision for Western Europe. And that vision really came together with the formation of Coca-Cola European Partners, which took us to 13 countries with the consolidation of CCE and the German business, which has been a fantastic success as well as we look back on CCEP. EUR 11 billion revenue, EUR 1.9 billion EBITDA and over 24,000 colleagues.

Then we all know what the last couple of years have thrown at us as a business, as people, as families, and we've all got through that together. During that period, we thought it was a great idea to make this business even bigger. And clearly, the acquisition of API may have caught some of you by surprise at the time. But as we'll demonstrate today, and as you'll hear from Peter a bit later, a fantastic acquisition for CCEP and has really changed the footprint of our business, not just in terms of our geography and our results, our EPS, but also in terms of our culture. And I think that's something we're excited about sharing a little bit more. So a fantastic journey.

Where does it leave us today? So thank you again, Manolo, for joining us. Maybe this is why he's here. We are clearly the largest bottler by revenue. So over EUR 14 billion in revenues. It's not really about that number. For us, what it does bring is a really strong alignment with The Coca-Cola Company, and that leads to investment decisions, innovation decisions and clearly gives CCEP a good seat at the table and allows us to have a great dialogue and continue to challenge ourselves on both sides of the relationship to make this system stronger across all of our markets.

So as we lay out today, we've got a very clear strategy. This goes back to our Board meeting in the summer, where we took a couple of days out with all of our directors to really step back and look at where do we go now with CCEP. That followed on with a Board meeting in Indonesia, which you'll hear a little bit about today from Peter, where we really wanted to expose all of our directors to the opportunity and to some of the challenges that we see in our Indonesian business. And that led through to our last Board meeting, which was in Heidelberg in Germany, a great meeting where we signed off and we talked about what we want to do strategically, leading to today's meeting, which we obviously will share with you.

It's part of a journey. Next week, we will have, I think, Nik, about 1,000 of our suppliers. So we will have a Supplier Day. As you'll hear throughout this afternoon, suppliers are a critical part of our journey. So the next audience we'll share this story with will be our suppliers next week, where clearly, we have high expectations of how they will help us achieve our goals. And then at the end of November, in London, we'll have approximately 150 of our senior leaders globally coming together to spend 2 days together to really work on how we bring this into action into '23 and beyond.

So, as we look at our strategy, it will clearly make us more diverse. I'll talk a little bit about that later. We've committed to a more accelerated top and bottom-line growth in the midterm. You'll hear from Ana today about how we're continuing to make our business more sustainable. We have a lot to do, but we are leading in that space.

We have even greater relevance, as I talked about, with The Coca-Cola Company, but also with our great partner in Monster. We are very, very committed to returning more value to our shareholders. And Nik is going to talk about that at the end of the day. I think it's a good way to finish.

And clearly, you're going to see and hear from what I'm very lucky to lead, a great group of diverse, talented and inclusive leaders. And all of that gave us the confidence to lay out today a more ambitious midterm objective.

So, from a revenue perspective, taking it up to that 4% number; profit, 7%. Again, free cash flow, I think a great number, EUR 1.7 billion. We're committed to our deleveraging. We've been very consistent about that before the API deal and after the API deal. We have raised our target on our ROIC. Clearly, our CapEx is an important driver of our business, but we're very comfortable in the range of 4% to 5%. Nik will talk a little bit about that later. And as always, a progressive dividend policy, which we maintain at 50%, which I think is great news for all of our shareholders.

So that's the context in which I'll just share a little bit more about why do we believe in that ambition and where do we see that coming from in terms of value creation. So, it's a great category. And I think Manolo will talk a little bit about that later. But on the backbone of that, I just wanted to come back on some of the commitments we made to you and to all of our shareholders in 2016 when we created CCEP.

Now clearly, we laid out that we believe diversification of our portfolio and of our geography was a key value creation enabler. That led to a lot of value, which we'll talk about later, being returned to our shareholders. We took some bold decisions early on, whether that was on promo pricing in places like Belgium, France or here in GB. We took a lot of cost out, I'll talk a little bit about that later. And clearly, it led to the Amatil deal being possible, both from a relationship perspective but also from a funding perspective and a belief in the management team that we could really extract value out of the Amatil business.

So just on diversification, clearly, if you go way back, we're quite a narrow footprint in Western Europe. The business wasn't growing. We turned that around. That gave belief across the system and then The Coca-Cola company to allow us to get bigger. So now if you look at our geographies, you've got a nice mix of obviously key profitable European markets; Australia, a great business; New Zealand, a great business; and Indonesia, which we see as a fantastic mid- to long-term opportunity for significant growth and value creation.

Below that, we've expanded our portfolio and our categories and our packs. Both of those are represented on this slide in volume. But clearly, if you look at it in revenue, it looks even more diverse as our smaller packs generate more revenue, and some of those categories, particularly energy, contributed a lot more on revenue than they do on volume.

We remain a very balanced bottler. Pre-COVID, we were probably more in the 50-50 range of revenue between retail and away from home. That's coming back. And we've seen that come back very strongly in the second half of 2022. And obviously, we're a much more diverse company now, adding in the great markets of API, leading to over 30,000 engaged and committed employees. So a very nice, diverse and growing business.

What has that achieved in terms of shareholder value creation? 50% TSR, EUR 5 billion in cash returns and very pleasingly, a consistent 10% EPS CAGR. On the left of the slide, you can see what I talked about, starting back with our European journey. Pre-2015, Western Europe was in revenue decline. Those of you who followed the creation of CCEP will remember that one of our commitments was we return Western European markets to growth. Let's say, there was a bit of skepticism about that in the room at that time, and probably quite rightly so. But we addressed that, and we had great momentum coming into 2020.

Obviously, we dealt with the COVID situation, and a big thank you to all our employees who navigated that extremely well, and we're seeing our growth returning. Obviously, the comps help, but back ahead of 2019. And I think that's critically important. That led to a very good earnings per share progression, free cash flow, which we're very passionate about, and obviously, significant shareholder returns over time. And that's something obviously we're committing to as we go forward.

I talked a little bit about some of the decisions we took. I mean we could spend a long time going through everything, but I just wanted to call out some of the bold decisions that allowed that shareholder value creation and that top line growth. We exited a lot of underperforming categories, particularly bulk water. We got rid of a lot of loss-making SKUs. Jose Antonio will talk a little bit about that later.

We got much smarter around making more money in the home channel. Nik will touch on that a little bit later. But clearly, when COVID hit, we quickly realized, as a bottler who had a fantastic away-from-home business at 50% of our revenues, that for a period of time, we were going to be a retail-only bottler. It was very different for us to digest. None of us expected that it would last that long. But we quickly pivoted, got all of our leadership together and said, okay, we're going to be a home market business we thought, for 6 months. Let's be honest, no one expected it was going to go on that long. And that really helped us to extract a lot more value out of our retail business and for our customers to extract a lot more value.

So, as we sit here today, the profitability mix between retail and away-from-home is much more balanced than we saw pre-COVID. And that gives us a lot of confidence going forward. Clearly, with the Coke Company, we went back to where we make money: so double down on sparkling; much more selective around innovation and getting back to what we know drives long-term value around immediate consumption; more premium and small packs increasing in our mix considerably over at that time; and clearly, as you'll hear from Peter later, some of the learnings from our European journey we shared with Australia, allowing us to do something that certainly, when I was working in Australia, was unheard of, which is to take down our promotional intensity. And that's worked, and Peter will talk to that a little bit later.

And we continue to create value for our customers, recognizing that we do operate in quite a challenging environment, particularly with some of the new buying groups. But yes, we've navigated that well. It has led to some disruption. But clearly, our eye is on the mid- to long-term value creation, and sometimes you’ve got to get into those difficult and challenging conversations, and we did that.

When you look at where that lands in our P&L, one of the key metrics for us was clearly to drive our revenue per unit case. And I'm particularly happy that even when we lost a lot of our away-from-home revenue and volume, we could come out of COVID with significant unit case growth. So, that clearly has supported a lot of our bottom line growth and is built on the back of those small packs, premium packs and sparkling and energy categories and tea where we know we can drive that margin.

But it wasn't all about the top line. We've undertaken a number of structural changes in our European business in particular. We've delivered on multiple commitments around cost savings, whether that was on the back of the original CCEP transaction or most recently on the API transaction. And clearly, in our midterm guidance, we've also set out another ambition to continue to help make our company more efficient and more productive as we look at investing for growth over the mid- to long term.

Just some numbers. OpEx in Europe only, they are down close to 25%. And clearly, as a percentage of revenue, overall, we continue to target that below 25%. Where does it come from? Clearly, we've taken some big steps in Europe, particularly in markets like Germany. We've got smarter using data and analytics to drive down our trade marketing expenses. Clearly, COVID taught us all that we don't have to get in the plane at least 5 days a week, and we've cut a lot of our unnecessary OpEx. Procurement has been a big driver of value, and Ralf and the team have done a wonderful job leading that, and that flows into that meeting next week with our suppliers. So, we're going to keep using procurement as a key value driver at CCEP. And as you'll see a little bit later from Jose Antonio, across our supply chain, again, using mainly technology tools, becoming a more efficient and productive operation.

So just on to Amatil. A great deal at the right time, a challenging time to pull off a deal of that scale from a virtual perspective, but we had great belief in the fundamentals of Australia and New Zealand, and we have a great belief in the opportunity of Indonesia. And we are very fortunate that we have great leadership in place pre-deal, particularly with Peter and his team that gave us confidence that even in a virtual world, we could start to act very quickly to extract value from the Amatil deal. And you'll see that coming through in our results. It gave us a stronger position with The Coca-Cola Company, a multi-geography bottler, now global with a big Asian market, structurally a higher growth platform built on higher GDP population growth.

And obviously, as we looked at it, it gave us access to emerging markets. It was immediately value creating for our shareholders. And we had a lot of confidence that we could pay down our debt quite quickly, and Nik will touch on that a little bit later. So a great deal at the right time, and more to come on that later today.

So, we are delivering value within a great category, a growing category and a category with good, solid structural margins. It's about EUR 130 billion of revenue opportunity when we look at our particular geographies. Europe is growing about 3% and API is growing about 8%. So when you compare it to a lot of categories in the CPG world, it is dynamic, it's growing, it's profitable for us. And most importantly, it's very profitable for our customers, and I'll talk a little bit about that later.

It's outpacing the rest of FMCG. So it is a leading category, and that's driven by sparkling. And that's on the back of a lot of innovation, whether it's zero sugar, some of the packaging innovation I talked about earlier, stronger marketing and investment from The Coca-Cola Company. And clearly, it's also driven by energy on the back of a fantastic franchise with Monster, huge innovation, great products and again, a great online activation base.

It's also interesting when you compare it to some other categories: beer, wine, spirits, snacks, which have had a good run. It's a super resilient category and continues to outpace most categories in CPG and as we look at our success, one of our benchmarks is, are we creating more value for our customers, not that their competitors, but in any other category. And that's a benchmark we've held ourselves to since we created CCEP, and we continue to do so.

So, we're not only generating revenue within our category, we're generating more revenue than any other category across our customers, particularly true in Europe, particularly true in Australia and New Zealand, and it will be true in the future in Indonesia.

So that really makes us very strongly positioned as we look forward. We're pretty consistent around the pillars of our strategy: it's great beverages; great service; great people; and critically, done sustainably for a better shared future.

I'll just quickly touch on some highlights under each of these areas. So on great beverages. We've consistently diversified our portfolio. I talked about that earlier, particularly around low and no sugar. We've had a number of headwinds in Europe around sugar tax, which we've navigated probably quicker than we expected and returned the category to even higher growth. So clearly, that no sugar proposition is bringing people into the category.

As you'll hear from Manolo later, we're blessed to have the world's best portfolio of brands, and we've got a lot more that we can choose from that are not currently present in our markets in Europe today.

We have a very strong share. And I think that really differentiates CCEP from a number of other businesses. Our sparkling share is just over 58%. So that gives us real relevance with our customers. Our share online is higher than in-store. You'll hear from David later, who will explain how we make that happen and why we're confident that will continue.

And unlike most CPGs, we sell everywhere. So we've got a very diverse route to market, covering all channels from at work, hotels, eating and drinking, on the go, transportation, discounters, retail, online, off-line. So this category, unlike, I think, any other category is pervasive in more opportune occasions than any other business.

And clearly, that supports a broader pack price architecture, which is critically important in the volatile environment we operate today because our business is not built on 1 or 2 packs. It's not built on 1 or 2 brands or 1 or 2 channels.

So, as we look forward at some of the pricing opportunities, some of the risks we see potentially in downtrading, some of those concerns we have around the macro environment, we have got a stable of brands and packs that will allow us to navigate that and clearly deliver on that new, more ambitious midterm guidance we outlined this morning.

On the back of that, obviously, our customers, they like to make money on our brands, but they also want to make sure that they get the service that they deserve. We've got good customer service levels, over 90%. We've been recognized by The Coca-Cola Company with New Zealand winning the Candler Cup, which is a great award for any bottler to be recognized by the Coke Company and voted on by the system as being the best bottler. New Zealand took that award in '21. The Netherlands this year were runners up. So we came close but not close enough. But we'll win it next year, hopefully. So that's the aim.

We've got the biggest sales force, over 10,000 frontline. I hope a lot of you had a chance to meet some of them today, passionate, engaged. I think the big difference from today to probably 4 or 5 years ago, hopefully you felt it: one, there's a lot more information; two, there's a lot more technology; and three, there's a lot more diversity. So we're clearly trying to leverage that across those 10,000 frontline sales force.

85% of our volume is now captured digitally. So that's a big step change. So you can imagine the wealth of data and analytics that we can build off that. And clearly, we've always looked at this business in the long term and consistently invested for growth, and we've always had the support of our Board to do that. Even in the difficult years of COVID, we continued to invest for what we know is going to be a brighter future. So a lot happening on the service side.

And clearly, as I look at this business, it's built on 2 pillars: great brands and great people. You'll hear from Veronique in a moment around our people strategy. We start every meeting at CCEP talking about people. Whether it's a Board meeting, whether it's our management meeting, first item on the agenda is health and safety; more recently, well-being, physical and mental because fundamentally, we believe that if we continue to look after our people, they will look after our business. And we are providing them with a more digital workplace.

We've got a lot of first aiders around well-being that we created over the pandemic, now over 600, fully trained and equipped to help their colleagues. We've just completed our first global engagement score. Really happy with the results, top quartile. Clearly, lots of strengths and most importantly, still lots of areas that we want to work harder on. We are getting more diverse. We're not where we want to be. But clearly, we want to continue to make CCEP reflect more of the markets that we operate within, and that's our goal going forward.

And then finally, on sustainability, I would say CCEP has been leading this journey, particularly across the bottlers. Obviously, being based in Europe, originally, we were probably at the forefront of some of the challenges that went global, whether that was sugar, whether it's plastic. We refreshed our ambition on the acquisition of API. We've taken our This is Forward platform, which I think is best in class in terms of laying out in a very simple way but in a very ambitious way what we really want to do to make CCEP certainly in the Coke system, most sustainable bottler, but also across our peer group to continue to have sustainability as a benefit that our customers can link into and our employees feel proud about.

A number of different areas across renewable energy, rPET, more RGB. And clearly, as you'll see later, we were the first bottler to put our greenhouse emissions goals into our long-term incentive plan. So a lot is happening on sustainability.

And before I hand over to Veronique, I just wanted to close on a slide that I think underpins the way we look at our business. So clearly, we're passionate about shareholder value creation. But in order to drive that, we're really passionate about customer value creation.

And if you go back to Europe premerger, we were not seen as a leading category for value creation for our customers. The category was declining. Margins were under pressure. We turned that around. And clearly, while we're growing, we're very happy that our customers are growing slightly faster, enhancing their margins and making our categories even more important to their journey. And I think that's a nice combination because clearly, the more relevant we are, the more time we get with them, the more space we get in store, the more open they are to our ideas.

I won't say the more open they are to our pricing. But clearly, it's a better platform to lead that conversation. And that's on the back of us being the #1 FMCG value creator in Europe and also in Australia and New Zealand. So we go into those conversations from a position of joint value creation, not arrogance, but a recognition that we have been consistently delivering more value for our customers over a longer period of time. And that sets us up, we believe, for more growth in the near and midterm.

So, with that, I'd like to hand over to Veronique, who's going to touch on that second pillar, before Manolo talks about the brands, which is our great people strategy. Thank you. Veronique?

Veronique Vuillod - Chief People & Culture Officer

Thank you very much, Damian, and good afternoon, everyone. I'm Veronique Vuillod, leading the people and culture function globally for CCEP. And I am more than 20 years in the company. I've been really lucky living a fantastic career experience in many different HR roles locally, globally as business partner, generalist and supporting all functions of our business.

So today, I'm delighted to present to you the people strategy and the key strategic initiative we believe would make a difference for CCEP in the future. I'd like to come back to the early years of CCEP. It's been an amazing journey like Damian just explained. And we truly believe what makes CCEP so special is the culture of the company and its people. And as many people say internally, we joined for the brand, but we stay for the people. So, the culture of the company is really, really strong.

And we also believe that the leaders of the organization are the one shaping the culture, are the one whole modeling the ways of working and are the one to be best in employee engagement. So that's how we supported them with what we call the accelerate performance program. All of our leaders went through this leadership program at the beginning of the merger in 2016 and '17. And the good news is we refreshed that program and cascade it down in API to all management positions. So, we are now with a company culture, the ways of working, the values of the company that are truly embedded globally.

Second, we define our people experience. It is how it is to work at CCEP. That's what we call Me@CCEP. So, it's really communicated to the entire workforce. Third, of course, we supported our people on COVID. It's been 2 years of quite a challenge for our people, especially frontliner people. 80% of our workforce is frontline. So, we put in place a very strong support to them.

And we also clearly set an objective for being an inclusive, diverse and equitable organization. We believe that it's really making a difference, and we want to reflect the communities in which we operate. We set the strategy for I&D. We set some targets, some action plans, and we receive recognition and awards for our diversity initiatives.

And to attract people, to attract talent, we believe being recognized employer among the best companies is absolutely critical. And we are very proud because we got a lot of certification and recognition in all our markets, including in some markets where we could see potentially it's a little bit more challenging. But Indonesia, as an example, got a certification as best employer. So, we are very pleased with that.

Now we are investing in the, what we call the way we lead. It's really how we invest in our capabilities, in leadership capabilities, commercial capabilities, customer services capabilities and as well as in digitization, including in the area of people where we provide up-to-date and very innovative tools for our people to access the people function, the any HR-related topics.

So, the way we set and shape the people strategy is through the lens of strategic workforce planning. Basically, it's really for us to ask the right question for the future and to really prepare the workforce of the future, the capabilities of the future, making sure we have the right people and right talent in the most critical roles and making sure the culture of the company is really embedded and lived in by all of our workforce.

It's a global workforce. Damian mentioned that, operating globally, 33,000 people. So, it's a key responsibility to ensure the workforce stays relevant
for the future and to ensure we skills, upskills and reskills the workforce to really stay and perform for the future.

I'd like to call out 3 strategic priorities for us. I mentioned it, and Damian mentioned it, it's all about being even more inclusive. We have a very high ambition on being an inclusive and diverse and equitable organization and workplace. So, we set for ourselves some targets, challenging targets where we really want to accelerate.

Gender is a critical target. We are targeting 45% of female in management position by 2030. We also believe that we can continue to live, to give an opportunity for our people to feel safe to really live with some form of disability at work. So, we decided to set a target for disability, representation of 10% of people by 2030.

And we are very conscious about our footprint and the impact we can make on communities. So, we set ambitious program on social mobility. And we support, internally and externally, programs helping people to get back to employment situation.

Second is building a culture of sustainability. It's really at the heart of everything we do. So, we embedded sustainability in all of our capabilities programs and in all of our training curricula.

Second priorities, we mentioned about that. It's all about culture. It's all about leadership. It's all about having the right leaders, the right people in the right roles. So, we decided to design a new competency framework, a leadership competency framework to really give our expectation for a leader to be successful at CCEP. So, we are building all leadership program on that basis of that framework.

We are also investing in the entire workforce. First, at entry level, we have a significant program for internship, for apprenticeship, for graduate program. We also develop people at the middle management level, what we call the emerging leaders program, to really prepare the future leader of the organization and for some of them to fast-track their career path. And we are investing in senior leaders of the organization.

I'd like to call out what we call career hub. It's a total innovative tool. It's what we call an internal talent marketplace based on skills and not only on traditional jobs and based on AI, where people get offered some vacancies, some training, some connection with the leaders with their experience that the individual is trying to get or has an aspiration to grow within CCEP.

And last, we developed our own internal explorer for any people-related request. That's what we call Genie. And every employees, including frontline or including in factories, blue collars, can access Genie and ask any question and can get support directly digitally first and then from our center of expertise or specialists in HR when necessary.

Last is, for us, we live in a constant volatile world. So, it's very important to really embed change management in everything we do and to equip our leaders leading change, leading transformation, leading upskilling of their team and leading with care. So, we embedded in our leadership program and management program change management approach so that we ensure we have the entire workforce engaged, understanding on the change initiatives of CCEP. We have a track record of driving efficiencies, and we have clear communication with our union partner on how we see the future of CCEP.

Last, we have an ambition to be a high-performing organization. So, our reward philosophy align to the business objective. So, we pay for performance, and we align all the incentives of our leaders globally, short-term incentives, including the critical financial metrics, of course, as well as some individual objective for the executive team on diversity. So, everyone understand the role they have to play to build that more inclusive organization. And on the long term, Damian spoke about that, we also included sustainability objective, making 15% of the potential outcome of long-term incentive.

So in summary, we want to be an even more inclusive organization. We continue to invest massively in capabilities, in the differentiating capabilities, in commercial capabilities, and Stephen will speak about that a bit later, and then how we manage change and making sure we sustain and maintain engagement of the workforce in a changed environment.

We can be very pleased as the workforce demonstrated to be extremely resilient. We maintained the engagement score in the hardest moment of the pandemic. We also surveyed our people on well-being and stress at work, and we were pleased to see that we've been able to maintain that level of resilience from our workforce. So, we are very confident we have the right people. We have the right investment plan for them to fit the company objective for the future.

Thank you. And now I hand over back to you, Damian.

Damian Gammell - CEO

You can clap, it's allowed. There's no prohibition. Just to come back to something Veronique touched on. For those of you who were with us in 2019, we laid out a number of frontline digital capabilities really focused around revenue. And we quickly learned that if we didn't digitize inside the organization quicker, our ability to digitize the revenue was just going to be slower.

So, what we recognized as we were having conversation with our customers about a more digital relationship, more online, if the people working in our organization were 10 years behind, you could never meet that commitment. So we have invested with Peter and the team and a lot of digital tools, and hopefully, some of you saw that today with the sales force. But it really goes across supply chain, our back office, our wonderful facility in Bulgaria because we recognize if we want to be a digital bottler on the outside, you've got to be very digital on the inside.

So that journey continues. But that's why I thought it was important this afternoon we share a little bit of that, if you work at CCEP, how digital is enabling you to be more engaged and more productive.

Before I hand over to Manolo, I just wanted to touch on one slide because I know some of you are really familiar with the Coca-Cola system and our quirks, let's call it, our unique structure. And for some of you, it may be quite new. And I think quite often, myself and Nik and Sol, one of the questions we get is like, so how does it work? How does it work? How does it really work? And as the day goes on, how does it really, really work? And clearly, we've got some great foundational platforms like our instance model, which really drives economic share in principle, very different to where we were on volume a number of years ago.

And clearly, as we both engage on a bigger footprint, being really aligned with The Coca-Cola Company is a fundamental belief that the system has and that we in CCEP have. And that allows us also to challenge, disagree on areas that we're both passionate about and collectively raise the bar.

For us, obviously, as a bottler, our primary goal is bottling the great brands of The Coca-Cola Company, getting them to market, selling distribution, managing those customers, big, small, online, off-line and being passionate about the consumer's interaction with our products. So, whether that's in the cooler, on the shelf or on a web page.

And from the Coke Company, clearly, they're the custodians of the world's best brands. You'll see a lot of them later. They supply us with the concentrate at a very reasonable price, Manolo, I have to say. They work with us on brand and portfolio development. And clearly, and what you're going to hear from Manolo is they really drive that consumer brand love through great consumer marketing that is the engine of our customer relationship and of our revenue growth.

So, it's built on some good processes, a lot of transparency, a lot of good decision-making platforms, a lot of dialogue. That dialogue can be very consensual or can be quite disagreeing on certain topics. And I think that's really one of the beauties of the Coke system, is that you can challenge and collectively end up with a better solution.

So, I'd now like to hand over to Manolo, who's going to share a little bit more, particularly around that consumer marketing platform. Thanks, Manolo.

Manuel Arroyo - The Coca-Cola Company, CMO

Hello. Good afternoon, everyone. Pleasure to be here. For those of you that haven't had the opportunity to meet before, I've been in the system for 27 years. I joined very early at the age of 3. Spain first, U.S., back to Iberia for 8 years, another 8 years in Asia Pacific, leading a lot of the bottling and refranchising. Left the company, went to 2 other industries. Back to Coke, Mexico, a couple of years. Asia Pacific again, based in Singapore, managing Asia Pacific and Bottling Investment Group. And since 2020, I'm the CMO of the company. A pleasure to be here. Thank you.

So, the category vision. Category vision, for us, is a story of transformation, and it's a story of growth. And that transformation was required after the realization that a lot of our investments were not really as effective and as efficient as we would want it to be. The digital disruption had changed dramatically and move and shift the power from the brand owners to the consumer, to each and every one of you that decided one day, thanks to the smartphones, that you can watch and see or not any consumption of media. And we were just not ready for that.

After decades of moving from a soft drink company into a total beverage company, we end up also in a place where we had a lot of components in our portfolio that were very fragmented. As an example of that, 6 -- we were managing 6,000 to 7,000 agencies around the world, and we were managing more than 3,000 to 4,000 innovations per year.

And while the performance was okay, it was not that good. The good news is that we are in a really exciting industry, arguably, if not the most, one of the top 2 today in terms of growth. There is a lot of growth at very interesting margins in beverages. It's a vibrant and competitive industry, as Damian mentioned. And as you can see on the top left chart, the growth is somewhere projected to be in the next 3 years between 4% to 5%. Different beverage types: soft drinks, so that's colas and sparkling flavors, around that, 4% to 5%; same thing for hydration, coffee and tea; nutrition is a little bit lower than that, 3% to 4%; energy, 6% to 7%; and then emerging, that for us is, at this point of time, alcohol ready-to-drink, so below 10%. Alcohol content is somewhere between 9% to 10% projected over the next 3 years.

We are guided by our purpose, and we have a very clear strategy that, as you probably have seen last week in our third quarter results, is working and is delivering results for us. We feel very, very confident where we are at this point as a company. We understand the environment is uncertain, but we are probably entering a challenging and complex time at our best time from a capability building standpoint in our whole history, and that spans across the whole business.

So, the transformation that we embarked a bit more than 2 years in marketing starts really on the consumer. And it starts really understanding what they want really truly and deeply and delivering to them superior-tasting products. Taste superiority is core. It's the first pillar in our marketing. What we do then is to meet the consumer where they are in specific consumption occasions that happen in certain channels, and that's where we collaborate and create, co-create those plans with our bottling partners like CCEP.

And then we add a little bit of magic. And the magic is trying to engage with the consumer with what they love the most, which typically are passion points, whether it's sports, music, gaming, ESG for many, and that's how we breach the importance of driving conversion of non-consumers into consumption in a specific location, but bringing in the magic, the value perception through engaging, leveraging multiple passion points.

And all of that happens through marketing platforms, brand platforms, innovation platforms, and importantly, execution at the point of sale. Half of our marketing, I always say to my own team, half of our marketing, it doesn't happen in online. It happens in the stores. It happens in every one of the 26 million outlets where we serve our products every day.

So, the transformation really went about tackling 3 areas that we needed to address: portfolio, innovation and effectiveness and efficiency of every single dollar that we invest in marketing. Starting on portfolio. As many of you may have seen, we went through a very significant exercise of what we call internally pruning. We started off from more than 400 brands around the world that span across all the different categories, beverage categories. And those 400 brands were brought down to around today, around 200, and that is an absolutely formidable portfolio of brands today that you have, there's no doubt that you name it, anything that you want in beverages, we have it available for any kind of age, any kind of category in any part of the world. There's far more than what we could execute in any given country to choose from.

And the way we went about it is a combination of organically created brands. 16 of -- 17 of them actually now are billion-dollar brands. And not only in sparkling, not only in soft drinks. We have a lot of billion-dollar brands in stills today, 60% of them actually. And we also expanded the portfolio through bolt-on acquisitions. You probably have seen recently Bodyarmor, which is a phenomenal brand with a very impressive track record in the U.S., which is redefining how consumers in that market are enjoying hydration in the sports occasion, or Fairlife, where we are seeing exactly the same phenomenal success of the U.S. being replicated in Canada as we speak.

We also expanded our way of thinking. We were very conservative in the past. We wouldn't really dare to mix in something that is mixing and blending with alcohol. And experimenting, very been much more bolder around how we tackle and how we enter surgically those segments.

That portfolio, specifically for CCEP, it looks like this. On the left, you have the brands that are on the top left that are globally present, part of our core portfolio. On the bottom, it's complemented with very significant and sizable, with a lot of scale, local brands that are present in the different territories of CCEP. So ultimately, we got to a point where you're really balancing the power of global brands and their scale with the local touch and intimacy that you need to address very sizable, profitable opportunities through a local brand in different segments.

Moving into innovation. As I mentioned, we started off from 3,000 to 4,000 innovations per year. The success ratio was excellent. It was 3x the rest of the industry. The problem is that the success rate of the industry was 1%. So, it really called for action to really reassess upside down our innovation process. It would take us 18 minimum 18 to 24 months. Some of those not-so-easy conversations with people like Damian would be around that because we were very, very slow. It was just not acceptable. We were way behind the speed of the market.

So, after reviewing all of that process, we end up in a place where we clearly assess any new idea against 3 criteria: consumer desirability, financial attractiveness and supply chain manufacturing feasibility. And in the past, any senior leader of the system will have an idea. We would breathe R&D. And by the time we realize the idea is not good a year later, we would spend around $300,000 in every idea, times 1,000 ideas.

Today, we have an app with the history over the last 20 years of the whole food and beverage industry. In minutes, you understand where it falls into the consumer desirability level. Today, all our innovation pipeline for next year is in the top quartile of that database. And we are raising the bar in '23 to the top 10%. Our pipeline for next year is 60% stronger and more robust than what it was a year ago.

In the third quarter results that those of you that saw it last week, 1/3 of our revenue comes from innovation. 1/4, 25% of our gross profit came from innovation. And we're seeing innovation become 2x more effective than the rest of the beverage industry, more than 40% effectiveness than our main competitor today.

Still a lot of work to do, but the 18 to 24 months is now gravitating between 3 to 9 months, depending on the nature of the project. And this is a critical capability, particularly as we face challenging times over the next months and years.

Moving into marketing effectiveness and efficiency. I'm not going to bore you with the chart on the left. Just believe that there's a good degree of process there. But in essence, where we are right now in Coca-Cola, it's in a migration from a traditional TV model. So, what that means is, in 2019, 71% of our media investment globally was on TV, 29% in digital.

This year, we're getting very, very close to the 50-50. Next year, we will surpass the 55% on a global scale with places like China, 80% digital; the U.S., 65%; Europe and Lat Am, close to 60% as well. And as you can imagine, the marketing factory that you need for that transition is radically different. In the past, we would do 3 or 4 big TV ads per quarter, and we will put bells and whistles around. We give it to a media agency. And in 1 week, you reach 80%, 90% of the population. But today, particularly for those of you that have teens at home, they're not watching a single TV ad. No one is watching anymore TV really. That's a fact.

So, you need to move the marketing factory to a factory that creates content on a real-time basis. And you actually need to allow consumers that engage with you to co-create some of that content and put some of the voice, their own voice in an authentic and real base to brands like Coca-Cola. This is a very, very different way of doing marketing.

This is starting to yield results. On the right side of the chart, you see some of the numbers specifically for CCEP. I think it's fantastic to see the progress of our partner in Europe. It's really leading the way in many and very important marketing programs, not only for Europe, but from Europe for the rest of the world, thanks to the talent in this part of the world. And clearly, it's driving much more gross profit for every dollar that we invest in marketing.

And the early signs that marketing is also working starts on the mother ship, on the big brand on Coca-Cola. We have seen in the last quarter, for example, 37 of the 40 top markets of the company growing in double-digit Coca-Cola Zero. It's a clear winner. There's a very specific IP going on around taste superiority that explains why we're getting closer and closer and closer in every iteration to Coca-Cola Original Taste. For the first time ever, we launched, for example, the new campaign, the new platform for the brand, Real Magic, in the U.S., not in TV. We didn't use TV at all. We put all the investment in just one single digital platform, TikTok, which happens to be Chinese, by the way, interestingly. And the results are there. 12 billion views in just 2 months. That was 4x the best-in-class example in the history of TikTok in the U.S., which was 3 billion views.

So, it seems that digital is the place to be and to work. We're seeing improvement of almost 50% in brand perception as a result of that campaign. A lot of work in digitizing our marketing programs, including food delivery, particularly during the pandemic. The work on Coca-Cola Creations, while I can confess now internally, it was a bit controversial initially, it's really, really driving more than 50% of all the search that is going on in the trademark in -- across the world. And a lot of stuff is coming for next year also in that direction.

And the reality is that when you see that this is happening, it is happening not only in Coca-Cola. It's also happening in the rest of portfolio. So, for example, in sparkling flavors, Fanta and Sprite are almost doubling the growth versus the prior year in some of the key markets, thanks to the new platforms. So, I'm not going to elaborate through all the different platforms in the portfolio and rather, I'll share with you just a quick video, which you will be able to see some of those platforms that have already been rolled out in some of the markets. In some others, will be completely new for you. I hope you enjoy it.

Thank you. Video in, please?

Thank you. Up to you, Stephen.

Stephen Lusk - Chief Commercial Officer

Good afternoon, everybody. My name is Stephen Lusk. For those of you that we met with the last Capital Markets Day, it's good to see you again.

I joined CCEP in 2017. I've been with the system nearly over 30 years. So as young as Manolo. In different rules, general management, supply chain and commercial through my career, both in Asia, Southeast and Western and Eastern Europe. So, it's great to be here.

I want to talk to you about an even brighter future on how we see the next number of years as we've been building the strategy and as we see the momentum that we have in the system. So, starting as ever, it's important that we look outside in and make sure that we're taking into consideration what's happening in the world around us. And post-COVID that's even more critical as we look to our strategy and make sure that we look at it through the lens of the macro and what's happening around us. through the trends that we see and the winning formulas that others are making in CPGs and how we can adapt to that.

And then obviously, the channel trends and what that means for us in and around where we should play and how we should win. And then, obviously, lastly, with our brand partners with the company and Monster, what the consumer trends are going to be and how we need to access those.

So as Damian said earlier, we're in a great category. It's big. It's EUR 130 billion. That's what it will be around about this year across our markets. It's growing, 3-4%, and we see it for the next number of years continue to grow. It's sizable in that API will continue to see faster growth, driven, of course, by Indonesia. But there's also the point that in Europe, it will continue to see growth. And we expect, as we've shared in our mid-term, that we will be wanting to grow ahead of that and take share.

And around that, we see in the mid-term then the capability to build our coffee innovation to go into alcohol, ready-to-drink as we'll be entering and we'll talk about that a little bit later. And then obviously, through package less and sustainability aspects working with our customers to look in the longer term. So, I want to talk about the category, and this is something we reviewed back in '19 of our previous capital markets and again, giving an update. The next number of years, we're going to see growth driven by carbonates. A great category where we have great opportunity and leadership and challenging under our coolers and flavors.

Secondly, obviously, through energy, which we believe we're well positioned to continue to go. And then obviously, tea and ready-to-drink coffee, another area. So continued growth of an additional EUR 30 billion over the next number of years, which continues to give us great enthusiasm for taking the share that we expect with our customers.

And as Manolo talked about, we have continued through the occasions work that we've done with the Company and Monster to look at the best brands with the different categories around our vision. And that category enables us to have diversification of our portfolio with all of our customers, and we're really well set up. And there'll be a few brands, as you see, like Coke that play in so many different occasions, but ultimately taking that. And you would have seen today in the market visit, whether that's in home with food or out-of-home that we are well set with our portfolio to win in the future.

And as we talk about the categories and we talk about those that are going to win and starting with our Cola category and Cola lights, a big opportunity for us. And that's going to continue to be led by the acceleration of Zero Sugar, where we're going to continue with the Company to look at recruiting consumers into the no-sugar continuation.

And then obviously, secondly, you'll see just now as we see zero, zero going into a new occasion, the late evening when zero caffeine with zero sugar, a phenomenal success from Spain that we're exporting across all of our markets. So big opportunity in Cola Lights and in Colas still to drive continued margin and growth.

And then in energy, you'll see, as we've just announced in our Q3, continued growth, up 60% versus '19. The energy category really is on fire and through innovation and what you would have seen today in the market through great execution, through our retail and on the go and the ability to provide also no sugar. We continue to have a great opportunity to grow and win in energy.

As we look at the other parts of our business, and Manolo talked about flavors, we have continued to work with the Company on having a great sugar and a great zero-calorie portfolio. And that's really how we're going to see continued reformulation and ways in which we can win as we go forward and being even more relevant to teams. And you'll see from Peter a little bit later some of the innovation that's coming through and we'll continue next year to look at that innovation.

And then in the ready-to-drink tea and coffee area, Fuze Tea in Europe is looked upon by the Company as one of the best relaunches from Nestea to Fuze Tea. We continue to go from strength to strength. And then obviously, our decisions to refine our innovation and choose where we go with Costa. And for those of you that will be around later tonight with Nik and Sol, at the late-night bar, we'll be also wanting to show you how we take Costa Coffee into a different way in which we can believe that can stretch the credential of the brands at a late-night offering.

Back to what Manolo said, we're in a category that continues to have great opportunities with our consumers and the priorities we set with the Company and working with the Company to prioritize in those areas continues to bring focus in continued investment of the Company. And then the choices that we're making. So, as you see, we'll be looking and we're very excited to look at sports, sports being another category, learning from Australia but also with Bodyarmor, Powerade and Aquarius, we'll continue to look at that functional and that consumer trend to health as a big opportunity.

And then lastly, of course, we cannot talk about alcohol on the impending launch that we have, and you'll hear more from that later tonight, you'll be able to try that when we go into Jack Daniel's and Coke early part of next year in Q1 and Q2 when we move with Brown-Forman. So, we're excited about those innovations and about the choices and priorities that we're going to take.

What's great about the resilience of the category is also the diversity, and Damian talked about it. We want to grow, and we are in a growing and diverse and resilient category, both in-store and online. And one of the things we've seen on the diversity of our channels is that many of the at-home, post-COVID trends have stopped. So, you will have seen today when you're right in the market, many of the at-home occasions that we are tapping into that's enabling us to drive growth, whether that's with food or eating in or socializing with friends.

And then what clearly we see in the next number of years and away from home, that many of our away-from-home socializing will be driven by HORECA. Food will be trading in QSR, where people are looking for value. And then obviously, we'll see continued growth in Indonesia through mom-and-pop stores, and you'll hear Peter talk about general trade and that opportunity. And this continues for us to see the ability to grow and win with our customers.

And that means in reality in home, as we've said, but that we're not agnostic to growth, we want to grow wherever we can. And through our home market, as Damian said, when we created CCEP, we had 2 objectives: one, get sparkling back in growth; and two, create and bring margin growth to our customers in retail. And that's something that we've done successfully and continue to invest upon, and that's something that you'll hear Peter talk about how we want to bring that to API.

And then obviously, we've invested in digital, and that's enabled us with data and analytics to be able to create ways in which we see growth coming. And then as Damian said, we continue to be the biggest value creator for our customers across those markets in FMCG as well as NARTD, driving growth and margin that makes it also a great story for our customers.

But that doesn't mean that we are happy with where we are. And as we look forward to the next 5 years, we see significant opportunities for us to grow. And some opportunities that we talk about is we're reviewing again, as we look to the challenging times ahead in our market, what we call segmented affordability. And you'll hear Jantine talk later about our R&MGM capability and how we're looking at how we segment our different types of shoppers to enable them to drive affordability.

And then doubling down as we say in home, on our revenue and growth management. Peter will again talk about a little bit of that and what we're doing in API, but we believe that is another capability that will enable us to win in the future. And then obviously, in away from home, we continue to see accelerated growth, as Damian said, coming out of COVID. And we knew that we can improve with our execution, our capability and all of that enabled digitally. And you'll actually hear a little bit later from one of the team, David, talking about how we're doing that with customers.

So finally, talking about online and winning both, as Damian said, in-store and online. And we continue to have higher share with our customers online than off-line. If you take an Australia or Spain, our NARTD share is 10 to 15 points higher at nearly 40 online than it is off-line. And at the same time, we continue to work very closely with those online food services to drive incidence, which is critical for that ticket with our delivery partners or fast food and international QSR customers.

And the reality is we continue to invest as a business, and much of that are a significant amount of our future-looking investment, again from our capital goes against digitizing and enabling our revenue growth. So finally, we're in a great category. It's big. It's growing. It's dynamic and supported by great people and great partners, we're going to continue to have a brighter future.

So, with that, I'll hand back to Damian. Damian, back to you.

Damian Gammell - CEO

So just noting that Manolo got the loudest applause. I think that's a function of so many bottlers being in the room and trying to keep the Coke Company happy. So, we're just close to a break here. I think we're good in time. I just wanted to just close off with the map, and it kind of goes back to something we talked about at our Board, and we're going to hear from Peter next around the API acquisition, was that we set an objective. One obviously was to make the acquisition accretive and great for our shareholders. You'll hear we're doing that. And secondly, it was to make Europe even stronger.

And particularly when I talk to a lot of our large shareholders, I felt that was really undervalued in terms of the potential that we could take from, particularly, the Australia and New Zealand businesses back into Europe. And I think when you hear Peter, you'll get a flavor for what we've been doing.

You've heard from Stephen and Manolo quite a global and kind of pan-country perspective, I just don't want to lose what's great about our business as well, which is the bottling business is still quite a local business. And if you take our markets from Iceland, where we're the second biggest player; go to Norway, where we have a fantastic coffee business over many, many years; go to Sweden, where we probably have one of the most diverse and sustainable workforces in Europe.

Here in GB, hopefully, you've got a flavor today, wonderful key account management skills, big ambition, great supply chain management, go to France, where we've just relaunched a whole RGB portfolio in away from home. We've got the Olympics coming. Germany, you'll hear a little bit a bit later from Jose Antonio and Nik, great capabilities around discounters, who are the winners in retail, we know that. But also significant restructuring and reorganization over a number of years to unlock value. You've got to go to Belgium, probably one of the best away-from-home markets globally for the system. The Netherlands just won the Candler Cup, built on numerous years of success. You've got to go to Spain, traditionally one of the best Coke markets in the world. Again, a great HORECA business, great brand love and a great supply chain.

Portugal with Ruis and the team, turning around a business that has struggled for a number of years. And then finally, I want to talk about Bulgaria. We'd like to, but we don't sell there. But we've got a fantastic shared services capability in Bulgaria that really is helping us transform CCEP, not just in the areas of process efficiency, and cost within the areas of data, analytics, robotics, a fantastic group of people led by Tamsin, highly energetic, young, talented. And that's also allowing us to unlock a lot of value beyond the top line right down through the P&L.

And after the break, you'll hear a lot more on the other side of the map from Peter around where we're seeing API.

Peter West - General Manager API

So good morning. I say good morning because it's 1:15 a.m. for me. So, I'm Peter West, I'm the General Manager for API.

And just as a brief introduction on my background. I started my career at Mars in the pet care business, then moved to confectionery, I had 11.5 years. I had 6 years at a biscuit company called Arnott's, which is quite an iconic business in Australia. I then returned to Mars for another 8.5 years. And the last job I had was running the chocolate business in Continental Europe based out of Brussels.

I then went back to Australia, ran a dairy business for 4 years, and then I joined Amatil in 2018. So, it was a very different experience from 3 years of being at Amatil to then go through the acquisition. I've been involved in acquisitions before, but not to be on the receiving end. And it's a very different experience as you wave goodbye to your peers and boss and everything else as you go into a new world.

So, we're 18 months from the completion. And I suppose my message to you is just how brilliantly the integration has gone. And my sort of reflection having worked for large multinationals is I think there's a continuum that exists between local market accountability and then how do you leverage scale and capability. And I think all large companies struggle with that to get the balance right. And I believe that CCEP, and I say this very sincerely, threads the needle of getting that combination between local market accountability and scale perfectly right.

So, I think that's actually made the integration extremely successful. But it has meant, certainly from an Amatil perspective, a difference to the way we operate it. And I would say, we had a very strong local accountability but we weren't working in an interdependent way and we weren't leveraging scale and capability in the same way. And so that really does, in my mind, step changes, I was sort of reflecting in coming here, is that I can say if you fast forward from 18 months, I say sincerely, we are a much better business than what we were before.

And we do get to leverage expertise and the expertise because of the breadth of the markets that are involved in CCEP. So, when we're putting a new can line into the market and we're going through the specification and we're dealing with the experts that sit within engineering and capital, we make a whole series of modifications to that planned investment that ultimately saves millions of dollars and generates the efficiency. And that type of expertise function by function is something that we really tap into to take us to the next level.

Under the new ownership, there is an opportunity to become more focused than where we were. And you start to address, is there a size of prize for things that we've been in the past and you address some of those issues. And one of my themes for today is that we operate in a super impulse category. It's incredibly responsive to display in activation. So, portfolio and portfolio prioritization is actually the key to drive the category.

The 2 things that were different to what I expected. I think the first was it's a learning organization. And when you're a part of large multinationals, often, there's a way it's done, and they're not that receptive to learning something different. And so, I was sort of surprised by a very successful organization that's done incredibly well over a period of time to being so open to new ideas. And if we presented stuff that was good, they'd say, "Hey, that's better than we do it." And we'd be like, "Oh, wow, that was a great feedback, wasn't it?"

So, to get that reinforcement and then to see our ideas being shipped into Europe has given the team a lot of satisfaction about the openness of the culture. And then there comes an ambition to take our performance to a high level. So, if you set an ambition to be the #1 value creator for your customer, it starts to put what is possible and then you start to take those learnings. So, it has made a difference to the acquisition. And I do think you see that in our performance year-to-date.

In doing the integration, you can imagine doing it mainly via video conference. What we did is we're very clear on the cultural elements that we thought would make a difference. So, we aligned our reward system, we realigned our rating system. We embraced the artifacts of the organization. I feel it's incredibly important. And then we tried to drive the functional alignment that would really make a difference.

And then what we had was a value realization committee, and this was really the business case of making the acquisition work. And there was a frequency that existed in the value realization on these themes, which is how do we leverage the expertise that sits in Europe to make Australia and New Zealand a better business now, especially when you look at the similar opportunities and issues. And then what would really make a difference to the long term is a real reset of Indonesia.

And having Indonesia that is, therefore, a bigger business and will be, therefore, accretive to the performance of our organization for the long term. And so that's been the theme of the value realization committee over video conference for a long period of time.

So, what I'm going to do today is try and bring to life the Australian turnaround story and where we're at on that. And then I'll share it really about our Indonesian plans and our expansion. So, if you go to talk about Australia and New Zealand, you always have to start at New Zealand. And when I had the pleasure of hosting, Sol and Damian there, Damian sent me an e-mail afterwards to say it was perhaps his best market visit in 25 years because of how great the market looks, is a great role model for our organization.

And where we were at, I would say, in the past, when I joined in 2018 is that we weren't taking the learnings from New Zealand and transferring that out. And if you go to the magic of New Zealand, it actually starts with the growth mindset of the organization. And people have an expectation that they will beat the market and that the way they design it, I'd say, is elegant because they're very clear on the role between large stores and big stores. They understand their costs unbelievably, therefore, how they design their pack and price. And then they understand their profit to serve, not their cost to serve in how they operate. So, they are the best in the standards of driving the picture of success. And the right execution daily of what you see in store.

So, what they present to you on a PowerPoint is what you see in the store. And I have a view in packaged goods that you should be able to stand in a store and look at a fridge, look at a fixture, look at the display and you can actually tell the strategy of the company being executed. And that's what you see beautifully in New Zealand.

The good thing is that we've taken a lot of those learnings from New Zealand in recent times to Australia. And countries that were in lockdown for so long like we were, but as the team from New Zealand now come to Australia, they see a very different business pre-lockdown and the learnings that are taken there. And that's what we also see is the opportunity for New Zealand of tapping into the broader learnings in Europe.

The performance and the track record of success over many years has been significant. And the value shares that we hold within the market is incredibly high. And so, the New Zealand business does it as a very good proof point for what's possible and the learnings that we also apply from New Zealand to the rest of the world.

So, moving from New Zealand to talking about Australia, we are very optimistic on the fundamentals of Australia. We do have good population growth. I'm personally a big believer in the Big Australia. It's too big a land mass with such a few people and immigration is fantastic. And historically, before lockdowns, we were growing at a net level of about 200,000 from immigration. And it really powers the economy and the strength of our country. And then we have a buoyant NARTD category. And I think the behavior of the category is operating differently post-COVID.

I think that there are more occasions that do exist in this sort of balance between home and flexibility of work. I think it's an incredibly buoyant category as a result. And we're incredibly well-positioned against that with our market share, and we're even stronger in the away-from-home sector. And when you add that from an NARTD we'd be over 40% of the market.

We've got a very nice spirits and RTD business, which I'll talk to, and the market share on coffee has specifically to do with beans in grocery. So, I'm not preaching with an 18% share of the market. It's beans within grocery. And what we do is we then leverage the cost structure of our supply chain through the efficiency of that to our away from home business is a really effective bean production.

Our competitive advantage is we have a direct store delivery business. We delivered to 94% of postcodes, fortnightly or less. We're second to Australia Post and therefore, that reach that we provide by postcodes. We have a strong equipment business in the market that is a real competitive advantage. And therefore, it's about how do we leverage this capability to take us to a higher order.

The challenge for us was that from 2012 to 2018, we declined as a business. If you go to the sort of the background and the history of that, the #1 issue that we had is that we put an over-emphasis on emerging categories and innovation. And the maths don't work for you because of the dynamics and importance of just core sparkling, and we just had to get back into growth, especially on brand Coke. The second area is we've under-invested in small stores and the flip of that was that we were overly-reliant on price promotions in grocery. And then because we had a decline, we just lacked a bit of a growth mindset, and we didn't have benchmarking. And I sort of have -- when you have good benchmarking, it gives your belief as to what's possible and it actually sets an agenda to take you to a higher order.

So, we have been improving. But on each of these areas through the acquisition, we really take capability and performance to the next level, becoming even clearer on our portfolio prioritization that powers us to provide simplification for our supply chain.

The knowledge in revenue management and sometimes the courage in revenue management, when you're taking the move and your 2/3 the profitability of a company, it's just much harder as a risk profile versus when you're a smaller part. I think the real thing that we would bring as a present to the CCEP ownership is precision execution. And then we get to really leverage being part of the global system for best-in-class when it comes to supply chain sustainability and talent.

So, I'll try and bring to life the first 3. The most important part of our business is brand Coke of the NARTD business. It's over half our sales. Getting it back into strong growth is the most important and growing share. The explosive part of the market has been Coca-Cola No Sugar. So, we're seeing low single-digit growth on Classic and we're seeing explosive growth when it comes to No Sugar. So, the formulation change that Manolo spoke to has been critical because the taste is so exceptional.

The packaging change has really worked. And I think the most important thing in the packaging change, the logo size and the shopability, and then the colors that have played out in No Sugar, the marketing that's supported No Sugar. And then I would say, precision execution, which I'll talk to.

So, we've consistently won market share over the last 2 years off the back of this, and it is the most important battle for us moving forward. What you see on this page is when you look at the market growth, the market growth is really being driven by the categories that are core to us, where we have a good share position and we also have good capability. We took a view on water that over time that still water will be a smaller part of the market, we really had to reorientate Mount Franklin to sparkling water. And we've done a really good job of driving range into sparkling water and driving our share of sparkling water, which we see as the sort of driver of that water category into the future.

So, from a NARTD, we think we're well-positioned. The area of weakness for us had been flavors, and we've lost share over a number of years. And we've had too much packs in the market with duplication and we've had a lot of dilutions, that was a key area for us in acquisition and I'll talk to that.

We also have a very successful alcohol ready-to-drink business, and I thought I'd just bring that to life. So, it represents -- RTDs represent 18% of
the alcohol category. Now if you look at a lot of markets across Europe, you're probably talking 1%. When you then look at the growth profile of the market, what we're seeing is a decline in beer, a decline in soda, wine relatively flat, single-digit growth on spirits, double-digit growth on ready-to-drink. And so, if you're a retailer and you want to be growing and you want to be part of the future, RTD is what you have to back because it transforms the age profile of your shoppers. So, beer shoppers probably look a bit like me. People under a certain age are not buying it. And they're moving to this category as a replacement.

So, for our Rugby League Final in Sydney, where we had Paramatta versus Penrith, the #1 selling alcohol product through the bar was RTD. So, it just goes to show how mainstream it's become. Now we really love it because we get to make it on our can lines. So, we've got investment in alcohol tank farms. We buy it off the same suppliers in terms of the packaging. We then utilize it in the same warehouse, albeit that they're bonded. And we get to leverage all the efficiency of our supply chain.

And then lots of the knowledge that we have in execution play out to this category, especially at a segmentation and a precision and we've had a really good track record of landing innovation in the market. So, it's a really nice piece of business. But we've been selling it for a long time, and therefore, the knowledge that we've built. And as you enter alcohol, you learn about the legal obligations that are required. You learn about excise tax. We pay over $700 million a year in excise tax. It's bound to a CPI increase. So, you learn lots of things as a capability that are built over time.

In the integration, what we did in the first 6 weeks is that we did a program, a [Sprite] program of how do we turn around our flavors portfolio. And we aligned with the Coke Company on this program. We tried to incorporate a lot of the learnings out of Europe, and we've had a really explosive performance off the back of that this year. And it's really pleasing to see the share turnaround that we've had. And if you look at it, it's driven by small packs, and it's driven by No Sugar, in particular. And we're starting to see, as bars reopen, some of the post mix business also rebound from a channel perspective.

So, it's been incredibly strong. And the most important thing for us to deliver our sort of medium-term plan is the performance of flavor. So just getting traction there is very important, and we were weak on lemon and we've launched a Sprite Lemon+ with into the marketplace.

So early days, I wouldn't declare victory, but we're certainly pleased with the progress we've experienced here. Product prioritization, it's also been clear on what not to do. The starting point for us that I'm really pleased with was that we had brands that we owned and that brought us into conflict with the Coke Company from a role sort. So, we've done that transaction of selling those brands to the Coke Company. And what I like is there's a perfect role sort of how we move forward.

What it means for our customers is that we actually go forward in a coherent way of presenting the category and presenting our innovation. Because strangely enough, when you are competitors, you can't share your plans between each other in a coordinated fashion. So this has been great to make the role sort. We also took the opportunity to look at the categories and to say, do we actually have a right to win from our shares. So, the example in there, we had a 1.5 share. If we did really well, we might do a 3 share.

It's not going to move the needle in terms of the economics, and it's a distraction. You can't leverage it through your supply chain. It requires its own brewery. And we can turn around our core business within a few weeks to pay for what we've been making in this area.

And then we took the opportunity to sort of simplify our portfolio. And when we looked at Europe, we would say, gee, we do have a lot more SKUs. And we talk about 25% of our portfolio when I joined between sort of '19 to '20, and we thought we'd move the needle. But then when we recognize what was going to happen in our supply chain, and so we felt COVID was going to be nothing more than a dress rehearsal for the turbulence of the supply chain. If you then look at if you're going to be having issues in your supply chain, what decisions do you want to make that frees up capacity.

We looked at what played out with Europe. And so, this year, we've got 37% less SKUs in our NARTD portfolio. When you look at the loss of sales that we've had, it's pretty much gone to our other parts of our portfolio. And then it's freed up an enormous amount of capacity for us that we can then sell at a higher margin.

So, for us now, we've done that with Simplification 2.0, the team have presented to me last week, 3.0 and 4.0. So, we know that we've got a lot to drive here. And therefore, we're seeing some record performances in our supply chain off the back of it.

When you sort of go back in the history of the business, and you're declining, it does mean that there were a few of me turned up. There's a few different MDs in that time that sort of front the organization. The leadership of the business actually becomes like they're really under pressure. So, we had some good people, but it was an incredibly tough time.

So, as you sort of bounce out of that, the confidence that comes in what's possible. So, it feels more like when I'm at a meeting now, it feels more like I mean, the New Zealand mentality than what it was when I joined. And especially on brand Coke and getting that back to really strong growth because that's what gives us the credibility with our customers is what generates the growth and it allows us to bring our total portfolio along on the journey.

So, the share improvements that we've seen across the year this year have been very positive. But I just wanted to call out the Advantage survey. So, we were in the top quartile of our peer set. We were sort of sitting at #5. And in the latest survey, which was just out in October, we finished at #1. And we finished in #1 also on supply chain. And when you look at each of the measures, we were #1 on ESG of the moves that we've had.

And of the 20-odd, I think there's 28 different measures, we're #1 on about 15. So that was a particularly pleasing reinforcement. And again, if we benchmark ourselves to GB, we would be saying there's a raft of things within that are much better than what we're doing. So, we think we can continue to really step that up. It is an important one to get to #1 when you get to the discussion on pricing because one of the areas that we really try to focus this year on was the price realization, which was within our customers' calendar, financial calendar last year, we took 2 price raise, we did 1 in July, we had 1 in February.

We also made changes to the promotional depth. It was a category where it was incredibly responsive on large cans. And so that 40% has actually become the maximum of large cans. So, if you're in Australia, the last week of September to October, the maximum you would have seen is 20%. Now you're trying to manage your market share at the same time within that mix because of the discounting of our competitor. We really made significant inroads -- and I think the key benefit that we've learned has been how it's unlocked our smaller pack sizes by providing the oxygen and it's exactly what happened in Europe by doing it, provided the oxygen, our fastest growing is the 10 pack, six-pack mini cans and the 12-pack by 300 PET. And we launched the PET because of the price of cans, and we wanted to put another offering into the market, and that's had an explosive growth for us.

So, I know there's often sort of questions about the Australian retail scene. I would say it's great from a collaboration, having had 20 years of managing businesses in Australia, it's the highest level of collaboration that I've experienced in that time. And I do think the establishment of the grocery code of conduct and the requirements that sit within that has been an enormous enabler to how we operate.

What we also would put forward on our journey on revenue and margin growth management is there's more to be done. So, the tools that exist within Europe are certainly better than what we would have. So, our trade promotional optimization is a program that we're rolling out that leads to a much better optimization of our promotions and our future pack price architecture.

It's been the area that we probably put the most change in resource. And so, we've redeployed significant resource of the organization to beef up our journey here. The area that I'm really excited about is when it comes to data and analytics. So, I've worked in confectionery, salty snacks, biscuits, gum. Never seen a category that's as responsive as beverages.

Like you talk about impulse categories. This is the super impulse category. And it's because household penetration is so high, the appeal of the brands are so high, the ability, therefore, to get the display standards and the activation right magnifies an impact like no other category I've experienced. And when we look at our business, we get store level data to about 85% of our volume and either that's customer data, it's transaction data that certain customers provide for us. It's part of a joint business plan that we have for things like QSR restaurants. And it's our own direct store delivery data.

When we look at it, you take the same customer, and we look at their store profile, the variation from the average is significant. So, you have certain stores that are selling certain mix and certain stores. As soon as you can get those insights, you start to form clusters of behavior. And what I would put to you that people that can use clusters will beat the people who use the average every time. And because of our size and our market share and our field size, we actually have the ability to activate clusters that nobody else in the industry has because of our market share. So, the way we bring that to life is we use it in joint business planning. So, we'll have a QSR customer where we use their transaction data. And we'll show them what meal bundling looks like by type. So, if you're selling chicken versus whatever we'll say here and why. We've got pizza chains where we'll say to them, you've got 10 restaurants that you're closing too early on a Friday and Saturday night because 75% of your sales are Thursday to Sunday. And when you look at how many pizzas are coming out of the oven at closing time, you're closing too early. So, the data and analytics of the organization are incredibly strong.

Coca-Cola No Sugar is another great example because if you walk in with one of our reps into a store, they'll say to you, this store is 55% No Sugar. The display standards are 55% No Sugar. What that means is if it's visible and available, especially during peak trading, it makes a step change to performance. And then we see key selling weeks and the variation, no surprise in Australia, those that are closer to the beach, do better in key selling weeks. We're incredibly responsive to weather but the pack tied by area changes. So, we can walk into a store and present to a store manager what key selling week and which packs need to be on display.

We also use it in our away-from-home. If it's a single door fridge, what do we want in it. And you can imagine, when you've got something as precious, as 1 door, you don't want to load it up with low performers. Therefore, ranging of the blockbusters. So, in 2018, we had more distribution of Mount Franklin water than Coke 600 ml. Once you’re clear of what velocity looks like in success, then you can drive it. And the field tools that support that are incredibly strong. We also have large retailers that we learned from.

And I would have said in my journey, I used to walk into a customer and just based upon leadership, I could sort of say who I thought would win and you take into account their supply chain and their store footprint. But you've said based on leaders, what would I now know to me, it's who uses their data the best and the leading retailers the way they're using data and the way we respond.

So, we do have an accelerated performance plan for Australia. We're strengthening that plan through the acquisition and the integration focus that we've had. And therefore, we do have a lot of confidence in our ability to continue to drive the business performance and the sort of financial objectives of CCEP.

So, moving from being a better business. I now want to talk more about being a bigger business and the opportunity that exists for us in Indonesia. Today, it represents 29% of our volume in API. It represents about half of that of our net sales or our revenue, and it represents less than that of our operating profit.

So, gearing up growth and scale here will be something that's therefore accretive to the performance of API, and then we'll keep Nik happy that API is accretive to the performance of CCEP. When you see the opportunity in Indonesia, it's significant more than 270 million people based in Indonesia. When you look at the economy, it's the largest economy in ASEAN. And if you fast forward based upon the sort of fundamentals, the sort of prediction it will be one of the big markets or big economies around the world.

It has very low per capita consumption of NARTD and the job to be done, it has very low per capita consumption of sparkling. But if you look at some of the fundamentals, the fundamentals are strong. Because with that, you've got a growing middle class, you've got a young population and you've got increased urbanization. So, all of those things will be a positive tailwind for the category.

Now in developing the forward strategy on Indonesia, you have to start on shopper behavior. And if you go to the sort of the households with low per capita consumption, small kitchens, a lack of refrigeration, a lack of motor cars, people shop frequently. And so, they shop somewhere between 5 to 6 days a week. And for most people, the notion of a daily shop would be something that they do.

So, the winner at a local shop, therefore, is the general trade rather than the large supermarket. It's those that are in proximity to the home. And if you picture a small general trade store, we're talking about something of about 10 square meters. And you can imagine the range that they can have. So, the shopkeeper wants high-velocity items. And the shopkeeper is focused on cash because if they sell something today, they want to replenish it tomorrow at a wholesale level on that supply chain.

So, it's an SKU-driven business. And then the route to market that goes with it is incredibly complex between distributors and wholesalers to be able to get that reach. Now as we've been sort of formulating our go-forward strategy on Indonesia, we've certainly reached out to other emerging markets within the Coke system to sort of get an understanding of the success stories, and we've done a whole lot of deep dives in markets, but perhaps the most valuable for us has been to study what the winners have been doing in Indonesia.

And the starting point with the winners is that they've been incredibly consistent over time. And if you look at our history, I'd say we haven't been consistent. We've had some success. We then had complexity. We go back to being more focused. We had complexity. So, we've not been consistent. But if you go to the winners, they tend to focus on a few categories. They tend to be very focused on the general trade because of its proximity to home. They're also very clear of the prioritization that it's an SKU game.

So, if I said, I believe the world of beverages as an impulse category is an SKU game, we get magnified by 10 or by 100 because of how small the stores are. And therefore, you've got to be able to put forward a very clear picture of success. So here, we've been obviously going through a journey, which is greater prioritization across the board.

So, in portfolio, in geography and how we improve our route-to-market effectiveness and then how do we bring people especially to the sparkling category. And then we also recognize being Indonesia that we have to demonstrate leadership in sustainability, with a priority on packaging, with a priority on plastic as the call out. And obviously, that's the journey that we've been on.

Now if you then go to portfolio prioritization, if you go to what the winners do and this being a super impulse category, it's the cornerstone for us starting. So, within the general trade network, for us, this is a prioritization of 6 to 10 items that make a difference to distribution. And in the modern trade, we're talking about 35 items. But in the modern trade, there will be no modern trade store with 35 because you can imagine a QSR outlet that we might be selling post mix to, versus a bar that might be having some mixes, versus a grocery store. So it's got some different nuances to that range.

Now we had a portfolio of over 100 items. And I always have a view, are we setting up a good person to do a good job or is that complex that not even a good person could do a good job. And if you are people with more than 100 choices to be made, don't be disappointed when you see a lack of consistency in execution. So, for here, the prioritization is driven at a SKU level, which then drives a category focus. Now if you then look at the stores that we were covering directly, we had more than 20% of the stores that we covered that were only buying cup water and cup tea. They had no margin structure. They weren't buying sparkling or our blockbusters at all. Because if I'm selling, I've actually got range of some volume as opposed to the important things being ranged within the store.

So, the job to be done here is, in reality, priority 1, 2 and 3 is sparkling because of 3 brands, Sprite being our largest, Fanta and then really unlocking brand Coca-Cola. It's a strong tea market and therefore, seeding that for relevance to the future. And then when you look at selectively in dairy and juice, think of 2 SKUs only that we have invested in those in the past. We've got some velocity that we're very narrow in our participation there.

We're seeing some early success in this momentum, but it's a journey that we're on to see sparkling growing at the volume levels that we had is pleasing and a reinforcement. But we realize that there's a lot to be done here.

Over the last few years, we've also had in the shadow of a future of a plastic tax or a shadow of sugar tax. And those things are not clear. And there's an election in 2024. So, we'll have to wait and see how some of these things play out. But when you actually have a narrow range of 6 to 10 in general trade, then you can do reformulation. You can manage pack size changes because you actually have a size of portfolio to manage. And then you can start to drive No Sugar as a part of that.

So, we feel having the portfolio that we've got allows us to be able to modify those options into the future. At a geography level, I mean, everything about Indonesia is massive, right? 270 million people, 17,000 islands. The one side of the other is like 5,000 kilometers. There's 3 time zones within it. It can look incredibly overwhelming, but really, it's about Sumatra and Java is where the economy is at.

And when you look at where the GDP is, we under-trade in those areas. So, we have good national coverage. But we're not really maximizing where the heart of it is in the prioritization at a geography level. Now at a modern trade, I think we've done a respectable job. There's certainly lots of tools that we can have. There's a lot from activation at the modern trade. The big job to be done for us is within the general trade. Job #1 to be done is actually what we've been saying is high-velocity customers, within the general trade.

So, we have approximately 150,000 high-velocity customers. There'll be more than 400,000 within the market. These customers actually give you the sort of drop efficiency, supply efficiency that underpins your business. The job 2 to be done is ranging their blockbusters within those outlets.

And whether we look at Nielsen data or our own data, there's a job to be done to make sure that the blockbusters are ranged. And once you get velocity coming through in outlet and velocity in the blockbusters, then you can continue to redesign your way up to market because you actually have efficiency to be able to manage that.

So, the journey that we're on a route to market efficiency is going to learn from the winners. It is the combination of having your own direct approach with wholesale. But before you get there, you've got to make sure that the combination is the winners in the market would be using distributors, exclusive distributors to get to the larger stores and then wholesalers that provide the breadth of distribution. As you can imagine also the country, the number of islands that you get to with wholesale. It's also for us about sales force effectiveness because we've had industry lower volume outlets.

A lot of our time is spent on customers that you won't get a reward that need to be covered by wholesalers. And therefore, it's an optimization of resource. And to do that, you've got to have a digitization so you can keep control of your business and your activation. The job to be done in partnership with the Coke company is about driving the relevance of sparkling. If you arrive there in Ramadan, you would get a different picture as to how you think the market looks. A different perspective, it's incredible, with level of relevance compared to the other months. We just got to be able to drive this harder. It's a great area for recruitment. And then the opportunity is to make it more relevant all year round. And we do that through the combination of breaks, meals, but also the passion points of music, sports and gaming. And that's, therefore, very important for us to recruit.

We do want to take a leadership position on sustainability. We have managed reduction quite well in history, but establishing recycling within the country becomes the key. As you can imagine, the infrastructure is not great. The consumer behavior around waste and rubbish is not developed like you would know it. But what we have to do is set a journey of our aspirations. So, what we've done here is we've invested in a joint venture with a local company on an rPET plant. It's a world-class facility. It's up and running. Next year, that facility will produce 25,000 tonnes and about half of our total plastic needs will be through rPET through this facility.

To provide the feedstock for that, we then had to provide the collection system, and we've really tried to learn from places like Mexico on how to do this. And in the collection systems, it starts with the pickers. And there's about 5 million waste pickers in the country who will take material if they can get value. By putting a value on the plastic, the picker makes money. We then have collection centers who sought the material, then it gets bundled. And then we have a non-for-profit who oversights the whole area from a sustainability and human rights. So, it's been a massive investment. This is an area that we're really trying to take a leadership on plastic. We're then trying to throw the challenge to our large competitors to do likewise.

And if you can imagine in a country where there's lots of small packs across the board, there's a job to be done of creating this industry. So, from an Indonesia perspective, we understand it's about setting the foundations right. And we're very clear about its long-term opportunity. And I think the thing that I've really found different in presenting this to Damian and Nik, it's actually having patience as we've been working through it. And having come out of Amatil where there's a lot of frustration about Indonesia, as we presented it, let's get it right. Let's take our time. Let's make sure we make the right decisions.

And I think that sets us up really well. But it is one that we'll learn by doing. And then to give you a sort of a sense from the acquisition, and I hope that what the presentation has brought to life today is that we are very excited to now be a part of CCEP.

The integration has gone brilliantly. You can say that if you don't have momentum, then it probably doesn't have credibility. We have good momentum. We recognize that in the results within the market share, within Advantage. We do believe we're a better business now in the key markets that generate the profit today. And we think we're setting the foundations to be a much bigger business in Indonesia to the future. So, thank you, and I'll now pass to Stephen Lusk.

Stephen Lusk - Chief Commercial Officer

Thanks, Peter. Back in '19, when we were doing the due diligence, we were looking at what the plans would be and the opportunities. It's fantastic to see the progress and the headroom for growth that we see and a lot of that, we based around our capabilities. And the capabilities for the future and making sure that we grasp the opportunities in a brighter future, as I shared earlier.

So, we'd like to share with you some of those capabilities that we believe are going to make CCEP what it is to be a fantastic business to grow and invest and to create shareholder value for ourselves as well as our customers. So, myself and a number of the team are going to share some capabilities and what we think is going to make a difference for the future. And really, it's all about what we call joint value creation and joint value creation with our customers. And we're going to take you through the story of how we do that around the wheel. From our signature program, which is around about how we deal with customers and work; two, our ability to drive revenue and margin and growth for ourselves with our customers in the category, enabling our future digital capability as we learn and we progress and we invest some of the capital from Nik into our future capability.

And then being able to use that with smart execution, some of which Peter has just shared and other examples. And then lastly, to be able to show you what that means when we bring the future forward and the future back as the supply chain is going to enable great success with our customers.

So really starting about world-class customer management. And this is all about why someone or a customer would do business with CCEP and we call it our CVP, our customer value proposition. That is what they get when they do business with CCEP. And how we serve them across the different elements of our portfolio, our vision, our ability to grow margin all the way through the wheel to what we then deliver and hearing about the numbers like Peter on the #1 Advantage and the ability for us to pivot quick with those capabilities is critical for us. And this is something that we're very focused on as a large part of our business in many of our markets is both retail and out-of-home customer. And that's critical for us as we continue to build that for the future in the next coming years. And we understand what our customers need. And we have spent a lot of time since we last met many of you in '19 all the way through the pandemic as we come out and eye on being able to upskill our capability. So, understanding the profit pool, where we chase the money and where the value is for ourselves and our customers on how we create that value.

What we are able to do then through data analytics and our capability to drive revenue and margin and obviously, ensuring that, as Peter talked about, joint business planning through our functional ways of working to deliver value. And our customers are quite simple in what they ask us for if it's in retail. It's to get into more households, to make sure through more households, we get more baskets and through more baskets, we enable more stores and through more doors, we drive more margin. And if you're in away from home, it's driving more people through the door, driving greater incidence of our beverage with a transaction per incidence and an amount.

And that way, we create value with both retail and out-of-home. And to do that, we obviously need to understand better our customers. And that's where I would say we've made a lot of progress, and we continue to challenge ourselves that we need to make more on the capability of how we bring insight into the capability to drive growth and that mindset. And you're going to hear a number of areas of how we've created where to play, how to action and how to win with a number of initiatives and investments that we've made as we go forward. And we're not there, but we know we've got a lot of progress to make.

And you're going to hear from the team either that through customer and how we drive margin through promo optimization along with price realization, whether it be understanding where you go to find the money with profit pools with our customers; to, obviously, when you're in indirect or direct markets, how you use data to try and find headroom for growth and then how we activate our frontline, which many of you would have met this morning with tools to be able to make that happen. So, with that, I'm going to pass over to Jantine, who's going to talk about revenue and gross margin. Jantine.

Jantine Grijzen - VP Group Revenue & Margin Growth Management

Thank you, Stephen. Yes, I do think R&MGM is 1 of our essential capabilities going forward. My name is Jantine Grijzen. I joined CCEP 8 years ago to build RGM capability in the Dutch business in the Netherlands. And then I progressed to the Retail Director in the Netherlands, working, negotiating and growing with our retail customers. And then I moved on to a group role for international customers, and now I'm solely focused on revenue and margin growth management. And we want to continue to invest in that as a capability for 3 reasons. First, to expand our strong foundations in growing RGM to also maximize margin growth from the traditional RGM lever such as price, promo and mix. And we want to have the capability -- strength and capability to do both, grow the revenue and maximize margin. And that's also why, from now on, we will add the M to R&MGM. Second, because we still believe and know there's a lot of headroom for growth to smart R&MGM, both in away-from-home and in home channels. Third, because we want to proactively grow the customer profit pool with our customers, and also capture our fair share of it. And that's a strong link between the world-class account management program, Stephen talked about. And we really truly want to be that FMCG player that is able to create win-win with our customers also in the area of profit growth and margin.

So, the headroom. We not only identified the headroom, but also identified the levers and the programs to capture the headroom. And that's also why I am personally very passionate about R&MGM. It's because you always start with the headroom, and we identified the programs and the levers that will support our midterm growth vision of approximately 4% revenue growth. And volume, price and mix will all be important contributors to that. Let me give me a few examples of volume you already heard Manolo and Stephen talk about the category growth potential. Let me take the example of increasing incidence in away-from-home. By incidence here, we mean how often you buy a drink with your meal. And we can learn a lot still across our countries and by simply bringing our efforts to the best-in-class countries like Spain.

And also here, we can learn a lot from Australia, where they set together with one of their quick service restaurant customers and they set ambition to bring the incidence from 1/3 to 50%. And then as you heard Peter talk through using the customer data, not weekly, but really daily and hourly. They learned about the outlet executions and benchmark the outlets to really drive that incidence with our customers to develop having the right co-propositions to activations together. After a year, they hit roughly the 40% mark. And after 2 years, they are really close to 50%. So, half the time the meal was bought also drink is bought. And that for our customer, the delta of that equals the top-selling food item. So, there's a lot of value there for customers and for us.

On price mix, you already heard about the strength of our pack architecture. And that strength of the pack architecture is also helping us to offset Coke's inflation because we are present in all price tiers so from below EUR 150 to EUR 3 to EUR 6, et cetera. And that allows us to segment headline pricing. The vast majority of our SKUs in sparkling still have low to moderate price elasticity. And this also helps to cater for consumers that are maybe through the cost of living increase, looking for more affordable options. So be it a lower out-of-pocket spend or better value for money in promotions or multipacks. You already saw that today in a market in GB but let me also give an example from Germany. In Germany, we sell roughly 40% of our value in colas below EUR 1.50. Below EUR 1.50 as an out-of-pocket spend, people pay for the products.

Then roughly 30% is sold in the whole range from EUR 1.50 to EUR 6.50. And now that 30% is sold above EUR 6.50 as an out-of-pocket spend. So, that's a huge spread. And it is allowing us to play with the pack price and promo combinations in all those tiers, but even within the same pack. So, we sell a 4x 1.5-liter small pets as a multipack in the German business. We sell it for approximately EUR 4, so that's in that mid-tier. And we sell it then for EUR 2 per liter average. The same 0.5-liter pets were also selling as a loose item in coolers, like you see here in the back. And they are in the front of store in a retail store, it's really an impulse item, and we sell it for close to EUR 1.20. If you calculate cost, you see that EUR 2.40 per liter. So that's EUR 0.40 more than a multipack. And both are selling great. And that's one of the mechanisms we can really use to segment our pricing and our headroom there, but also staying close to the consumers and give them offerings in all the price points they like.

Let me also talk about the small pack growth opportunity. You already heard many examples earlier today, and we still believe there is a lot of headroom to grow the small packs in the business. Especially when we look to the shopper needs and the consumers and we segment our shoppers. In Europe alone, EUR 45 million of shoppers already buy exclusively small packs or really across all our pack size and types. That's roughly 50% of our shopper base in Europe. And those shoppers are still willing to pay a higher price per liter and you can trade them up as we call it, in making them buy more and more often. And within that group, the group that really buys across all our pack types is the fastest-growing group. And they spend share of wallet 3x more than the other groups.

And we can drive a lot of execution in that. So, for example, the Netherlands, we built a bullet for small packs on the shelf. So really, the shopper when they go into a retail store, they are confronted with the whole kind of small packs, not only for us, but for the whole category. In Belgium, we simply added a shelf of small packs on top of our large pet pallets in a discounter, as also in discount small packs sell. And then last example I will give is also in wholesale, maybe a channel, you might not think about very easily thinking about pack mix. But this is a case study for a wholesaler: when they were starting to sell more and more of their sales online. So more than 60% of their sales are coming from online.

We were helping them with joint customer planning to really drive the sales across the full range of our packages. And what you see on the screen is there to search optimizing search items on the websites. Their customers are not only drawn to one pack, but across the whole range to really also serve their customers with the full range. And the results were great, right? We drove 90% revenue growth just by working together with a customer on this. We did the search items, we also did other things, training their salespeople, for example, working on activation. So, we continue to build the capabilities. We will work with our already strong local in-market teams we already have in place in RGM. And we will continue to support them also with tools. And just highlight shortly 3 of them we already have in place.

So, one is trade promo optimization or TPO, we used to drive the promo ROI, then we have a price and profit tool that helps the teams on that profit pool ambition with the customers and ourselves. And then we have what we call Pogo. And Pogo is a tool that actually uses all the data we have to make a picture of the future potential of an outlet, and that's then feeding in our frontline sales tools, for example, like RED1. And rather

Then telling, let me show how these tools work already day-to-day in the market.

Yes. So that provides really a snapshot. And let me hand over to David Martin, who will tell you more about our digital capabilities.

David Martin - Director Digital Sales & Marketing

Good afternoon, everybody. My name is David Martin. I'm part of the group commercial function. And my role really is to look at how we use data, technology, new sales channels and new business models to drive incremental and profitable revenue growth. I've been with CCEP for around 9 years, always working in this particular area. Pre-CCEP, my background is customer side building and running online grocery and general merchandise businesses for the likes of Asda, Morrisons, Ocado and Fresh Direct in the U.S.

We really have, I suppose, 2 key use cases against which we build our digital agenda in CCEP. The first 1 is how do we make it easier for customers and shoppers to buy from us. And the second is really around how we make it easier for our frontline colleagues to sell. And the role that I have with my team is to, as I said, is to enable that commercial strategy and build the solutions and tools that allow our frontline teams to go and drive execution and revenue growth in the markets.

So, if we talk about how do we view the opportunity around digital revenue growth, it's really based on 3 pillars. The first one is around our customer portals. And this is how we make easier for our customers to order from us, but probably more importantly, both for our direct and indirect customers. How do we be the best CCEP that we can be for them helping them to grow their businesses with and through our portfolio. The second pillar is around winning with the winners. So, whether this be the online grocers, our wholesalers who are increasingly moving online, the food delivery platforms or the quick commerce platforms. How do we ensure that always putting our best foot forward. How do we make sure that we are delivering the perfect digital shelf.

So, obsessing around execution online as we do in store but also how do we develop the activation plans along with the Coke company that actually really allow us to drive additional basket adds, additional drinks incidents through the platforms that we're working with. And the third area is around owning the future. So, this is about understanding how we can develop new routes to market that service both customers and consumers to open up new revenue streams for us, but also give us new ways to engage with that broader church.

So, in terms of the B2B platforms, we have a number of initiatives that are running across our markets today. Some of those are through partnering. Some of those are through equity investments that we've made for our ventures team where we're really starting to understand the opportunities in this new space. So, we have the likes of Kollex in Germany, which is a partnership with two Brewers. We've got an equity investment in a business in the U.K. called StarStock. And then we have a pilot in Portugal using the Company-owned platform Wabi. And lots of really interesting learnings for us here and really starting to form our understanding of what we need to do more proactively in this space. And then from a consumer perspective, we continue to learn and build capabilities in this space through the ongoing development of your Coca-Cola store in GB.

As Damian has alluded to already, actually, a significant proportion of our volume is already captured through digital channels or for digital touch points. So, whether that be the way in which we work with some of our bigger customers through EDI and VMI solutions, whether this be the revenue that we process through our customer portals or the revenue that we're generating through our frontline colleagues who are using digital tools to take orders in outlets. So, it's 85% of our volume to date. And obviously, a big driver for us is to really understand how we can move that number up and close the gap. What I'm going to do now is focus on a couple of key initiatives, I think that really bring to life what it is that we're doing.

So, the first one is very much about the first use case of how do we make it easy for customers to do business with us. So, this is our customer portal. So here, we're talking about myCCEP in Europe and my myCCA in Australia and New Zealand. This year, we'll process around EUR 2 billion worth of revenue through these portals, which is up around 50% year-on-year. And our focus really is threefold. The first one is, of course, to continue to understand how through the use of data we can grow our incremental sales and the lifetime value of the customers who are currently ordering through these portals. The second opportunity is how do we increase the ordering footprint. So, looking both within our existing markets, but I'm particularly excited about the fact that before the end of this year, we will launch the myCCEP platform into Indonesia to start to service some of our QSR and modern trade customers. And the third area is really how we actually start to use the portal as the omnipresent element of our omni contact strategy to be always on for all our customers. So, 24/7, we are there to help them grow their business with and through our portfolio.

So, I've got a couple of videos. The first 1 really is just, I think, to look at myCCEP and some of the key functionality that exists today and is supporting our customers as they work with our business. So, play the first video please, please?

And I think it's always good in these sort of events also to have the voice of the customer in the room. So, as I said, 1 of the big opportunities for us here is how do we open up the portal for our indirect customers, where we may not be selling them product, but there's a huge amount of advice and the help and support that we can give them. So, we've got a short video with some of our Dutch customers talking about how myCCEP is supporting their business.

And the second initiative we're going to quickly touch on is, I suppose, is really working against the second use case, which is how do we make it easy for our frontline colleagues to sell. As Damian mentioned earlier, we have 10,000 colleagues every day, every week, every month, going into our customers' outlets and having conversations with them around how we can drive better execution and how we can drive growth through their outlets by better utilizing our portfolio. At the heart of this, of course, is how we use data analytics to drive that smart execution agenda. But the reality, obviously, is in the hands of the frontline colleagues, they have the Red 1 tool. Now many of you would have seen the tool in action in the field visit this morning.

But what we thought we'd actually do is share a video from the New Zealand team actually about how their adoption of Red more generally has driven that business and sort of Peter has touched on this already, how they're using data and technology to really improve the efficiency of their frontline colleagues and really drive more valuable growth conversations with customers. So, Alex, do you pay the video, please?

So, a fantastic story from the New Zealand team. What super excites me about all of this, I think, is our ability to share our successes and our failures across the market, which is ultimately allowing us to go further and faster together. So that's just touching on some of the work that we're doing in the space. A lot of progress has been made. We see a lot of further opportunities in terms of how we can use data and technology, but I'm now going to hand over to Jose Antonio, who's going to talk about customer service and supply chain.

Jose Antonio Echeverria - Chief Customer Service & Supply Chain Officer

Hello. Good afternoon. My name is Jose Antonio Echeverria. I have 25 years' experience in consumer goods industry, and I joined CCEP 18 years ago at Cobega, the Spanish leading bottler at that time. And now I'm lucky enough to lead the customer service and supply chain organization across CCEP.

At CCEP, we have very clear what is the strategic role of customer service and supply chain. And I will summarize as supporting sustainable growth and profitable growth through a strong focus on our customers. And doing that through our people and innovation mentality and especially about technology that really support business growth. Well, it's difficult today in these times to talk about supply chain without recognizing the headwinds that we are facing in terms of commodities or the difficulties coming from the geopolitical situation and the volatility of the global supply chain.

But in this environment, I can say that in CCEP, we are improving our performance. And we are improving our performance through tools like optimizing our portfolio. As you have heard previously from Peter, we have been able to reduce the total number of SKU by 30%. And just a fact, in the case of Australia, that means that with the timing that we are saving and changeovers, we are able to produce 6 million unit cases additionally with the same equipment. And clearly, we continue with our improvements in productivity, and that had allowed us to really consolidate some of our manufacturing plants in Germany also in Iberia during the last years and also some of our distribution centers. But we keep on working on building an innovation mentality, an innovation culture in CCEP.

And we are doing that with our partners of CCEP vendors, and we are working with them in different topics like sustainable packaging, different route to markets or logistics or even sustainability with a project that I'm really excited about that is direct air capture trying to get and remove the CO_2 from the air directly in order to reduce our carbon footprint. And also, one of the innovations that we are now having is our innovation labs. I'm very excited about that. We have just opened 2 innovation labs for customer service and supply chain, one in our plant in Barcelona, another one in our plant in Berlin.

Let me share more with that through a video. Play the video please.

And as they have mentioned, we continue investing in technology and technology that supports growth and productivity in our customer service and supply chain organization. And we are investing in almost all the areas of the end-to-end supply chain. We're investing in our area of planning with new tools that allow us to use artificial intelligence or machine learning in order to synchronize our forecast and our supply or managing our fleet, our logistics through the advanced transport management systems that allow us to really not only optimize but have an online tracking of what our fleet is doing and being able to connect with our customers in order to deliver the proper information about that. Or getting all the information of our coolers in the market, information from a technical point of view, but also from a commercial point of view.

But probably 1 of the areas that I would like to share with you today is about the factory of the future, Industry 4.0, that is starting to be a reality in many of the CCEP factories. And for that, let me guide you through that through a video, please.

That's all from my side. Looking forward to receiving you tomorrow at Sidcup. And let me hand over to Ana.

Ana Callol - Chief Public Affairs, Communications & Sustainability Officer

Good afternoon. My name is Ana Callol. I am in charge of Public Affairs, Communications and Sustainability in CCEP. I joined the Coca-Cola system also a long time ago, 22 years ago. As you see, we all entered very, very young in this company. And yes, I want to go through the roadmap in sustainability. I was in the company with Manolo a long time in marketing after in consumer positions in customer positions and afterwards in sustainability 7 years ago, joined the bottler and currently with this role since January. So, as you have seen today, although sustainably is a key piece in all of the parts of our business, and you have seen consistently that everyone has been speaking about that. So, we have a story behind in doing this way.

So, we were one of the first companies in setting science-based emission reduction targets in 2015. And 2 years after in November 2017, we launched the first for the bottlers in Coca-Cola European partners, our sustainability action plan called This is Forward. And it relies in all of what we are doing to add value to our shareholders also to add value to the communities in which we operate into the environment, of course. And we have done so far a lot of progress into shifting into 100% renewable electricity, investing also in collection systems in venues for recyclability, also in recycled materials and in finding solutions for more sustainable packaging. And we just don't attach to the environmental piece, but we, of course, also touch the social part and try to have more diverse workforces as Veronique mentioned previously. And we also work on developing the communities in which we operate and help them to improve their employability. But I will go a bit more further there.

And we are getting external recognition for this. As you can see here, in 2016, we entered in the Dow Jones Sustainability index and also in the CDP A list, both for climate and water in the same year, and we have maintained ever since. We also very recently got the recognition from Coca-Cola system for our ESG performance, the Paul Austin award and also EcoVadis, which is the tracker that measures the sustainability in performance in our supply chains recently also awarded us with the platinum medal meaning being among the 1%.

So where are we going now? Since the Amatil acquisition last year, we have been working and extending our commitments to include our Australia, Pacific and Indonesia territories there. And this is what we are, we have updated now, and I will give you a bit of update on that. Also, we are updating our inclusion and diversity targets and social targets beyond gender, updating also our water targets and introducing a new society target. This, of course, is very aligned with The Coca-Cola company in order to be a World Without Waste system also to achieve the social impact goals and the waste security goals.

What we have done is getting more measurable targets, some are bold targets, time bold and committing targets that we have. We are going to external assure their performance. So, this is the structure that we for consistency, maintain because we believe these other pillars that are the key ones and the material ones for our business, but also and what's more important, the key ones for our stakeholders.

So, we have 20 commitments, some of which you are seeing here now. I'm especially proud to highlight the society 1 which as you saw previously contained the internal dimension one, which means 45% of management positions, female, as Veronique highlighted, and also meaningful all the workforce being 1/3 of it female, but also adding the disability targets there as an external commitment supporting in the skills development of 500,000 people by 2030.

Going to environmental commitments on climate. We are especially proud and we work very heavily with our suppliers in order to achieve our commitments and in order to get them into science-based targets also and to have 100% renewable electricity. On packaging, we are, of course, working very hard here, and we are working towards achieving the targets that we wanted to meet the challenges that we face with packaging. We are investing in recycling facilities as we recently did with a joint venture in our recycling facility in Jakarta, Indonesia in order to upscale the collection and the recycling bottle to bottle.

Also, we are investing into rolling out our tethered cap closure in all our plastics bottles in all of Europe this year and next year. Of course, we are continuing investing in our recycled materials and PET that we include in our bottles and we are investing also in ventures in order to find solutions to get more sustainable packaging. Going to what we are adding to the commitments that we already had and in order to align also with The Coca-Cola Company, 100% regenerative water commitment in our leadership locations, which are those ones that are under water stress or that are more water risk related.

Also, our drinks you saw already that we are making a lot of efforts in promoting our low-calorie sweetened drinks and also in reducing the sugar of our products. But for everything we have done so far, there's still much more to come in the immediate future, what we are doing currently is updating our 2030 reduction emissions targets, including our Australia, Pacific and Indonesia territories to align them with science-based targets, too. And we will update you soon next year. Also, we are working in including a new target on reusable to respond also to the commitment that recently The Coca-Cola Company has done on including reusable targets within our strategy, and we will update you also soon on this. And also being very aware of how biodiversity is really important and is being impacted by value chains. We are also introducing new commitments on biodiversity and nature and the first step that we are taking is taking part in the science-based target network engagement program for corporations so that we can validate and study what the impact is of our value chain within the nature and within biodiversity in order to set a target there.

I would like to finish by explaining how our sustainability agenda is really linked with our value creation in our business with some examples. So, for example, we are offering more sustainable packaging solutions like we recently did in France in order to help customers with their margin growth. And we recently launched in all of our products, the returnable glass bottle in the HoReCa business, in hotels, cafeterias and restaurants being the first non-alcoholic ready-to-drink supplier in offering deposit system in this channel. Also, by offering electric vehicles, for example, to our employees, we decreased our CO2 emissions and as well as we achieve also employee engagement. We also, by delivering solutions offering, bottle with more recycled PET. We delivered to consumers what they are waiting for also to customers by delivering also package-free solutions, we eliminate materials. And we drive innovation for consumers, build consumer loyalty and also offer lower cost serve.

By enhancing also digital workplace, for example, we avoid travels, we reduce OpEx. And at the same time, we get also higher employee engagement. So that's our approach. This is forward in action in our plans and in the heart of everything we do. We are very aware that there's a lot to do still. We have a long way before us, but we have the experience, we have the commitment, we have the ambition, the conviction and the right partners in order to achieve them. So, thanks a lot.

Damian Gammell - CEO

So, I think we're ahead of time. So that's great news. It means we've got more time for Q&A later. So, we look forward to that. Before the break, I just wanted to kind of wrap up with a reason to believe slide. I won't go through it, but hopefully, from what you've heard this afternoon from the size of the opportunity, a clear strategy to extract value from that opportunity for our shareholders and our customers, and most importantly, the people and capabilities to execute because clearly, having the opportunity and the strategy, a lot of businesses can be good at that, but it's bringing that to life and executing it consistently across all of our markets.

And I hope that what we shared with you gave you a feel that we've got the people, the capabilities and in a lot of cases now the technology in place. So, we've got a 30-minute break. I'm sure everybody could do the drink. The drinks today, they are nonalcoholic first, that's later. So, we're going to go to the third floor, Sarah. Yes. And the highlight of after the drinks is you've got to listen to Nik. So don't be late 30 minutes only. Thank you.

Nik Jhangiani – CFO

All right. So welcome back, and welcome to the main event that everybody has been waiting for. So, I stand between you and the pub or the 6:00 p.m. announcement from the Fed, I don't know which one is more exciting. But what I want to really do today is take you all through kind of bringing everything that we've seen for the last couple of hours together in terms of what does that really mean for us as a business, starting obviously with closing out 2022, hopefully, on a successful note.

But then talking a little bit more around '23, but then really focusing around what does that mean if we look at '24 and beyond. And I say '24 and beyond because we believe and hope that the markets will stabilize, I think we'll hopefully return to some form of normality. And we really based our midterm algorithm on the basis that we will get back to a more same world in terms of inflation, a world in which everything that we've been doing to lay the right foundations since the formation of CCEP back in 2016, should continue to help us and enable us to deliver on those ambitions.

So, that's what I'm going to try and do over the next 25 minutes. I've been told that's all I have. And if I run over, that I'm going to be in trouble because I tend to talk too much. So, let's start with a really important chart, I think, just to kind of ground everybody in terms of where we started out. I remember 2015 meetings and actually being on the other side of the table, negotiating on the formation of CCEP, little did I know that the deal was going to happen at that point because it was still 1.5 years away before we closed it. And that she was going to be my ultimate boss. So, I should have been nice, but it worked out okay.

So, we did close and form what was original European partners back in 2016. And it's been quite a journey, right? If you think about where we've come from. So, I think Damian talked about the fact that the biggest thing that we had to achieve was really be able to convince the markets around the fact that Western Europe could grow. And Western Europe could grow and grow sustainably and grow profitably, right? And I think a lot of people doubted that, right? And I think a lot of people were excited about more the synergy number that we talked about in terms of the EUR 330 million that we are going to deliver EUR 325 million to EUR 340 million. And I've got lots of questions around, is that gross? Is that net? What's going to be reinvested? All that kind of stuff. And I swore after that, I'll never give a target and commit to actually telling you how I'm delivering against those.

So, there will be a target today that you see, but it's going to be in our numbers. So, don't ask me is it gross? Is it net? Don't ask me what's being reinvested? It's in our numbers. But we did deliver against those, and we delivered bang on. But I think not just about delivering bang on, we were able to invest in the business alongside The Coca-Cola Company to be able to drive that sustainable top line growth, right? So, I think that was critically important because it wasn't just about delivering all that to the bottom line. We delivered what we committed. But we also invested to set the right base for the future. Really solid free cash flow, and you'll see a chart coming up on that. But a big, big focus was working capital. And I'll talk a little bit about the number that we've achieved to date, but more importantly, I think there's still some room in the bank to get some more on that as well.

We started our inaugural share buyback program, which unfortunately or fortunately, had to be paused. And I say fortunately, had to be paused because COVID hit, but in COVID, yes, I think we all sat back and said, this is going to be over in a few weeks. I remember Damian and I been in Florida with one of our shareholders. And we actually, this was the end of February 2020, and we said, this is never going to come to Europe. And little did we know 3 weeks later, we're going to be in a lockdown, and a lockdown that lasted or impacted our business for several years, right? And we're still kind of recovering from that. But in some ways, it really forced us and emboldened us to make some really smart and big choices, right?

So, a big thing around preserving and maintaining our balance sheet, which was critically important. And it was a much stronger focus on cash which was very, very much the right thing to do. And then looking at our OpEx and really saying, how do we look at our cost base and how do we start stripping out those costs and move more aggressively, and that's something I'll talk about a little bit more as well. But what it also did was allow us to kind of step back and say, there's an option here to make a really bold decision and a bold choice and make an acquisition, right? And people thought we were crazy, right? Crazy when we called them up and said, May of 2020, hey, remember, we talked to you last year, but we want to talk about this acquisition, again, right? And I think the fact that Sol and our Board supported us in saying, yes, let's go do it, right? Was a great choice. And you heard Peter talk about how well that integration has gone. A lot more to do. So, I'm not going to say it's done.

But if you talk about 18 months on and how we're operating as one company and what we're realizing as the benefit of having a more diverse geographic footprint, it's incredible. So, Manolo, keep in mind, you've got the best integrator here. In terms of CCEP, so any territories, Robert was asking me what might come up next. He said, "You've crushed Europe, you've crossed this integration." What's next? So, I said, okay, don't ask me tough questions, ask Manolo that over dinner. So, he's going to be asking you. Let me know what he says to you, by the way.

But we went out and at that time, did a big transaction, EUR 6 billion of debt. I know several in this room challenged me on going out and raising that level of debt. But at the same time, several of you didn't want us to go out and raise equity, right, and dilute. But it was a bold choice. Fortunately, timing was everything, we were able to do that debt at 40 basis points. If we went out to the market today, we're probably looking at additional 250 basis points at a minimum to go out and do that transaction. So timing was everything.

We announced, obviously, a really great transformation program at the time of the closing of the deal. And the good news is we'll have delivered about 90% of that by the end of this year. So, a little more to come in 2023, which is really going to help us. But that's when I think it's critically important, as an organization, we've never stepped back and said, okay, we're done with that. It's always about thinking about what's next, right? And I know I've had several conversations over the years with you guys around there is more opportunity. And I'm going to talk a little bit about that. And hopefully, you've seen some of that in terms of some of the opportunities we've talked about, be it on digitalization, be it on the customer service supply chain piece that really have an opportunity to continue to look at productivity and efficiencies in our business.

And then obviously, 2022 has been kind of a record year. The fact that we're 13% ahead of '19 revenues says a lot in terms of the recovery of the away-from-home business, but also very much around, again, the belief that we have in this business and the growth opportunity for this business for the midterm. So more to come on that. And then one of the things I will talk about is back to our balance sheet and the fact that we don't have a need for refinancing at least for the next 2 to 3 years. And I think that's a critically important point given the volatility and the uncertainty in the markets not having the need to go out and access the debt markets at a point like this and be able to utilize our free cash flow to be able to deleverage and pay down our debt is critically important. So, I think that's really a solid place for us to be as well. So full year guidance that we've raised. This is our third raise this year. So, I know it's a little crazy when you think about the fact that in a volatile year like this, we've been able to raise top line 3x and free cash flow and operating profit twice. So, we're looking at 15% to 16% growth on the top line. It was 11% to 13%.

COGS continues to be the most elusive number that I've ever seen in my career, right? If you recall, we talked about it being about 7.5% on a COGS per unit case in August. The challenge has been in Europe, you're dealing with a very uncertain environment from a gas and power perspective because they're pretty much well hedged on the other elements, right? It's just the volatility that you see on gas and power, unhedgeable at this point really, and one that we're just living with that through our P&L. The big piece, obviously, that we'll be tracking is what happens from an energy caps perspective that comes through, hopefully, across all our markets in Europe that can give us some certainty as we look at '23 or at least parts of '23. But even with that, we're still delivering and upgrading our operating profit growth to 11% to 12%. And both those being currency neutral, so about 150 basis point add from a currency tailwind.

The effective tax rate at 22%, so at the lower end of the range that we guided you towards. And we'll talk a little bit about tax rates going forward because again, that's probably an area of a fair amount of volatility or uncertainty given what governments might do, and we're sitting in one of the markets right now where that great move has yoyo'd just in the last 6 months in terms of it's going down it's going up to 25%. It's going down to 19%, it's going back up to 25% and maybe more, right? So, we'll wait to see.

Diluted earnings per share of 14% to 15%, which obviously is on an FX actuals basis. And that obviously allowed us to declare a very strong record dividend of EUR 1.68. And then free cash flow, EUR 1.8 billion, a EUR 200 million raise from where we were sitting here in August, and I'll talk about that in a moment as well. So probably '23, which is the big question for a lot of people in the room, right, from an angle of great '22 delivered, great. You're talking about your midterm objectives probably starting up in 2024. What does '23 look like, right?

Now it is too early to give you precise guidance, right? And I think any company that can go out and give you that guidance, I'd love to be able to meet their CEO and CFO and say, what the hell are they smoking, right? Because I want some of that. But quite honestly, the market is remaining resilient right now in terms of what we've seen, and that's obviously evident in terms of the upgrade that we've provided. But we are mindful of an uncertain future. And listen, I know it sounds so cliche-ish, but we honestly don't know what's coming around the corner, right? '23 can be incredibly challenging or it might be a huge opportunity for us again. And it comes back to some of the points that we've talked about. We're in a great category where we're seeing very strong and robust growth. We're not seeing any signs of down trading to date. We have a much more resilient business to private label than we ever had before. We have a much more diversified business from a packing channel and geographic footprint perspective than we've ever had before. So those are all things that we are very positive about as we go into '23 in terms of our ability to weather the storm, right?

Now the category, as you'll have seen, is going to grow to 3% to 4%. That's ‘23 to ‘27, right? But '23 is going to grow in the high single digits, right? We want to maintain share, right? So that's a critically important piece. So, you are going to expect in an inflationary environment that we're in that a large part of '23 top line growth is going to be price driven as opposed to volume, all right? And that's what we're factoring in right now. That's also important if you think about the fact that we are looking at cycling a very, very strong 2022 from a volume perspective, right?

We've had a phenomenal summer. We've had the benefit of the COVID recovery, but we've also had the benefit of unusually warm weather until probably even a day or 2 ago, right? So, it is definitely going to be much more price driven as we think about that inflationary pressure. The good news is we did take a second price increase in July through kind of September, October. And those have, for the most part, successfully been landed across our markets. That will give us a benefit as we go into 2023 because you'll get that annualization impact of that coming through in 2023 in addition to what we will be doing as additional pricing, right?

Now I think it's critically important that we realize that this is not an easy environment to get that pricing, right? But we've done it well, right? And it goes back to, hopefully, a lot of the examples around revenue and margin growth management, how we're effectively looking at surgically executing our pricing across channels, across packs, how we're focused around promo optimization and that's always a tool we've talked about, and you've seen how we've been able to effectively use it in markets like Australia, where everybody said, "God, I remember when we did this transaction." Retail consolidation, you're never going to be able to break that promo cycle, right? Well, we were able to, right? Now I think the environment also helped us. I think Peter and the team have done an amazing job being able to pass that through. But that's more in terms of also the tools, the capabilities, the brand depth that we have that allows us to be able to do that. And the experience in terms of the customer value creation is huge, right?

So, top line focus as we look at next year. On the cost side, clearly, a challenging environment when you look at the commodities. So today, we're probably looking at that being up mid-teens, largely energy led, okay? So, it's not so much about the actual underlying commodities piece that have actually moved favorably. And I would just say favorably from an angle that don't get caught up in spot prices because spot prices don't necessarily reflect both our hedging positions year-on-year, but also don't necessarily reflect the forward curves, right? But clearly, from an underlying commodity perspective, that is a positive. The challenge is really the conversion cost base that you're dealing with, right? And that is purely linked to the energy and gas and power piece, right? So, converting those aluminum sheets into can bodies, converting those plastic, the vPET that we buy into preforms and into bottles, that clearly has an impact.

Transportation has a huge impact, right, in terms of what's coming for haulage into just bringing those raw materials into our factories, right? So those are things that I think every company is going to be dealing with. The good news is, again, from an underlying commodity perspective, we're about 60% hedged for 2023. And we're about 35% hedged for 2024. I'll call out 2 commodities, in particular, just to give you some comfort, both on Ali and sugar were about 75% hedged on Ali for 2023 and about 55% hedged for 2024. This is again on the underlying commodity. And then on sugar, we're about 85% hedged for '23, and again, about 55% hedged for '24. So, we're taking advantage of where we see opportunities to go in and lock in some savings against what we've seen in '22 and '21.

Concentrate is clearly something that is linked to our incidence model. It works extremely well. I don't know what Damian was smoking when he said we pay a very cheap price for concentrate. Manolo, I want you to know we pay a fair price for concentrate. I would love it to be lower, but jokes aside, I think that model is extremely important because it does link us to what we can realize in the marketplace in terms of revenue growth, right? And that's very different from what most companies would be dealing with, where they'd have a lot more exposure to the commodities piece versus us where that's a much lower number relative to that total COGS element, right? So, it does work well.

And the great news is The Coca-Cola Company is just as interested in ensuring brand equity scores, brand health, affordability, marrying those up together to ensure that we can be relevant on shelf for our consumers. All right. So that works very well.

We will continue to focus on delivery of efficiencies. So, those are all things that we will work on. Can I give you a number of where we're going to land next year? The shape of the P&L is probably going to look very different from what you have in your models today, right? But I'll allow you to do some crunching on those. But we will come back to you in February with some more guidance, right, in terms of some more precision there. But for right now, that's what we'd like to be able to share with you on '23.

So, Damian put up the slide, but I think it is really important as you think about what I just said for '23, but as you think around '24 and beyond as well, right? The diversification of what we offer in terms of our packs through the channels is so different from what we've had if you look back 10 years ago. Lauren, I remember I was at a fireside chat with you, and I was trying to just describe, if you looked at our business 10 years ago or even 7 or 8 years ago, right, it was effectively a business that was focused around heavy users. So large multi-packs of either cans and PET that we sold through retail, right? We have a completely different business today, which I think (inaudible) laid out some really good points in terms of if you look at the spectrum of what we can offer in terms of pricing and the shopper that can go in and be able to choose a more affordable pack versus the premium pack that they want to enjoy at home, socializing with friends family, if they're replicating that away from home experience at home is so important because that diversification really helps us back to that point around looking at elasticities in a surgical way and being able to look at the pricing that we pass on in a very different way, right? So that's critically important.

Acceleration of the top line growth, as you've seen in 2022, but it's one that we feel very good with in terms of what we can do in a profitable way, sustainable way that will give us those bottom-line results as well. And I talked a lot about what we want to do from having that sustainable license to operate. And that's critically important because that will win at the right time, the hearts and minds of consumers who will be willing to pay a premium that will either result in better profitability for us as a system and/or market share growth in terms of brand equity scores that are going to naturally lead them towards our brands. So, both ways that is going to allow us to win. And I think as a group, as a company, we're incredibly proud of everything that we're doing in that space.

We will then obviously have a greater relevance with The Coca-Cola Company and all our brand partners in terms of the importance of CCEP to them in terms of being able to make the right investments with us to grow in the market. And Veronique, talked about our workforce, our people, which is the 33,000 employees that we have our most important asset, right, that the more we can ensure we've got an engaged, happy workforce, the more we know they're going to be delivering for us as a business. So critically important that we stay focused on that. We have set more ambitious targets. I had an interesting comment. I won't name a name, but I won't even look at the person. But 4 and 7, that is pretty ambitious that you've gone out with something like that. And at a time like that. But I think, quite honestly, if you step back and look at what we've been able to deliver over the years.

But more importantly, what I think the capabilities that we're delivering to ensure that we can drive that revenue growth sustainably to deliver that 4% growth is what's critically important. And hopefully, that should give you all the confidence not just in terms of what we've done in the past, but what we're building for the future as well to be able to deliver that top line growth sustainably. That top line growth will translate, and I'll talk about that in a moment into that comparable operating profit growth of 7%.

We're setting a floor of at least EUR 1.7 billion of free cash flow. Some might say, well, EUR 1.8 billion this year, EUR 1.7 billion, what's happening? A couple of things that I'll talk about there as well. So just so you get some confidence in terms of why that makes sense. We maintained that 2.5 to 3x net debt to EBITDA. Again, a question, right? In a time like this, is that the right leverage ratio, something we review annually, right, to make sure that we understand the market conditions in a rising rate environment, it could be quite challenging if you think about that, right? But again, let's hope, given the fact that we don't have to access the markets for now, that great environment should continue to hopefully come back a little bit, maybe not to the levels that we enjoyed when we did the Amatil acquisition, but definitely not at the elevated levels that they might be driving towards right now.

Strong focus on return on invested capital. We're looking to deliver at least 50 basis points, I would say to you, we feel very confident about being able to deliver that. CapEx, 4% to 5% of NSR. If you step back and look at CCEP as European partners, 2016 through '19, we spent about that 5% of revenue on CapEx. And it was critically important that we spent that to be able to lay the foundations of what we needed from an angle of infrastructure, capacity, coolers, et cetera. We definitely did pull back and scale back during COVID. And that's probably been what we've been doing over the last couple of years to preserve cash. So, if you look at our ratios from 2020 to about this year, we'll probably be at that circa 3.5% of NSR. We wanted to step that back up, right, with all the capabilities that we want to continue developing from a digitization perspective, an investment in systems architecture, supply chain to support that growth, coolers, et cetera, you will be seeing that move and step back up, and that's probably a great link back to that free cash flow number, right?

Now having said that, if you look at the way our revenue will continue to grow, you would expect that would taper off. And that's why I've given you that range of the 4% to 5% because on an absolute basis, if you look at that revenue growth, that 5% is a huge amount, and I can definitely see that starting to taper back down towards the latter part of this percentage. And then dividend payout ratio, we will maintain at the 50%. We believe it's a very competitive dividend payout ratio. We believe with the earnings growth that we have that's an increase in step-up in dividend per share each year. And we do believe that the flexibility that, that offers us in terms of use of cash in a way to continue supporting returns to shareholders or looking at value-accretive M&A is probably the best way to go. But again, as a Board that is always reviewed each year to ensure it's still fit for purpose. So, everything that we do is really laid out in what we call a very consistent and disciplined capital allocation framework. It starts with our quality profit growth. It's then about the free cash flow generation that comes through that, maintaining that solid balance sheet that's critically important, being very, very disciplined in terms of how we look at our investments and then always maintaining that optimal capital structure that we review each year, as I said.

Our top line algorithm, 4%. I want to spend a moment on this because Damian and myself, the team, we spent a lot of time looking at this to get confident and comfortable with this. So, if you remember, we were at a low single-digit revenue growth, so call it 2% to 3%. And we always said about 1/3 each from volume, price and mix. If you look at our business, excluding Indonesia, that algorithm probably still holds pretty well, right, about 1/3 each coming from each of those elements. When you bring Indonesia in this, 2 elements that change as a result, right? Clearly much stronger volume growth, right? So, if you think about just that element, well, then that up weighting of that 1/3 probably goes to a little bit towards 40% or maybe even slightly north of 40% from a volume perspective. The impact that it has on our mix, which would have been 1/3 is because of the fact that we're getting all that volume at a much lower NSR, that clearly has an impact on our mix, right? So, if you're looking at it going forward, that 1/3, 1/3, 1/3 might be more like a 40-40-20 rough numbers, right? And vary each year depending on that level of growth that's coming through. But that is still a very solid level of growth that will support our P&L in terms of that profit delivery.

Like I said, we're towards the tail of delivery of the EUR 350 million to EUR 395 million that we laid out, right? Recall again that was about EUR 225 million that we were pulling out of our European business in terms of cost base, about EUR 90 million coming out of the API cost base from a perspective of their Fighting Fit program. And then we laid out about EUR 60 million to EUR 80 million of synergies that we're going to deliver. Really pleased to say 90% of that will be delivered in our P&L, really supported that profit growth, really supported us particularly in 2022 when you think about those challenges from a COGS perspective because there's no way we would have been able to upgrade our guidance in terms of that bottom line delivery had we not had the support of our combination and efficiency program. But we're setting a bold ambition today as well. I mean I think we're looking at the next kind of 5-year period, we're saying we want to deliver another EUR 350 million to EUR 400 million, right? Now, if you look at that from 2016 to '23, by the time we close out this program, 6 to 7 years, we delivered double that, right? So, one might say, well, is that bold enough? Quite honestly, if you think about everything that we've delivered so far, there are opportunities that are that much more challenging to be able to get. But that digitization journey, the things that we're going to do in terms of some of the examples that Jose Antonio called out, CDSP critically important in terms of not just ensuring that we can actually extract value from a bottom-line perspective, but hugely important in terms of ensuring that we've got on-shelf availability, right? Because that's marrying that up.

We want to move from 4 legacy systems that we're still operating with today to 1 system, S4Hana. That's going to enable a huge amount of us being able to standardize processes and ways of working going forward, right? Damian called out what we've set up in Bulgaria. We started out with that in 2013, literally with 200 people, really as a transaction processing center. Today, we've got over 1,000 people in Bulgaria that do everything from elements of transaction processing, but we've actually outsourced some of that to markets like India with a third-party provider. And we've upskilled and upscaled what we do out of Bulgaria, which is a lot more focused around reporting, around analytics, around data, around robotics, et cetera. We can leverage that a lot more, right? Because today, we focus purely, I would say, 80-plus percent around the finance piece. We're building in elements of what we're doing on the people and culture side. We're building in elements of what we're doing with supply chain and commercial reporting. But there's a lot more we can do that, right? So, there's a lot of focus on that. And that systems architecture moving to one system will really enable that as well. So, we feel very confident about delivering that number. I would say probably a small part of that will come through in '23, but then '24 and beyond, you're really going to see that starting to kick in. So very strong focus around continued productivity benefits.

So, what does that all look like when you pull that together in terms of the P&L? We talked about where we'll exit this year, so let's call it roughly EUR 2.1 billion and rounding should be a little higher than that, right, 12.3% operating margin. Some questions always on margin percentage. Listen, at the end of the day, I'd love to be able to get back as quickly as possible to our 2019 pro forma margin. right, which was about 13.4%, right? So clearly, strong focus on doing that, but we've got to do that in the right way, right? And critically important is always what can we do in terms of absolute margin growth. That's what I take to the bank, right? So, we have a focus on that, but that's probably going to take some doing things in the right way to get back to that because we don't believe anything has really changed structurally in terms of the markets that we operate in. That revenue growth will give us that leverage to the P&L.

I talked about the price and volume equation there. So, I think that's critically important when you think about those 2 elements and how that plays out. Clearly, the more price we can get in the right way, clear benefit and drop to the bottom line. The volume clearly has a cost associated with it, whether it's about manufacturing, logistics, et cetera. But that balance is what's critically important. Talked about the ongoing focus around cost and productivity, and that gives us the comfort in being able to deliver that 7% OI growth with both of those coming through in the right way. And then you're looking at, at least 30 basis points of an improvement year-on-year when you look at that operating margin percentage perspective.

And I think we'll get some very balanced growth across our developed markets. And then obviously, you've got the kicker in terms of that volume growth coming through from Indonesia as well. Really solid free cash flow generation. I mean, a chart, I think all of us at the company are extremely proud of. And I think Veronique made the point in her presentation, what gets measured and what gets incentivized clearly has a huge impact for the business, right? So, I think it was very, very much the right thing that the Board supported in terms of Damian and my recommendation to put free cash flow into our numbers for incentive plans because it's really paid off tremendously, right? Because the business thinks about free cash in a very different way as opposed to just thinking about an operating corporate target. So, it's critically important, and that's what's allowed us to deliver what we have.

We will deliver or will have delivered through 2021 about EUR 1.1 billion in terms of release of what was inefficient use of our cash and working capital tied up on our balance sheet. And the great news is that when we talk to API about this, they embraced it. And Peter used the terminology with his supplier saying, "New sheriff in town. I don't have a choice. This is what it is. This is what we've got to do, right? So, I think we will deliver probably am I allowed to give out a number for this year? It's in our free cash flow guidance. So, it's okay. It's about another EUR 400 million that will come through in terms of that working capital, very strongly supported by what API has been doing. So that's been a huge part of the success of our ability to drive that kind of free cash flow. And then you can see on a macro level that free cash flow yield, which I think is truly underappreciated for us as CCEP as a company in terms of that number. Now yes, that share price moves. And yes, clearly, that's going to have an impact. So, call it, depending on if it's a good day, somewhere around 8%, and if it's a bad day, somewhere around 11%. But it just talks about the power of that free cash flow generation, the yield that I think when you compare it to the other Coca-Cola bottlers, we're almost double that. I mean, you look at a lot of our peers, right? And across a lot of those indices we're still doing really best-in-class. So, I think a really underappreciated piece of our story, and that's why I think the free cash flow generation of the EUR 1.7 billion per annum going forward as a floor is a critically important number.

Now again, just to remind you low single-digit revenue growth to 4%, mid-single-digit operating profit growth to 7%. And we had talked about a floor of EUR 1.25 billion, that's about EUR 1.7 billion now going forward. So, we feel really good about that. I want to spend a few minutes on the balance sheet because I think this is really important. And I say my treasury team has just done a phenomenal job here. We do remain committed to our investment-grade rating. That is important because it allows us in times of need to be able to access into the markets much easier. We have a very strong commercial paper program that's supported by that as well. That gives us flexibility to manage our working capital needs through the year. And we have a really good balance of maturities.

One of the things I've always talked about in any given year, we don't have a maturity that's greater than our free cash flow generation. So, in the event that there is a challenge, and we don't want to draw down on our RCF, which is EUR 1.95 billion, the free cash flow allows us to be able to service our debt very effectively. And that is precisely where we are and why we don't have to access the markets for the next 2 to 3 years because that free cash flow generation will clearly support what we might need to do over the next 3 years to pay down that debt, right? An enviable low cost of debt which I'd love to be able to get back to. But clearly, going out at this point wouldn't be great for our cost of debt either. So great flexible balance sheet that gives us a lot of horsepower to think about what we can continue to do going forward. We've talked about our leverage, maintaining that currently at the levels of the 2.5 to 3x. The deleveraging has been a great story for us, right? And again, supported by that free cash flow generation.

I remember when we did the acquisition, we were close to 5x at peak, right? And there was a lot of challenge and a lot of pushback saying, Jesus, at a time like this, you're going out to do an acquisition like this, raising debt, but we also didn't want the equity dilution. A lot of you didn't want the equity dilution and we were very clear and committed that we were going to de-lever. And we said we're going to de-lever and get to the top end of our range by 2024. I'm really pleased that with the strong free cash flow generation, we can get to that almost a year earlier, right? And we expect to end 2023 now at about 3x. So, the top end of our target, right? So not like I don't suddenly expect I would be announcing a big buyback program as some of you are thinking about that. But clearly, we're getting to the top end of our target almost a year earlier, right? And that's critically important because again, like I said, that gives us a lot more flexibility as we look forward. Capex, I talked about this in terms of that 4% to 5%, probably about 2/3 of that will go into supply chain from an angle of capacity expansions, new lines, replacement of all lines. And if you look at that 2/3, typically, I would say at least 70% of that is on growth capex and about 30% of that is on obsolescence replacement, et cetera. Then you're looking at about 20% going into IT. So, our capabilities that we need to do from an angle of digitizing our business around what we want to do moving from the 4 legacy systems, but that will be spread over a number of years, right? So again, very much within our range of 4% to 5%, but making the right investments. And then coolers continue to be a very important part of what we can do to drive availability of our products across the market. So that's a strong commitment. That's the other 15%.

So clearly, we throw off a lot of cash. Manolo, Kunal take this message back that we're looking to expand if we can find the right value creative opportunities in terms of M&A. Clearly, we've always said that if we look at best use of cash, it is about looking at geographic expansion. That is the best way for us to invest it. Yes, we want to spend money in terms of looking at opportunities from a CCEP Ventures perspective. Sustainability is probably our biggest focus that we want to be investing in. I think you've seen some examples of that, but those are not necessarily going to be at the size and scale with the type of cash that we generate, right? So clearly, that's what we're focused in on.

Now absent that, we're also very clear, we want to continue maintaining an efficient balance sheet. And if that means looking at cash returns to shareholders, we're completely open to that. We've had a history of doing that in the past. You saw that when we delivered and we announced the first EUR 500 million at the end of 2018. And then we did another EUR 1 billion in 2019. So, we have a history of doing that. The Board is very committed to doing that. And that goes back to that dividend payout at the 50% because that flexibility is critically important.

So, what does that all pull off together, of course, about driving that P&L and getting that cash flow, that balance sheet maintenance, that investment in the business, like I talked about and then that excess cash in terms of either being deployed into or both, right? It's not one or the other, it's about we can do both as well. So that's our focus. Strong returns to date, EUR 5 billion returned to shareholders since 2016 since we formed CCEP, European partners and really strong dividend CAGR as well when you look at back to the formation of CCEP, including the dividend of EUR 0.68 that we declared today.

So, in summary, I think we've got, hopefully, a very clear and a consistent and a very disciplined capital allocation framework. I think everybody understands that from the Board all the way down to teams within the organization and within our BUs, but that's what it's about. And that's what's helped us deliver our story to where we are today. So that was my last slide. Did I keep on time? Or am I over? Okay. I never do. So why make today different.

Q&A

Sarah Willett - VP of IR & Corporate Strategy

Basically, raise your hands and then I'll sort of cover this slide and Claire will cover that side of the room. When I give you this handheld mic, you have to do what I'm doing. Otherwise, no one's going to be able to hear you just to let you know, I'm not doing this by choice. Okay. So, with that, I'm going to invite Damian and Peter to come up. And obviously, we'll open up the floor to questions. And we will also invite people from our leadership team as appropriate to help us. And sorry, can you say who you are, right? Where are you from as well?

Sanjeet Aujla - Crédit Suisse

Sanjeet Aujla from Credit Suisse. Three questions, please.

Firstly, on the input cost guidance for '23, Nik. Can you just help me run through the moving parts because you came out in August with high single-digit outlook when gas prices were particularly high. They've come down a little bit since then. So, kind of what have you locked in, in terms of conversion costs? And are you factoring in any energy subsidies that might come through within that guidance for next year? Second question, I didn't really hear much about hot coffee today. Is that still an exciting opportunity for you guys? And how is the Costa rollout evolving? And thirdly, just on Indonesia, one for Peter. Just to understand all the SKU and portfolio resets done this year? And is that business ready to really start to deliver strong growth from next year onwards? Is that actually how we should think about it?

Nik Jhangiani – CFO

Start with the easy one, '23. It's a great question, Sanjeet. And I think when we looked at this in August and where we were in terms of the high single digits, the area that's continued to move is gas and power. Now you're right, it's come off. But again, that's the danger of looking at a spot price versus a spot price in 2 months. Because if you had looked at just that, I mean, even in the last 4 weeks or 6 weeks, you've seen a huge improvement, right? Challenge is, you can't go out and hedge and cover for that, right? The only market today where we have protection for the longest period of time is Iberia because that price cap stays until the middle of next year. The U.K. obviously pulled back and already moved that only up to April. So, we need to see what's happening. And within the rest of the EU, we're still waiting to see that, right? So yes, there potentially can be some upside. And that's why I mentioned if those price caps that come in, that gives us a lot more certainty. It gives our supplier base a lot more certainty in terms of what they can commit to us in terms of conversion costs as well because that's the moving part right now, right? So, I'm hoping, clearly, once that comes through, we can get some upside there, but early days to call that. The other piece we've got to keep in mind is that has a knock-on impact on what inflationary pressures are in terms of just our cost base from so many different angles, right, whether it's logistics, whether it's within manufacturing, whether it is what our employees expect in terms of salary increases given cost of living crisis, right, and the challenges that are going to face. So clearly, that also will have a positive impact if that comes down in a way that gives more certainty on those elements as well. So those are some of the moving parts that hopefully, by February, when we come out with our full year results, we should have a little more clarity on to be able to give you firmer guidance.

Damian Gammell – CEO

So, on Costa, I mean, I think Manolo mentioned it, Stephen mentioned it, it was in my slides as well. Obviously, we lost a bit of time with COVID because mainly it's an away from home play. So, the last 18 to 24 months were more challenging. Certainly, on ready-to-drink, we've made good progress. We've got a good coffee business in Australia with Grinders. So, we're learning from that. I think what we're doing is prioritizing some markets. So predominantly Germany, Norway, obviously, the U.K. on ready-to-drink where the brand is really well known. And what we are trialing, particularly the Express machines, was hopefully we got a chance to thrive today across all of our markets, but particularly in Spain, at the moment. So, if I kind of step back, there's 2 categories we talked about today, alcohol ready-to-drink and coffee that support that 4% or certainly could help accelerate it. Both of them are in early stage of development for us. We've got some great learnings on alcohol ready-to-drink from Australia. We're starting that with the U.K. And then obviously, Costa is a huge category, it's like a $40 billion category in terms of revenue. So that's beyond what Stephen talked about in that 130. But we want to make sure we can make money and make a good return. So, I suppose that's why we're still trying a lot of solutions and looking to make sure we can get a good payback. But it's in there, and there's a lot happening, we can probably give more color on that in February.

Nik Jhangiani – CFO

And just on that $40 billion, again, keep in mind, as Damian said, it's about where can we make money, right? So, if you really look at the addressable market, you're looking at maybe 1/4 of that, that where we feel we can play and make money, right, which is so very attractive, but we've got to do it in the right way and build a sustainable business for the long term.

Peter – General Manager API

And with Indonesia, we exited the bulk water and cup tea before Ramadan. The rest of the portfolio was done after Ramadan because we wanted to focus on execution. So, we'll have some of those in our numbers in the first half at a volume level. For me, I zero in on sparking has the performance, and that's why we shared the number today. Because as we're freeing it up, are we seeing the performance on sparkling. And then that comes through at a better rate overall.

Damian Gammell – CEO

Just to build on that, I think the team's credit Jorge, and the team in Indonesia. We certainly have the best Ramadan in terms of customer service levels and supply continuity. And that was really when it comes out of the SKU reduction we talked about earlier, was really being able to run our lines more efficiently and provide better customer service. So, you get a double benefit. You get more profitable volume, going through your lines by simplifying your portfolio, and that certainly delays some capex as well. And so, as we look at continuing to manage that capex number, a lot of the initiatives we heard from Jose Antonio in terms of line efficiency and productivity is a key driver of that, but it helps the top line, and that's really what we saw in Ramadan in Indonesia this year.

Robert Ottenstein - Evercore ISI

Robert Ottenstein, Evercore ISI. First, just a quick clarification. You had mentioned that you hadn't seen any slowing in the business or down trading in Europe. Is that inclusive of September and October?

Damian Gammell – CEO

Yes. I think, year-to-date, we've seen the category remain resilient. We've seen away from home remain resilient. We've had the benefit of great weather reopening, but September, October, the trends have continued. We're seeing certainly private label getting more emphasis in store. I think that really goes back to the beginning of the summer. We haven't started to see that really come through yet in terms of share. We're also seeing a lot of the private label having to reflect the higher commodity prices, maybe a bit later than we did. And clearly, their cost base is off a much lower revenue base. So, the percentage increase that they need to deliver because the price of plastic or the closure or the label is pretty much the same or maybe we're even more advantaged. So, we're starting to see some pricing creeping in private label as well, which is understandable. But so far, we haven't seen a big difference year-to-date.

Robert Ottenstein - Evercore ISI

Okay. And then sort of more structurally, you under-index right, in the hard discounters, that's the fastest-growing channel. How should we think about that dynamic? And how do you think about that as you model your business? And how are you looking to address that?

Damian Gammell – CEO

I think that supports that growth number, Robert. I mean, we really took a stronger position in that channel in Germany, probably before the rest of Western Europe, I give credit to the German team. And if you recall, when we created CCEP, we identified that discount capability out of Germany has been a big driver of value across other markets. So, we haven't got to our average share yet, but we've consistently gained share in that channel. So, we're winning share in a winning channel. So, in some ways, you kind of look at it and say, well, it's a disappointment we're not at our average share level and discounters. But in some ways, that's the opportunity for growth. And that also comes back to some of the categories. I mean, it still surprises me and I look at these charts and laugh, when I see our share in sparkling flavors. If I see our share in energy at 25, and that's on the back of multiple years of double-digit growth in the 20s. So, some of that indexation really supports the 4% midterm target. And I suppose we weren't gaining share or we were going backwards. Obviously, then it doesn't work. But if you look at our share, particularly in discounters, it's been the biggest driver of our growth and that gives us the confidence.

Nik Jhangiani – CFO

And profitability, I think what's critically important is a lot of people continue to think as we made our foray into discounters that was going to be unprofitable, right, we're decretive. Actually, the profitability that we have in the discount channel is actually very strong, right? Because ultimately, we have a much lower cost to serve, central warehouse delivery, no merchandising. We are not typically to even enter the store, right? So it's actually a very profitable business and actually continues to be accretive.

And actually, it's a good point just to build on something Damian had said earlier. Our home business that we've built and the resilience of that business with the diversification, but also the profitability of that business has really continued to evolve, right? So if you recall, I know with several of you, we've had this discussion around what is the home and away from home. And away from home is such a simplistic way of really looking at 8 or 9 different subpanels and how very -- how HoReCa can be in 1 market versus QSR versus food-to-go, et cetera, right? But we typically always saw that you had a revenue accretion piece that came as you grew your away from home, a mix benefit, right, because the revenue per case is higher. But if you then think about down to the operating profit level, -- and this is some great stuff that we learned actually with the API acquisition as we did a lot more modeling of our channel profitability based on the work that they've done, that our cost to serve is much higher, right? You've got your coolers. You've got your sales force that's calling in to those outlets. And we used to talk about the fact that away from home was typically around that 1.1x higher from a profitability level. COVID really allowed us to reset that home business, right, with that diversification of pack, the pricing, the smart RGM that we've done in the store.

So today, I would say to you, yes, the profitability of our home channel is just as strong as our away-from-home channel, right? And depending on the subchannel within home and away from home that you're looking at, actually, some of the home channel can be even stronger, right? So the beauty is, today, we can benefit from the growth that's coming across all channels as opposed to worrying about how do I push this one more because that's where the profitability is better, right? So that's a great thing for our business as well going forward because we want to be where consumers are, where they shop, where they buy, where they consume and our profitability then is strong from both.

Damian Gammell – CEO

I think it's important to reiterate a point made earlier today, that profit growth hasn't come at the expense of the retailer's profit, right? So if you look at what we've achieved, we've grown our home market profit and they've actually grown theirs faster. So I think that's what makes it sustainable. If we've just taken profit from them, obviously, one time you get away with it, but it's not a sustainable business. So we've allowed them to expand margins as we've corrected what were some real inefficiencies really in our own supply chain, our pack mix and inefficiencies around promotions.

Nik Jhangiani – CFO

And we were happy that -- Ed Mundy that you stole that chart from us and put it into your research notes. So...

Mitchell Collett - Deutsche Bank

Mitch Collett from Deutsche Bank. I'll try 2, given 3 was too many. You had significantly fewer pack sizes if you went back to the creation of CCEP, and that's one of the areas you've been very successful in creating higher price per unit. How much further can you continue to push that? And how does that sit with your sustainability objectives? And then my second question is on the COGS breakdown, which I think was slightly different this time, Nik, to what you presented in 1H '21. I appreciate a lot of that is because of price, but the 2 bits that seem to have moved are concentrate as a higher percentage of COGS. And I think it's taxes and others that have gone down to offset. So could you just give a bit of color about how those moving pieces have changed?

Damian Gammell – CEO

Yes. So on the first piece, I think if you look at brands like Coke or Coke Zero, we've done a lot, but we still have a way to go, particularly by channel. I think if you look at our other categories where we've got more share upside, particularly in flavors, we're still nowhere near where we've got with the Coke brand. So I think if you look at Fanta, Sprite, our tea franchise and energy, particularly multi-packs, we started the journey, if you're in the market today, in GB, that would have been a commentary you would have heard. So we've still got a long way to go in terms of pack differentiation. A lot of it is glass, a lot of it is RGB. You saw a lot of cardboard today, hopefully, in GB. So that is supporting our sustainability goals. A lot of the plastic you'll see on the outer wrap will go over time. We're committed to that. And within the bottle, it will be all be recycled and it will all be collected.

So we're very conscious that as we drive pack proliferation and we're incentivized now that, that it drives down our CO_2 footprint, drives revenue and margin, but is also sustainable. So I think we still have a way to go, which is, I think, good for us in terms of driving top line growth. But I do think what it can do is make us inefficient in our supply chain again because we need to create the space on our manufacturing and in our warehouses to allow that to happen. So that 30% to 50% SKU rationalization is a key enabler of allowing that to happen.

I think Peter touched in Australia, and we saw that from the outside. They have massive proliferation in categories, packaging across numerous segments without calling the SKUs and the business started to decline. So clearly, we want to take out SKUs that will allow us to effectively drive more pack differentiation. And also, as Ana mentioned, achieve that CO_2 target as well. I think RGB in France is a great example. So a full range of RGB now in France, very sustainable, higher margin for the retailer, higher margin for us, and certainly, something consumers will buy into as well, particularly with the Olympics coming. So...

Nik Jhangiani – CFO

Yes. And the other thing to build on that, that's great, with the support of The Coca-Cola Company, typically, you had proprietary bottles across each of your different types of packs that you were looking at in terms of the glass flow you would have to go out and invest in, right? And actually, there's a big move towards what we're calling a universal bottle that really helps in terms of how you can think about your investment in glass flow, but also ensure the return of those as opposed to I've got a proprietary pack, and I don't have enough of this particular pack that I need to be able to fill because you've got that universal bottle that we're moving towards, and that's going to happen in a number of areas of refillables as well.

To your question on COGS breakdown, part of it is the beauty of rounding. But keeping aside the beauty of rounding, there is a couple of challenges when you look at it, right? So yes, our concentrate pricing has gone up because we've been taking more pricing in the market, right? So clearly, that has an impact. And then throughput taxes have come down, both from an angle that we had a benefit in Norway where that was reversed. And so that actually came out, right? But then you also got the element of some of those are actually fixed on a per liter basis. And depending on what you're selling in terms of litreage depending on the pack that can actually have, particularly as you move towards more small packs, etcetera, that can have a positive impact as well.

So part of it is in the rounding, but it's a great call out because I would say to you, if you look now '23, you're probably going to see a bit of an upweight on commodities, right? Because if you think about the 2 years of inflation that we're seeing on commodities, that's going to have a higher weighting as a percentage of our total COGS. So that 25% might move up by a couple of points, right? And then you'll see again some elements moving up or down just depending on that rounding element. But that's what it is.

Damian Gammell – CEO

And just to come back to a chart on Ana's deck, which they know is my favorite slide, which is sustainability driving value in the P&L and coming back to that French example of RGB. If we wanted to go into RGB in France 2 or 3 years ago, would have been with 8 SKUs with The Company. Everything would have to be proprietary tea, Fanta, Sprite. On the back of our CO2 commitments, we've gone with 2 bottles. So clearly, Coke that never changes, but universal about the mix point for all the other brands. So in effect, that sustainability mindset is also driving value in the P&L. And I think that's a great example. If you look through our sustainability goals, a lot of them really drive either great employee and customer engagement, will fundamentally drive value in the P&L.

Eric Serotta - Morgan Stanley

Eric Serotta from Morgan Stanley. Could you talk a bit about how you're approaching price discussions for 2023. You did mention both in the press release and today that you'll have the carry over benefit from the second price increase this year, but how are you approaching retailers? And sort of where are you in that discussion? And then second, for Peter, could you talk a bit about the strategy for extending the business in Indonesia for sparkling beyond the seasons. Talking to Manolo earlier in totally different context, he was talking about taking 7 or 8 years to change the consumer behavior in beverages. Can you do it sooner than that in Indonesia? And what's the strategy for getting there?

Damian Gammell – CEO

It better be sooner than this, Jesus. So yes, I mean I think pricing today is an ongoing discussion with our retailers. So I think Jantine laid out our revenue. And now I think we're quite happy that we brought margin into that discussion because I think as Nik talked about, we have an aspiration to get back to our margin structure as quickly as possible. But it's an ongoing conversation. So in some of our retailers or now just into November, we probably finished some of our last pricing moves in September. So we clearly laid out that we would be back in Q1. So usually, our normal cadence is January, February, March, depending on the market. So we've been discussing that with our retailers. We've been looking at elasticity modeling. We've been using some of the tools around analytics and promo pricing.

So I think what currently is happening due to the kind of unprecedented levels of inflation, those pricing conversations are kind of iterative. They're not that once-a-year event that they used to be. And I think that's going to continue until we get a little bit more clarity because our retailers are in the same position on their own brands, right? So they're having the exact same conversation. So we've made it clear that we want to price for the benefit of the category and for our customers. We're very mindful that we've got a great consumer franchise. So we'll maintain a value proposition across our portfolio. We can do that because we've got so many different pack offerings. So you will still find value in our category if you go into any of our retail outlets.

And I think that's critically important because some consumers and shoppers quite understand that they are under pressure from energy pricing, transportation, and that's going to continue, right? So getting that balance right for us and our retailers is critical. So we will be back in the market in Q1, again, with pricing on shelf. And then we'll see what happens, we could be back again in the middle of next year. I mean, I think that's the reality of the world we're operating within. So far, the elasticities look really good. And I think that pack differentiation allows us to play with that a little bit more than we could have certainly 4 or 5 years ago, would have been a very different story.

Peter West – General Manager API

Yes. So development in Indonesia will be the combination of mental and physical availability. I think in Manolo's overview, my interpretation is the network model that's been developed and the evolution is there's a real mojo back in the marketing of the Coke company. And I say that as a relatively new starter to the system, where the magic sort of comes back to the marketing of it through the storytelling, but also then recognizing digital and passion points. And so there's no shortage of awareness of the brands. The brands have been in the market, people know them, but it's through the marketing to make sure that it's front of mind and therefore, tapping into the passion points. And areas like gaming and digital and sports are at the center of that. And then our job is to demonstrate the physical availability and the pragmatism is, people are loyal to the brands they can find. Not if you're not in the right outlets and you don't have the right visibility.

So in my background of chocolate, the facings were important. Because if you went from 1 facing to 2, sales went up by percentage to 3 facings. And so if you were a blockbuster brand, you had to be multifaced because it's a 3-second purchase decision. And the distribution on our blockbusters remains too low. So when we took the Board there, the feedback would have been, relative was the lack of visibility. And we had the extreme result with New Zealand, which was the opposite of that it's everywhere. But it's just not visible. So the team are incredibly excited by what's possible on the blockbusters. And I think the combination of their mental and physical availability accelerates performance. But it's a building block to take it because of the number of stores and the complexity of do it. So it takes time to do.

Damian Gammell – CEO

And just to maybe build on Manolo's point. I mean typically, in NARTD, sparkling will be 20% plus of the category. And we're certainly nowhere near that in Indonesia. So that probably is a 7-year journey. If you take that CAGR on annual growth levels, that would be quite healthy, actually. So I think to get there, it's going to take time, while we're coming off such a low base. I think our priority is to make it sustainable and profitable. And I think we've got that opportunity now in Indonesia. What also surprised me from being there a couple of times. And those of you who've been in Indonesia, they'll celebrate everything. So there is a lot more happening in that country than Ramadan. In some ways, it was a far too binary month of the year. There's National Day, there's events happening every month in Indonesia that we never connected to. And we've just started to realize that consumers in Indonesia are passionate about, obviously, Ramadan's a really special time of the year. But beyond that, there's something happening every month. And in some ways Ramadan, maybe was too simplistic for us. It was 1 month, let's go for it. We've turned ourselves to look at how, at why did per capitas drop off, how can we connect outside of Ramadan. We've just discovered a lot of either regional events or national events that we can be a bigger part of. And I think that's great.

Nik Jhangiani – CFO

And I think festives, when you think about 270 million people, everybody is not Muslim in that country as well, right? So there's Christmas celebrated, there's Diwali celebrated, and you name it, right? So there's a lot more festives that we can go after. Peter, do you want to talk a little bit about Australia pricing as well as what you're thinking about that?

Peter West – General Manager API

Yes. We have a price rise hitting the market in February. We've communicated that to customers. And we've also put forward our promo program, which reflects continued fine-tuning from what we've done this year. Our alcohol side, the excise tax for that is actually tied to CPI. So we'll have 2 price rises on alcohol next year. And so the first one hits in Feb and the second in August.

Jonathan Keypour - BofA Securities

Jon Keypour from Bank of America. Just around the M&A outlook and consideration. I was just wondering, are you guys focused for prioritizing in anyway, other Coca-Cola franchises? And then as a follow-on, would you consider buying out the rest of Indonesia from Coke. Would that fall under consideration as a strategic M&A? Or does that have some other kind of designation?

Nik Jhangiani – CFO

Should we ask Manolo to answer the first one. The second one is easier. Well, listen, at the time of the transaction, and if you go back to 2019, when we were first looking at this transaction, we had a very convoluted structure that we were trying to get through where we're actually selling back Indonesia to The Coca-Cola Company, and were looking just to buy Australia and New Zealand simplistically, all right? And clearly, that had its issues. And anyway, we walked away from that for a variety of different reasons, including Amatil's Board that just wasn't comfortable with that. When we closed this deal, we did agree with The Company that, listen, either you're going to buy back that 70% from us or we're going to buy 30% from you, right? So it's a question of which one is going to happen. I would say to you, we clearly have an interest in being able to buy that out. Just to keep it simple, I would say, The Coca-Cola Company would clearly have a preference for that as well because it clearly is a tie-up of capital for them in a sub-entity that they can't monetize unless we actually buy it, right? So it's the right thing for both parties. And at the right time, we'll tell you what's happening there.

Damian Gammell – CEO

I think on broader M&A, I mean, I think with the Board, we did quite a good detailed exercise of where it makes sense. And clearly, we believe that more Coke franchises is the best use of our capital for our shareholders. That was a disciplined approach we've taken. I mean we looked at vertical integration, we looked at adjacent categories. But clearly, we don't see them generating returns that more Coke businesses can, providing they are a right Coke business, right? So I think we've been quite disciplined as well.

And clearly, with the Amatil transaction, we brought in very high value-creating businesses like Australia and New Zealand. And we brought in a very large bigger business in Indonesia that we believe over time, we can create sustainable value. And we'll apply the same lens to any other M&A. Is there a lot out there, speak to most Coke bottlers, there isn't a lot of sale signs around. It's a great business. Most bottlers want to get bigger. So we'll keep working with the Coke Company. We keep building our credibility, which is really demonstrating that we can support faster growth in Australia and New Zealand and turnaround Indonesia. If that unlocks some markets over time, we'll wait and see. But I think with Indonesia, 270 million consumers, that's a lot of small countries wrapped up in one big one. So we're probably happy with that one at the moment.

Simon Hales - Citigroup

Simon Hales from Citi. A couple of questions. I know we don't want to get too bogged down in 2023 guidance at this point, Nik. But obviously, we've talked a lot about COGS. I wonder if you could talk a little bit about OpEx and maybe some of the moving parts we should be thinking about there. Maybe not scale them at this point, but clearly there's wage inflation and they're sort of going on around the world, just maybe some of the moving parts we should be aware of? And then secondly, Damian, you mentioned again sort of alcohol earlier. Clearly, there's a bigger ambition in alcohol and RTD there. How do we think about the scale of that ambition? Is it, do you think it will be easier to perhaps future scale in alcohol than perhaps it has been, to date, in coffee, for instance? Just trying to get a flavor of strategically how you think about it.

Nik Jhangiani – CFO

Go for the easy one, first.

Damian Gammell – CEO

Interesting. So I think not by design, but when we're looking at the Amatil business, clearly, and Peter laid out, Australia is probably one of the best alcohol ready-to-drink markets globally per capita growth. I've been there a few times, I've been amazed even though I lived there previously, how relevant that category is for the customers and consumers. I was at the grand final with Peter. Exact same thing we saw at the rugby, everybody was drinking alcoholic ready-to-drink. So clearly, that's out of share about 17 or 18 and that I think in Europe, it's about 1. So I think you've got to ask the question, when is that trend going to come to Europe and can we be part of it? I think prior to Brown-Forman relationship with KO it was probably an interesting idea, but you need brand power to get after it. We didn't have it, now we have it. But that's quite a recent development. We'll go live in Q1. I think the company are going live this quarter, Manolo in Mexico.

So I think we can say we've got the brands. We certainly have the learning, and we see the size of the opportunity. Maybe it's never going to get to that Australian level, but even if it's half that size, it's a big opportunity. I suppose it's something we'd like to come back to after we kind of get into it in Europe, I mean, Topo Chico was interesting. It was a stop start with COVID. It's a category that's not as developed in Europe as it is in the U.S. But we've seen markets like the Netherlands and GB showing enough opportunity that we want to stay in it. I personally feel that flavored alcoholic ready-to-drink and Jack and Coke has a much bigger relevance for a European consumer than hard seltzers outside of maybe GB.

So that excites us. And a bit like coffee, you look at it supporting that 4 or it could accelerate that 4. And I suppose that's color we provide as we go through 2023, get feedback from consumers. But you get to taste it soon and nobody wants to get to the bar, you'll get there soon. But certainly, I think as a marketer, having Jack Daniels and Coca-Cola on the same can, it's just a phenomenal proposition in a very underdeveloped category in Europe. So we're excited about it. But again, it's early days. But I suppose we've all been through it with the board on the business in Australia. And you can see what the team have done with the Beam Suntory franchise over a number of years and a category that's very profitable, very dynamic and is playing against some headwinds that, frankly, beer and wine and spirits are suffering.

And to Peter's point, what's probably different. We did try, some of you recall, spirits distribution in Belgium. We have a beer business in Iceland. We had a beer business in Australia. We kind of exited that because it's not near to our capability. It was like a step too far, a lot of complexity. The good thing about alcohol ready-to drink, it's very near to us. Same manufacturing, same customers, it's mainly sold in key accounts and on the go. It is not an on-premise drink, so it's not HoReCa. So we're not really trying to break into that very competitive, very complex and fragmented market. You'll find it where you'll find a coke, generally. And I think that's also something that leads us to think it's probably more sustainable.

Nik Jhangiani – CFO

So back to '23. So if you look at the P&L, I mean, if you look at the inflationary pressures, it's within COGS, you're going to see that coming into our manufacturing piece, right, given the workforce that we have in this. So that's one element. And then you've obviously got it in the rest of our workforce, either sitting through commercial or in G&A, right? Now that inflation level is going to vary across markets, right, depending on the levels of what is being seen locally. And some of the stuff that we're working through. Damian, Veronique and I are having some very good discussions around how do we think about that to make sure that we do the right thing for our employees, right? Ultimately, we're doing the right thing for our customers. We're doing the right thing for our suppliers, for our shareholders. The employees are critically important part of our success, and we need to do the right thing.

So in some markets, what we've done this year is actually go ahead and that's obviously built into our guidance before you ask, is around doing some one-off support payments to actually support with the cost of living crisis that they're dealing with this year. That obviously should help us as we think about next year. The other element is what do we look at, which is a kind of increase in terms of base and what is a one-off benefit that doesn't necessarily stay in the base going forward if the inflation is going to be at that level as well, right? So I can't give you a clear answer because a lot of that's going to depend on how we actually see those numbers shake out, how do we want to go through those discussions and negotiations. And again, we'll give you some more color on that, but that's what you're going to see.

Then the other element is really what's linked to volume-related elements of manufacturing and distribution. Now as I said earlier, '23 is not a volume-linked plan, right? But you're still going to see inflation even on that same volume that still needs to get to that outlook, right? That's going to play out, right, from that whole energy cost perspective. So lots of moving parts. But then again, what I would say to you is a lot of focus around what can we do on the efficiency and productivity piece. We've got the tail of what we have from the announced program when we did the transaction. So that's to come. And then clearly, we will try and accelerate elements of what we've just announced today in terms of what can come through in '23 to offset some of those pressures as well.

Damian Gammell – CEO

And we'll be sharing that challenge with our suppliers next week.

Nik Jhangiani – CFO

Absolutely. Monday. Tune in, if you want.

Richard Bruce - Trinity Street Asset Management

Richard Bruce at Trinity Street. When you raised your long-term revenue growth forecast. Did you incorporate a higher level of assumed inflation? In other words, did you take up a real level of revenue? Or was it just a nominal level of revenue growth that you increased?

Nik Jhangiani – CFO

So listen, I mean, it goes back to what I said in terms of when you look at that split out of how we think about that 4%, right? And what we've been able to do, if you go back to the history is even in years where we weren't seeing the same type of inflationary pressures, we were focused on getting shelf pricing and then optimizing promo spend as well, right? So you're looking at both of those elements that we can continue to play with, right? So it's about 40% of that we're looking at. And we're looking at it based on what we see as the category growth, wanting to maintain if not grow our share year-on-year. And what we see is general inflation levels in most markets, given that we're sitting in a developed world, you're looking at real kind of inflation in terms of that circa, let's call it, 1.5% to 2% type of range that hopefully, we'll get back to in a more normalized world. So that's what we've built in, right? Now Indonesia is obviously very different, right? And that's a different equation because it's not just about then, is it real or not at all. It also comes back to the elements of affordability, the pack architecture, what we want to do to drive volume availability and distribution. So it's a bit of a different equation over that.

Damian Gammell – CEO

I think that's why we talk about it from '24 because as Nik laid out already, '23 will be very different, just on the basis of the inflation, the pricing we've taken this year. But clearly, as we get to a more normalized world hopefully. It's back to a reasonable level of inflation to drive that 4%.

Edward Mundy - Jefferies

Ed Mundy from Jefferies. Just 2 questions, please. The first is on this greater profit sharing with the retailers. You put that slide up where you're growing revenues 4.5%, the retailers have grown 5%. It's clearly worked, given how much sort of value you're creating for them and your market share improvements and we've seen it in the numbers. Are we at a sort of plateau of that relationship? Or are there opportunities to sort of share further as you collaborate with your retailers, I guess, is the first point. And then the second one, Peter, on Australia. I think you talked to moving down your promo intensity or depth of promo from 50 to 40 without a huge amount of impact on the elasticities or the business? Are there further opportunities to bring that down further as you look out the next few years?

Nik Jhangiani – CFO

He's done 30 and 20 as well. Not just 40.

Damian Gammell – CEO

So do you want to answer that, and then I'll come back on the first.

Peter West – General Manager API

Yes. So the way we think of the Australian business is instead of trying to think of the P&L in totality. We break it down by channel. And then each of our channels has a point of departure to point of arrival economic shape. It has different price assumptions, volume assumptions. And then we also take profit to serve. And in the profit to serve, we look at fridges, we look at coverage and we also then look at the mix of what we sell. So that channel by channel provides absolute clarity. When you start thinking your fridges even with large retailers, you can then say, well, of your 1,000 stores, the following 250 don't need the number of fridges and that actually improves the profitability.

For our customers, their mix on front of store, they make a lot more out of the front of store. So that's a really important one. If you come and do store visits we're at 75% to 80% share at the front of store in grocery. And then in promo mix, as we're freeing up 6 packs, 10 packs, 12 packs, intensity on that also now comes up because of the success we're seeing on those packs. So we're seeing more price realization in small packs. And then for the retailers, they make a higher margin on those small packs. So I would have confidence by channel of our plans and landing those promo improvements.

Damian Gammell – CEO

And just your first question, I mean we see that continuing. I mean when we look at the margin opportunities we see by pack or by category, we see that for the retailers, too. I mean, will there be always that 0.5 delta would they take a bit more? Maybe. Will it grow much more? I don't think so. Could it come back to where we're both growing at the same level? Probably. Will we eat into their margin to support their value creation? I don't see that happening. That's not a sustainable model. I think as we look and I think the tools that Jantine showed today, when we model that, we model the margin for us on the retailer. I mean, ultimately, they set the shelf price. We look at the elasticity, assuming that they would effectively pass on. And I think that's worked really well for us. I think in some countries, particularly like France, margins had eroded for retailers over many years. We've been rebuilding it. So some countries we've given a bit more back because we're off a lower base. But the markets have been very equal like GB, great growth. So I think we'll continue with that joint value creation model. The gap may widen or close a little bit, but I don't see us growing at the expense of our retailers profitability. That's not something that works long term at all. Sarah is waving at me.

Sarah Willett - VP of IR & Corporate Strategy

To finish I know there are more questions. There's plenty of time this evening to ask more questions for those of you who are joining us. That's the close of the Q&A. You just got a couple more slides Damian to close. And then I'll cover some logistics.

Damian Gammell – CEO

Okay. So I'm standing between everybody on a good night out, hopefully. So before I close, I just wanted a big thank you to everybody from the team who presented. So thank you. And to a great IR team for putting it all together. Thank you, Sarah. It's been really easy. So I hope you got a flavor today of not just where we are obviously in '22, a flavor of how we see '23, but more importantly, how we see our midterm and taking those numbers to a more ambitious level. We try to give you an overview in a relatively short period of time of our growth story. Again, a big thank you to Manolo for sharing The Coca-Cola Company's perspective and for Sol for opening remarks on where we see our business, and it's a great business. Lots of reasons to believe that we can discuss over dinner.

When we deliver on this strategy, we truly believe that, sustainable shareholder value creation is at the heart of what we do. That also creates value for our customers. It will lead to a more diverse business, not just in terms of geography, but category and also talent. We're very happy that we can accelerate our ambition on the top line and the bottom line, obviously, free cash flow, which myself and Nik are always very passionate about. We see sustainability as a core value driver as well as being the right thing to do. Ana shared with you a few very simple, but very powerful examples that by doing the right thing for the environment and for the future, can also support value creation in our business and also, most importantly, connect with our customers' objectives and make our employees a lot happier.

So simple example, rolling out electric vehicles has had a massive impact on our employee engagement. Because at the end of the day, most people, particularly in Europe, feel better about driving an electric car. It's the right thing for CO2. It reduces our cost to operate and it builds a more sustainable business. So you can really work hard. The RGB example in France is another great example of the right thing for the environment, being a good thing for our customers and a good thing for our business.

You heard from Manolo, you saw the numbers in terms of our relevance for The Coca-Cola Company. That's also a big number for Monster. And you will have seen today in terms of our growth numbers, the energy category has been and will be a big driver of our growth on that 4%. And obviously, Nik laid out a plan around our capital allocation framework, and we are very committed to returning cash to shareholders. I want to come back to that point that Nik mentioned. It's in our DNA. It was something we were doing pre-COVID. Clearly, we made the decision to allocate our capital to the acquisition of API. I trust you'll share with us, as Peter laid out today, that was a great transaction at the right time. But as we look forward, we will de-lever. We'll get back to the number we've committed to. And then absent other uses of cash and M&A, clearly, we're very much committed to returning that cash to our shareholders.

And the next point that I think is very important, we can do both. And that's something that we'll continue to focus on with our Board. And hopefully, tonight, you will get to meet a happy and engaged workforce. If they're not happy and engaged, give me their names, and I'll have a conversation with them. But on that point, we look forward to having a drink with everybody and who's joining us tonight. And again, thank you for taking your time, and it's great that we could get back together after such a long period. So I'll now hand over to Sarah, who's going to deal with logistics.

END