COCA-COLA EUROPEAN PARTNERS
First-Quarter ended 27 March 2020 & COVID-19 Update
Analyst Call Transcript (Prepared Remarks)
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PREPARED REMARKS

Sarah Willett – VP, Investor Relations

Thank you and good afternoon in Europe or good morning in the US.

Thank you all for joining us today. I’m here with Damian Gammell, our CEO and Nik Jhangiani, our CFO.

Before we begin with our opening remarks on first-quarter trading and a covid19 update, I would like to remind you of our cautionary statements. This call will contain forward-looking management comments and other statements reflecting our outlook. These comments should be considered in conjunction with the cautionary language contained in this morning’s release, as well as the detailed cautionary statements found in reports filed with the UK, U.S., Dutch, and Spanish authorities. A copy of this information is available on our website at www.cocacolaep.com.

Today’s prepared remarks will be made by Damian and Nik and will be accompanied by a slide deck.

Following the webcast, a full transcript will be made available as soon as possible on our website.

Following prepared remarks this morning, we will turn the call over to your questions. Please limit yourself to 1 question and if you have more than one, please ask your most pressing first and then re-enter the queue.

I will now turn the call over to our CEO, Damian.

Damian Gammell - CEO
Thank you, Sarah, and many thanks to everyone joining us today.

Clearly, we are operating in unprecedented and uncertain times.
I would like to share my sympathies with anyone affected by the pandemic. And I would like to thank everyone who is working to keep us safe and for their steadfast commitment during these challenging times.

We do have a strong franchise with solid fundamentals. Before the crisis took hold, we saw continued good trading momentum into the first quarter, including progress on our sustainability agenda.

The crisis though has touched every community where we operate and is having a fundamental impact on the way people consume our products. Our response has been rapid. Throughout the pandemic, we are prioritising the wellbeing of our people, serving our customers, supporting our communities and protecting the long-term future of our business.

Despite the uncertainty that surrounds us today, our confidence in the post-crisis future of our business is driving us to take the right actions to respond to the immediate crisis and provide relief to communities, whilst laying the foundations for recovery and then sustained growth.

We do come from a position of strength.

A solid business built upon great brands, great routes-to market, great customer relationships and of course great people.

We have achieved a lot since the merger and we delivered on the commitments we made. We operate in an attractive and valuable category. We enjoy scale and a market leading position across all our markets. We also have a fantastic portfolio of brands, products and packaging.

We are creating a lot of value for our customers too – we were by far the largest FMCG value creator in the retail channel across our markets last year, adding over €1 billion of revenue over the last three years according to Nielsen. In fact, we delivered more than three times the value to our customers than our nearest peer.

We also have a solid balance sheet. We generate a lot of cash and we have solid access to liquidity. Nik will touch more on these areas in a moment. Critically we’re more aligned than ever with our largest franchise partner, The Coca-Cola Company.

As you know sustainability is a key priority for our business - we are making great progress with a bold and integrated sustainability action plan with carbon reduction targets now incorporated into our long-term incentive plans making us an early adopter in this space.
And I am privileged to be leading a 23,500 strong business of such committed, talented and I am glad to say engaged colleagues.

Now to Q1.

Importantly, the good momentum we enjoyed throughout 2019 continued into Q1, with only the last two weeks of the quarter impacted by COVID-19. As per our now normal reporting cadence, our Q1 relates only to our top line performance. I will keep my comments very brief on the quarter particularly given the backdrop.

Key highlights are pulled out in the release both by geography and by category.

Our revenue declined by 4 percent, as expected, given challenging comparables and one less selling day in the quarter. Despite these challenges, we gained further market share during the period according to Nielsen. We are especially pleased with our performance in the mixers category with Schweppes gaining 160 basis points of category share in GB within the measured channels.

Although as highlighted in February, we did see some temporary disruption that impacted our volumes, I am pleased that we have now been able to successfully agree on our local pricing plans with our customers. Our priority is, and will continue to be, to lead the category for sustainable value creation for our customers as I referenced earlier.

We continued to execute our beverages for life strategy, with momentum in newer brands such as Costa, Tropico and Coke Energy. Fuze continued to gain distribution, resulting in a 1 percentage point increase in category share within the ready-to-drink tea category. And Energy also had a strong quarter supported by innovation. Impressively Norway has now joined Spain to become the second market in which Monster is the number one energy brand.

And finally, we made further progress on our sustainability objectives. I am proud that Sweden became our first 100 percent rPET market as we continue working towards a circular economy for packaging.

So, unusually, but these are unprecedented times, let me now provide some insight into recent events and the impact COVID-19 is having on our business. As lockdown restrictions and social distancing practices were introduced across our markets, there has been a temporary but significant impact on our customers and our business.
The most significant impact has been on our away from home channel which has seen a sharp decline in volumes since the crisis started. While the exposure varies by market, last year this channel represented 39 percent of our volume and 43 percent of our revenue, with markets like GB and Spain particularly impacted given higher exposures.

Overall, we believe that roughly 75 percent of our away from home channel has been severely impacted by lockdown measures with the widespread closure of restaurants, bars and leisure facilities. The remaining 25 percent, to include independent convenience and petrol stations, while still open for business, is not immune to the crisis given less people are on the move. Since the crisis began in mid-March we have seen our away-from-home volumes decline anywhere between 45 to 85 percent across our markets as restrictions widened and lockdown measures were implemented.

Trading in the Home channel has also been volatile with volumes ranging from minus 10 to plus 5 percent. Volumes initially benefited from household stocking, however this pull forward in demand has begun to unwind. We continue to see traffic in the Home channel decline as the severity of social distancing measures is resulting in fewer physical shopping trips overall. In contrast, we have seen a significant spike in shopper demand for online grocery across our markets, although this growth has also moderated more recently in line with what we have seen in physical stores.

From a pack perspective, single serve, immediate consumption packs are most impacted, with these packs typically accounting for approximately 35 percent of group volume and 45 percent of revenue. And actually, roughly 30 percent of these immediate consumption packs are usually sold through the Home channel via front-of-store, on-the-go concessions and supermarket convenience formats. So, neither channel is immune, and this trend is particularly impacting our Water volumes as we produce a lot of small, single serve packs.

Unsurprisingly, future consumption packs such as large PET and multipack cans have been performing better although this does vary by market. So, in summary, we continue to see volatility in both the Home and away from home channels. This has resulted in a decline in Group volumes of between 20 and 40 percent across the last five weeks, and we haven't benefited from the usual uplift from Easter in April. We expect the second quarter to be most impacted by these trends but of course there is still a lot of uncertainty around the trajectory of the pandemic.

Now to our response to the pandemic.

As I mentioned earlier, we are prioritising the wellbeing of our people, serving our customers, supporting our communities given the crisis has touched every
community where we operate and protecting the long-term future of our business.

And while we take action to respond to the immediate crisis and provide relief to communities, we are also preparing for how we enable a swift recovery to lead to sustained growth.

And naturally we will do this together with our brand partners.

These next few slides now go in to a bit more detail around each of our priorities during the crisis.

First our people.

We have implemented comprehensive measures in line with official guidance to keep our people safe. Large scale home working for all those that can has now been in place for some time, supported by enhanced digital support, with specific measures for colleagues at sites or in the field to support hygiene and social distancing.

We are changing work routines and patterns. We are redeploying people to areas of the business that have an increased workload or to help accelerate our recovery.

We are providing emotional and mental well-being support during this highly stressful and uncertain time, providing for example a new online coronavirus support hub and we are regularly communicating via virtual townhalls across the business, especially important when so many of our colleagues are working at home.

Job security is of course a concern for our people. And for us, it has been a key priority as we navigate through this period.

We have been working closely with all our partners to ensure we continue to do everything we can to support our customers and everyone they serve. We are continuing to make products during this crisis to help our retailers keep their shelves stocked with the brands people want to buy.

Given the fundamental impact the situation is having on the way people consume our products, particularly in the away-from-home channel, we have shifted production by prioritising core SKUs in larger multipack can and large PET packs, alongside shifting the portfolio mix away from typical away-from-home innovation and packs, such as brands like Honest & Aquarius Enhanced Hydration and packs like glass and post mix or freestyle.
In all we have reduced SKUs by over a third which we are continuing to review with a look to reducing further. All our 48 plants are operational except one, being a plant in the south of Spain that focuses on away from home packs. And of our roughly 220 lines, 25 percent are non-operational, being mostly glass and post mix lines.

On communities we are working closely with The Coca-Cola Company to support COVID-19 response in our local communities with substantial financial aid through the Red Cross and other local NGOs.

We have donated over 400,000 unit cases so far of product in the countries where we operate to foodbanks, medical workers and key workers as well as giving access to our logistics and transportation resources for relief work. We have also produced medical gel and donated equipment for medical frontline and we have been encouraging employees to volunteer where it is safe to do so.

I would now like to hand over to Nik to talk more to the financial actions we have been taking. Nik.

**Nik Jhangiani** - CFO

Thank you, Damian.

So, Damian has talked to our people, our customers and communities. I would now like to talk to the actions we have and continue to take around securing business continuity, maximising our cash preserving as much flexibility as possible and protecting our P&L during this uncertain and challenging period.

We entered this crisis with a strong balance sheet having de-levered quickly since the merger reflecting our strong free cash flow generation. Our 2019 net debt to adjusted EBITDA ratio was 2.7 times, at the midpoint of our stated mid-term annual objective of between 2 ½ to 3 times.

We have a smooth profile of long-term debt maturities with a 90-10 fixed floating mix, having taken advantage of lower interest rates. And the strength of our balance sheet is reflected in our investment grade credit ratings. We are committed to maintaining an investment grade rating but do recall that we are at the top end of the band today, with a triple B plus and an A3 rating with S&P and Moody’s respectively.

And importantly, we do not have any covenants in place for any of our debt. We were pleased to secure additional funding in the debt markets in March, taking advantage of relative market stability at that time and providing us with additional financial flexibility during this uncertain period. We were
significantly oversubscribed on this deal, allowing us to upsize the issuance and tighten pricing on our 6-year tranche with a 2026 maturity. The proceeds continue to provide us with additional liquidity and flexibility and will allow us to repay maturing debt later in the year.

We also continue to have access to other sources of liquidity to support our business going forward.

Free cash flow generation has been a core priority of our business, and we have delivered over €3 billion over the past three years. This has been supported by a strong focus on driving working capital improvements, delivering cumulative improvements of approximately €650 million since 2017.

At the end of the quarter we had around €900 million of cash and cash equivalents on the balance sheet, including the proceeds from the aforementioned bond issuance.

In addition, we have access to a €1.5 billion sustainability linked revolving credit facility which is currently undrawn. And this is backed up by our €1.5 billion multi-currency commercial paper programmes of which we’ve currently issued approximately €600 million.

We also recently received confirmation of eligibility to access the Bank of England’s new Covid Corporate Financing Facility, although we have not utilised any of this facility to date.

So, as you can see, we have ample liquidity measures in place providing us with financial flexibility in the current uncertain environment. And, as with our long-term debt, our facilities have no covenants attached either.

And now to a summary of the measures we have taken to protect our business for the long term.

Despite the uncertainty that surrounds us, our confidence in the future of our business is driving us to take the right actions today to protect our financial performance, conserve cash and lay the foundations for recovery.

From a Governance perspective, we have implemented business and risk review processes, which we are sharing regularly with our Board and The Coca-Cola Company. We have also been in regular dialogue with the wider Coca-Cola system, incorporating learnings and experiences from other bottlers that are further down the COVID-19 impact timeline.
And we continue to stress test our financials and balance sheet across a range of scenarios, helping us to develop a medium and long-term recovery plan for the business. Within this context, we are being extremely disciplined from a cost perspective on capex as well as our cost of goods and opex, to ensure all spend is relevant and essential.

So, starting with capex. We have made the decision to defer non-critical projects to focus on ensuring business continuity including any regulatory requirements, and elements of our business capability programme. This has resulted in savings of approximately €200 million or a reduction of nearly 40 percent, taking our capex for 2020 to circa €350 million excluding leases. Now looking at opex. The largest component is selling & distribution which typically accounts for two-thirds of our total spend and is essentially 60 percent fixed 40 percent variable. General and Admin would account for a further quarter and D&A the remainder, both of these are mainly fixed. Overall, we would see roughly two-thirds of our total opex as fixed, and a third as variable.

Some costs have declined naturally, such as travel and meetings. We’ve introduced a company-wide hiring freeze and have pulled back on all non-essential costs such as contractors and consultancy services. We are also reviewing all trade marketing expenses and pulling back on our promotional spend and seasonal labour. And incentives will naturally be reduced across the business.

Overall, we believe we can reduce our discretionary spend by a potential €200 to 250 million on a full year basis, and whilst it does include an element of COGS, which I will come on to shortly, it is mainly opex based. Of course, as we are operating in an uncertain environment with little visibility on how the remainder of the year will play out, these savings are assuming that the current situation continues for the rest of the year. If that is not the case, we may take the decision to reinvest some of these savings, as we progress into and through our recovery phase. Just to be clear, these savings do not include one-off costs coming in to the business such as bad debts, inventory write offs and necessary, protective equipment for our colleagues.

So now to COGS. As mentioned just now, cost savings such as seasonal labour from a COGS perspective are more limited, with typically around 85 percent of our total COGS being variable. This would include our concentrate payments and finished goods, accounting for 45 percentage points, commodities a further 25 points and various taxes another 15 points. The final 15 percent would include our manufacturing costs and D&A, both of which are largely fixed.
We also anticipate an adverse impact on COGS/UC from pack mix as we shift production to meet Home customer demand, for example more multipack cans and less away-from-home focused packs like post-mix and freestyle. So, from a modelling standpoint, please bear in mind that any decline in volumes will adversely impact our COGS per unit case given the under-recovery of our fixed manufacturing costs as well as this pack mix shift. And finally, from a broader finance perspective, you’ll remember that we formally withdrew our full year 2020 guidance in March since we are not currently able to reliably and accurately assess the extent and impact of this crisis on our business.

We were fortunate to enter this period with a robust balance sheet and strong liquidity position as I talked to just now. But we have still moved at speed to review all sources and uses of cash to preserve maximum flexibility. This included the suspension of our €1 billion share buyback programme which we announced in March.

As regards our dividend, the board continues to recognise the importance of cash returns to shareholders. However, the significant uncertainty in relation to the duration and impact of the pandemic on our markets, leads the board to believe it is appropriate to defer consideration of its 2020 H1 dividend, thus preserving maximum flexibility. Once visibility has improved, the board will declare its full year 2020 interim dividend. As a reminder, we have a strong track record of returning cash to shareholders we paid our full 2019 dividend last year amounting to €1.24.

And now back to Damian to close.

**Damian Gammell** – CEO

Thanks Nik.

Let me reiterate that we are confident in the future of our business. We have started preparing for recovery. When it is safe to do so, we will make sure colleagues can return to their workplaces and feel safe and supported in doing so.

We will help our customers and communities get back up and running, particularly those customers who have been hardest hit. We will need to accelerate our business in more channels than ever before into 2021 and beyond.

And we will work with our brand partners, like The Coca-Cola Company to accelerate programmes that address the impacts of the crisis in our communities.
The crisis is also providing the license to accelerate our competitiveness initiatives to become an even more efficient business. We will not lose that opportunity.

And likewise, we will remain focused on accelerating our sustainability agenda. We have created incredible value for our customers and shareholders over the last four years. We will apply that success to the next phase.

So, in summary we started the year well, seeing good momentum before the crisis took hold of our markets.

Despite the uncertainty that surrounds us today, our confidence in the future of our business is driving us to take the right actions to protect our performance, conserve cash and lay the foundations for recovery, all underpinned by a strong balance sheet.

We are committed to helping society rebuild and recover, creating sustainable value and a better future for people and the planet. And now we would like to open for questions.

Thank you. Operator.

QUESTIONS AND ANSWERS

Operator
(Operator Instructions) Your first question comes from the line of Bonnie Herzog from Goldman Sachs.

Bonnie Lee Herzog Goldman Sachs Group Inc., Research Division - Research Analyst
All right. I had a question on your supply chain. I guess I was hoping you guys could maybe drill down just a little bit further on any potential disruptions you might be currently dealing with in your supply chain as well as your capacity utilization across your manufacturing footprint today. And then could you give us a sense of the inventory levels right now at some of your different retail partners?

Damian Gammell Coca-Cola European Partners plc - CEO & Director
So we've actually -- on the supply chain side, we've been in good shape since the crisis came along. So we haven't seen on the supply side too much disruption. We have been obviously looking at absenteeism and trying to make sure that we support our people. But overall, we've been manufacturing really well. Actually, some of our line efficiencies have improved as we reduced SKUs. So that's one learning for the future. We've seen increased
productivity on some of our lines as we’ve simplified our SKU range. We’ve been working very closely with our key suppliers on the procurement side to make sure that, if necessary, we need to build any forward inventory. But honestly, that side of our business has worked really well. Our biggest challenge, as you pointed out, there's been basically 35% reduction in our SKUs. So that's definitely helping line efficiencies. But in markets where we have a lot of away-from-home business like Iberia, we just have shut down some of the lines. So probably about 50 of our 220 lines currently stood down, but those will come back on stream as we see volumes pick up.

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**Operator**
Your next question comes from the line of Edward Mundy from Jefferies.

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**Edward Brampton Mundy Jefferies LLC, Research Division - Equity Analyst**
Two questions from me. The first is around the potential exit rate coming out the quarter. I appreciate you've given the range of 20% to 40% down over the last 5 weeks. But should we be thinking about taking the midpoint as a reasonable exit rate as we go into Q2?

The second question is for Damian. I appreciate it might be a little bit premature given we’re sort of still living with COVID-19. But as you think about the medium to longer-term recovery plan, are there any structural changes in the industry that you’re thinking about over the medium term arising from COVID-19?

And then the third, again, might be premature, one for Nik. You mentioned further efficiencies, and this is providing sort of license to accelerate some of the competitive initiatives. As we emerge, do you expect to hold on a proportion of these savings from the new ways of working, such as less travel? Or will the focus be on reinvesting a big chunk of these savings behind growth to drive that top line recovery?

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**Damian Gammell Coca-Cola European Partners plc - CEO & Director**
Thank you, Ed. Three good questions. So let me deal with the first 2. So on the exit rate, I think it's too early to say given that we're still -- as I'm sure you are like living in the U.K., looking at what is the government proposing to do in terms of their exit strategy as well around social distancing and reopening business. And I think that will guide all of us and the industry to get a better read on what will happen to volumes and revenue as we exit. So we're watching closely, as I'm sure you are, what's happening now in Spain. Germany is talking about lifting some of the restrictions. But it's far too early to translate that into a revised level of guidance on volume or revenue. I think the ranges that we've given today are pretty much what we're seeing. And I
suppose you can assume that they would remain as long as the current lockdown and restrictions remain, and those -- that range will narrow a bit as we see the restrictions lifting. So a bit early to say. And obviously, over the next weeks or so, we'll also keep a close eye on some of the external metrics like Nielsen to give us a guide on what's happening in the market.

On the structural change, I think there's a lot of speculation in the market around what this could mean for consumers, for workers. For our category, we're obviously reflecting on that. I think it is important that we take time to really evaluate what will be a sustainable impact and what may be temporary. I think a couple of things that I've seen that will probably remain with us in some way, shape or form is the digital workforce. We certainly, frankly, benefited from the investments we've made in 2018 and 2019 with upgrading our technology, and that's allowed us to have a lot of our people to continue to be really productive while they're working from home. So I suspect people have used digital tools and adopted a number of approaches that will help structural productivity post-crisis. So I think that will remain. Operationally, I think there's some opportunities that we're looking at. I'd just call out one on the SKUs. I think Nik quoted a number. We've reduced about 35%. Clearly, some of those will add back as we recover, but I also think that we've learned that operating a little bit leaner in that space helps productivity. So I think that's going to be something that we will continue post-crisis to look at. And obviously, my guidance to the business unit has been, "Please, do not add back all of those SKUs. Let's be very selective." So I think we'll operate a little bit leaner.

Online, a lot of people have shopped more online. We've seen our online business grow during the crisis. I think there's been some structural challenges around deliveries. But that's just been due to the size of demand. So I think online will continue to be a bigger part of the category and of our business going forward. And again, our portal, which we set up a couple of years ago, as well positions us for that. So they're some of the areas that I see. I wouldn't call anything more material in that at this stage. I think it will be premature. But I do think as we exit the crisis, and we are and have been working on a recovery plan for a number of weeks now. So we were very quick in response. We clearly know this crisis is going to end, and we will come out of it. So we've been spending a lot of time on recovery. And as part of that, we will look at is there any more significant structural changes that we need to make. And at the right time, we'll share those with you. And I'll hand over to Nik to answer your third question. Nik?

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Nik Jhangiani Coca-Cola European Partners plc - CFO

Yes. So I think, as Damian said, strong focus as we come out of this on revenue recovery. So clearly, along with franchise partners, The Coca-Cola Company, Monster, we'd be very focused on working jointly to look at what does that
look like and what shape does that need to take. So clearly, that's a priority. Having said that, I think, in some ways, it'll almost be a dual priority, which is around that acceleration of our competitiveness work that we had started. So we continue to look at some of these new ways of working, and I think we're going to incorporate some of that and really accelerate some of those efficiencies. So I think while we will reinvest for top line growth, there will clearly be an opportunity for more of that savings to also come in a faster way to the bottom line. But obviously, we'll give you more update as we go through.

Operator

Your next question comes from the line of Lauren Lieberman from Barclays.

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

I was hoping you could talk a little bit just with -- the Home Channel members were a little bit surprised when you cited this first guide, I guess. And I was wondering if you could share if you have a sense for what Home Channel performance would look like excluding that immediate consumption piece. It was really helpful you show that 30% of the business is going to be a consumption tax. But I would have expected to be more of the demand to shift. And I'm wondering if there's something particular about consumer behavior in your markets versus what we've seen in the U.S. going -- there was stock-up and then falling off here in the U.S. But definitely a bit more demand shifting to at home channels. And then also just thinking on cooler placements and CapEx. Just wondering, is your planning for recovery and thinking about changes in foot traffic and consumer behavior the degree to which cooler placement can play a role in recapturing demand within the availability and consumers perhaps spending their time in different places or in different ways?

Damian Gammell Coca-Cola European Partners plc - CEO & Director

Lauren, thank you for the question. So on the Home Channel, we -- as Nik mentioned, I've been spending quite a bit of time learning from the Coca-Cola system and have had conversations with some of my counterparts in China and across Italy and also North America. So I think what's slightly different about the CCEP home market business is that we've had a really strong focus on the IC front of store, maybe consumption business. And as you know, from your market visits in Europe, a lot of our big retailers have transformed the front of store into food to go. And clearly, in this environment, that's really the part of the home market business that we've seen being most challenged. And that reflects in Nik's comments around the immediate consumption.
On the balance of the business, we've pretty much seen exactly what you're seeing across the globe in terms of significant move to large packs, multi-pack cans, large PET. So that part of our business is holding up really well, and we continue to monitor share in that segment to make sure that we're continuing to hold or grow our share. So we are seeing consumers wanting to shop less frequently, so visiting stores less frequently and therefore, buying bigger packs. And that, I think, is a common theme across the globe, and we see that in our numbers. And we see our home market business continuing to stabilize, both online and in-store. And it is quite robust. We are working with all our retailers to also help them minimize out-of-stocks. So one of the other challenges we've seen, particularly retailers who picked the online orders in store, that's resulting in some out-of-stocks as they pick online and then leave less stock for the shoppers coming in. So we're now working with some of our larger retailers to do the online picking back of store and providing full pallets into their back of store so they can pick online somewhere different. So we're working closely in some other areas. We've started to deliver direct to store. So we've done some DSD to move outside of our central warehouse because they had some logistic challenges there, and we found that as an innovative way to get our product to store. So in summary, absent the front of store and immediate consumption decline, the home market business is robust and holding up well, and we'd expect that to continue. And obviously, as things open up and restriction ceases, that front of store business will come back. But across all of our revenue streams, we are a bottler that has developed immediate consumption and on-the-go on Horeca extremely well, and that has supported our margins and cash flow in good times. Unfortunately, with restrictions, that's the piece of the revenue that suffers the most, and that's what we're seeing at the moment. But obviously, that will recover as our business does. So that's on home market.

On coolers, clearly, as Nik pointed out, we've taken a number of good decisions to reduce the cash usage for CapEx this year. And that's we came into the year with some inventory. So we're not losing any opportunities. So if we have the opportunity to place coolers and we can, we will. And as we look at the recovery, we are modeling a number of scenarios to see where consumers will be spending their time and on where they will be potentially consuming our products. In the short term, that type of scenario planning has led us to look at channels like food courts, hardware stores, garden centers. So we have been modeling where consumers are spending their time during the restrictions and there's a lot of places there that we can sell our products. So we're also trying to be a bit more innovative on offering some of our brands and packages in those, let's say, more nontraditional home markets channels. So we'll keep modeling it. And we have inventory. Certainly, as we recover, we'll continue to invest in our business for long-term shareholder value, like we always have done. And part of that may well be a shift in some of our equipment profile as people potentially shop and consume differently, but
certainly more to come on that. Thank you, Lauren.

Operator
Your next question comes from the line of Sanjeet Aujla from Crédit Suisse.

Sanjeet Aujla Crédit Suisse AG, Research Division - European Beverages Analyst
Nik and Damien. Just a question on alignment with Coke. I mean, clearly, alignment is in a very different place versus 10 years ago, let's say, however, at the same time, the majority of the operating leverage sits within the bottler. Who's likely to take a disproportionate hit to profitability through all of this. Does that start to create any tension with Coke with regards to things like investment levels and innovation, et cetera?

Damian Gammell Coca-Cola European Partners plc - CEO & Director
Thanks, Sanjeet. No, I would say at the moment, we've been working as we work pre-crisis very closely around what's right for the sustainable health of the franchise, both from a bottling perspective and from a brand perspective. You're absolutely right. From a P&L structure, the bottlers have a very different P&L structure to the company, with a much higher degree of fixed costs. So that will impact us during the crisis, and we're obviously aware of that. So with the Coke Company, what we're both focused on at the moment is preserving as best we can our households and our consumers.

And then looking at in the recovery phase, how do we prioritize and focus a bit more. And I would say the Coke Company have been extremely open and cooperative around some of the decisions we've made on SKUs. Our thinking on recovery around prioritization of brands and investments and also tapering our NPV and product development appetite given the crisis. So all of those conversations are happening in a very open and collaborative way. I think the reality is we will rephase some of our product innovation, certainly over 2020. We've already done that into 2020, 2021. And that will reflect the recovery, but also the need to focus and prioritize as we -- clearly, our goal is to return our business to top line growth, but also to continue to get back to the financial performance that we've seen precrisis. So pretty much in good shape. Nik, I don't know if you want to comment on that question from Sanjeet.

Nik Jhangiani Coca-Cola European Partners plc - CFO
No. I think you've answered it. And obviously, we continue to work with them also looking at everything on concentrate as well as potential issues with bad debts, product write-offs, et cetera. So as Damian said, it continues to be a
very collaborative working relationship. And I talked about in our governance routine as we've actually meet with them weekly to make sure that we're in sync. So I think it's worth moving.

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**Operator**
Our next question comes from the line of Simon Hales from Citi.

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**Simon Lynsay Hales Citigroup Inc, Research Division - MD**
A couple from me. I wonder firstly, Nik, I wonder if you could just clarify some of the numbers that you gave in your presentation just around the fixed cost splits of the business around SG&A and the COGS line. I think I got them, but I'd just like to check.

And then secondly, I wonder if you could just talk a little bit more about the revenue per case dynamics that we were seeing as we kind of came to the back end of the quarter and into Q2. Clearly, the channel shift that we're seeing, I would expect to be mix dilutive on a revenue per case basis. But you are, I think, getting some offset from some of the promotional rollback that we've seen in the at-home channel. I'd be interested in your comments there and also perhaps your comment around the COGS per case given the channel shift.

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**Nik Jhangiani Coca-Cola European Partners plc - CFO**
Great. So just to clarify the numbers again. So when you look at -- let's start with COGS. 45% is concentrate finished goods, which is linked to our incidence model. When you've got about 25% on commodities. And essentially about 15% on taxes. So when you look at that whole bucket, about 85%, that's largely variable and links to obviously volume and/or revenue. Then you've got the remaining 15%, which is essentially a manufacturing and depreciation, which is -- or fixed. So clearly, that is going to have an impact on our recovery, as I talked about, given the volume drop offs.

Then when you look at the SG&A piece, we're looking at selling and distribution being essentially about a 65%, and about 60% of that is fixed and 40% is variable. And then you've got G&A and your depreciation, which make up the remaining 35% and both of those are largely fixed. So that's just to clarify the numbers. Damian, do you want to talk about the revenue trends, and I can come back on the impact?

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**Damian Gammell Coca-Cola European Partners plc - CEO & Director**
Yes. I think we're -- as we've outlined, I think we're seeing pretty consistent trends across all of our markets. So while some markets probably got into it a
bit earlier, particularly Spain, unfortunately, we have seen a remarkable similarity across all of our countries in terms of the revenue trend, and what we're seeing as we move through the crisis in that mix between away-from-home and home market. And then within home market, as I mentioned to Lauren -- on Lauren's question, we're seeing similar shifts in all our markets to large packs.

We are obviously seeing some revenue opportunities emerging. Some of our customers in France and Germany and away-from-home as restrictions start to ease are reopening some of our large [QSO] franchise customers continue to look to open a lot of our on the go, away-from-home customers are starting to look at how they can be open for takeaway only. We're starting to see more signs of that. And probably the revenue stream that will come a bit later in the recovery, it's probably going to be restaurants and bars, as I think many governments are struggling with how to do that in an appropriate way with social distancing, et cetera. So but as each week goes on, on the revenue side, we are seeing more conversations around opportunities coming out of the easing of restrictions. And then obviously, we'll be able to share with you over time how quick that recovery really gets momentum based on how consumers and shoppers respond, but more to come on that. So I'll just hand back to you, Nik.

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Nik Jhangiani Coca-Cola European Partners plc - CFO
Yes. So I think you -- building on Damian's comments, then, obviously, these are the trends that we're seeing, which is the way we look at Q2. So clearly, the adverse recovery is on that manufacturing element and depreciation element. So if you look at our cost of sales, just over EUR 7 billion, if you're talking about 15% of that, that is your base against which you've got a much lower volume and revenue impact coming from both the channel mix piece as well as the pack shifts that we're seeing in home. That's what you need to look at from a modeling perspective.

As Damian said, clearly, as we see trends change with some of the lockdowns easing some of the other type of outlets that we're looking at in terms of where traffic might start building up, and how we can get our product in there. All of those will obviously start helping back if we look beyond June to the next couple of quarters post that, the recovery piece, and we'll update you as we go along on that.

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Operator
Your next question comes from the line of Rob Ottenstein from Evercore.

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Robert Edward Ottenstein Evercore ISI Institutional Equities, Research
Division - Senior MD, Head of Global Beverages Research & Fundamental Research Analyst
Great. Look, obviously, you need to give your customers and consumers what you want -- what they want in this period, and you're clearly doing that. But in some respect, that's a little bit of a reversal from the strategy in terms of more premium packs and mini cans. How can you sort of manage the situation so that the reversal isn't more permanent and that habits aren't kind of reversed in a sense? And in that when you come out of this, the more positive trend in terms of price/mix remains?

And then second, do you have any sense in terms of consumer consumption as people are more at home, how much of their daily consumption of beverages has transitioned to tap water?

Damian Gammell Coca-Cola European Partners plc - CEO & Director
Thank you, Robert. I suppose, on your first question, the analogy I'd give is, what you miss is what you value the most. And I think that the consumer demand and desire for the premium packs and the small packs that has been so prevalent, there's no reason why that won't return. I mean, I think we've spent a lot of time, building preference for those packs. And we're still selling them today. So if you visit any of the large retailers, you will find our small mini cans and our glass packs still available. So clearly, in the crisis, stocking up with larger packs is more prevalent, but that's not to say that we're still not offering those premium packs.

So we'd expect that habit of preference to come back. We'll also, in our recovery plans, are thinking about how we will encourage that. So we're not obviously going to leave it a chance. So with the Coke Company, we are looking at how do we make sure that post crisis, the momentum we handle those mini cans, glass packaging returns as quickly as possible. And from a consumer perspective, I see nothing that will be different post-crisis than pre, and that's something that we need to avail of.

In terms of consumption, as you can appreciate, it's very hard to get accurate data in terms of what people are drinking at home. From our perspective, our water business is down. But again, our water business is quite different in terms of it's more of an immediate consumption-built business with Smartwater, et cetera, more premium. So we would expect that to decline based on the fact that people are not out and about. So -- but generally, too early to say what the mix of in-home consumption looks like. And that's something that as household panel data hopefully starts to come through, we'll get a better line of sight on. But I would imagine it's a fair assumption that if people are at home, they will probably, particularly in Europe, drink tap water, which in most of our markets is high-quality and very acceptable. Won't really affect our business in that space because, as you know, we don't have a
large future consumption home water business anyway. So that's how I'd see it. But obviously, a few weeks in, it's hard to get accurate data, but that will come out over time.

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**Operator**

Our next question comes from the line of Bryan Spillane from Bank of America.

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**Bryan Douglass Spillane BofA Merrill Lynch, Research Division - MD of Equity Research**

So just 2 quick ones from me. Nik, can you remind us, just mechanically, with the incidence price model how quickly you recognize in your P&L, the shift in packaging? Is there any lag, I guess, in between as the packaging mix changes between when you -- when that happens, and when you'd recognize it?

And then the second, if you could just touch on, I think you touched briefly on maybe on uncollectible receivables. But can you just talk about maybe the scope or the potential impact, especially with smaller customers, is there a potential that a write-down or a charge down the road for uncollectible receivables?

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**Nik Jhangiani Coca-Cola European Partners plc - CFO**

Yes. Thanks, Bryan. So on the first question in relation to incidents, that is real time. If you recall, that was one of the issues that we had always highlighted pre formation of CCEP that didn't work very well because there was a one -- sometimes a 12 to 18 month time lag. So in this instance, this is fully real time. So we -- which we do a forecast every month based on what has happened and then adjust in -- for the rest of the year. So no issues there. There's an equal sharing of risk and reward. And that's what really drives the benefit of the incidence model because it drives the right behavior and everybody's equally incentivized to do the right thing for the market in terms of what the consumer wants.

On the receivables side, obviously, we assess that. Today, our teams, which we had in Sofia, working very closely with the business units and we put very strong governance routines in place to ensure that anything from an extension of credit, given some of the trading issues with some of our customers are being approved by the CFO and the Head of Commercial in each BU. And I get a summary each week to take a look at that. Clearly, where customers were not trading with us and we're monitoring those balances. Having said that, I would also call to your attention that we have strong credit coverage in place, and we would expect that we should be able to collect that from the insurers as well. But at this point, I can't give you a clear number
because we do expect several of those customers to come back and want to start trading with us. And so we're monitoring that. But again, I would call out that we do have solid credit insurance in place against this as well.

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**Damian Gammell Coca-Cola European Partners plc - CEO & Director**
Yes. Thanks, Nik. And just one comment, Bryan. In that space, I think the work we've done on free cash flow focus since we created CCEP has really helped us, because clearly, one of the areas that we spent a lot of time on was managing receivables and getting a lot of transparency around where we see that will position and reducing it in many cases. So that's certainly helping us as we look at that challenge. Thank you.

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**Operator**
Your next question comes from the line of Fintan Ryan from JPMorgan.

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**Fintan Ryan JP Morgan Chase & Co, Research Division - Analyst**
Actually, just a follow-on, 2 questions firstly. Just firstly, a follow-on from the last question. In terms of your working capital position for the full year, obviously, there's a lot of moving parts around receivables. But would you also expect by the end of the year, their inventory position to be even with where you are? Or are you -- with your new business plan going forward, or should -- you're thinking about working capital change? And would that with the reduction in CapEx as well as the reduction in the operating cost you've highlighted, could you still get to around EUR 1 billion of free cash?

And then just quickly, a second question, how much of your sales in some of your markets like France and Spain would be -- or Iberia would be related to tourism trends, particularly so as we think of what would normally be the peak summer season in Q2, Q3?

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**Damian Gammell Coca-Cola European Partners plc - CEO & Director**
Thanks, Fintan. Maybe I'll answer the second question first and then turn back to Nik. Yes. So obviously, tourism is a big part of the economy in France and Spain and particularly Spain. So we're factoring that into what we're seeing at the moment. And clearly, that starts quite early. So even in Easter. So I think the ranges that we shared with you today are on a base that is also includes tourism. So -- and you can see from our Spanish business, we've got a very high proportion of the away-from-home business, predominantly tourism. So we'd expect that to be impacted as we move through, particularly the second quarter. And then like, I suppose everybody, we're looking to see what will happen with restrictions and potentially people taking the opportunity to take holidays in Q3 and beyond. So at the moment, we're seeing that. It's in
the ranges we give today on revenue. And obviously, we're very much aware of that. And Nik, maybe I'll hand back over to you in terms of the working capital question.

**Nik Jhangiani Coca-Cola European Partners plc - CFO**

Yes. So again, coming back to actually Damian’s point in terms of the working capital, we've done a tremendous job over the last 3 years. And I think that's given us a solid base from which we worked. So there was a lot of work done on making sure that past due receivables, making sure that everything that we could do to clean out in terms of customer disputes, et cetera, have been done. So I think we're working from a really good base, as you recall, from what we did on the receivables side.

So we keep monitoring that risk. It's early to give a clear indication but I would expect that there will be some drag on our free cash flow from the working capital piece this year. But I don't think something that is permanent, very much temporary as we look at potentially supporting our customers as we come out of this crisis, but also protecting ourselves to ensure that we don't have any potential additional write-offs, if any, that come from this. So I think we will see some drag on working capital, but it would primarily be on the receivable side. I wouldn't expect anything on the inventory side because we're managing that today quite well, but obviously, we want to be focused on recovery.

In terms of your question on free cash flow, I think it's very early to give you any kind of guidance, as we've said, we've withdrawn guidance. Currently, we're focused on making sure we're preserving cash. So we've taken all the right measures, whether it be around some of the deferrals that we've done on CapEx and everything that we've done also in terms of buyback and just pausing on dividends for the moment. But we'll come back and give you updates on that. I think Damian and I have a very, very strong focus on preserving our free cash flow, and that remains a priority alongside everything that we'll do on the revenue recovery. So I think we'll try and make sure we get that balance right, very much like we demonstrated over the last 3 years as well. So I don't think anything is going to change in terms of our focus on that.

**Operator**

Your next question comes from the line of Nico Von Stackelberg from Liberum.

**Nico Von Stackelberg Liberum Capital Limited, Research Division - Research Analyst**

My first question is just with the build of the working capital going into the
summer and as well as the difficult trading with COVID-19. I would imagine that this month or next month is probably going to be the peak demands in your cash. Could you just tell me how much headroom you have in terms of liquidity, whichever month it is, that is I guess, the most severe just so we know how much headroom you have?

And then the next 2 questions are probably a little bit easier. On the OpEx savings, the EUR 200 million to EUR 250 million, does that include the SKU reduction benefit? I wasn't quite sure.

And then finally, because you've given the COGS breakdown and SG&A in terms of fixed versus variable, we can pretty easily come to a margin impact based on the volumes. But we don't have the margin impact from product mix. Can you at all quantify the product mix headwind as we move away from IC and single serve?

Damian Gammell Coca-Cola European Partners plc - CEO & Director
Thank you, Nico. Those 3 questions are good. They're good because I know I'll allow Nik to answer all of them. So thank you, Nico. Over to you, Nik.

Nik Jhangiani Coca-Cola European Partners plc - CFO
Yes, sure. And I'm not sure which one be it than the other, but I'll try and answer them all. So just in terms of your question, I think you're absolutely right as we typically go into the summer selling season, we're building up stock, that's when you typically have the most impact on the working capital. Having said that, obviously, we're not in build up mode as we want to continue seeing what the recovery is. But I would still say to you, April and May are probably those months where we would see that peak.

Having said that, our liquidity positions are pretty much what I highlighted to you during the prepared remarks, which is we have an undrawn revolving credit facility of EUR 1.5 billion. We have the commercial paper program of EUR 1.5 billion against, which we've drawn about EUR 600 million. So any access to those are not in any way limited by month, and I can draw on all that I need to make sure that there's ample liquidity. So I wouldn't be concerned from that angle at all.

In terms of the OpEx savings, yes, it does include the benefits of our SKU rationalization. And that is something, as Damian very rightly said, we're challenging the business as we come out of this recovery as well, how fast do we come back with some of those and are some of those really things that we require for the long-term to bring a lot more simplicity back into our supply chain because clearly, we're seeing some benefits from that as well.
And then lastly, on the margin elements. I mean, essentially, if you look at our gross profit in the away-from-home versus the home channel, it varies by market, as you can imagine. But you're probably looking at a margin that's about 1 point to 1.25x higher in the away-from-home channel versus the home. When you go down to what we call full delivered margin, which also takes into account what would be some of the direct costs, which include, obviously, some of the elements of our DSD model or deliveries, et cetera, that happened, then that comes down probably to about 1.10 to 1.15x. So just to give you a sense over that. Hope that helps.

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**Nico Von Stackelberg Liberum Capital Limited, Research Division - Research Analyst**

I wasn’t -- no, I wasn't asking so much about channel. I'm asking more about product mix. So as we move to away from single-serve and immediate consumption products, there was going to be a product margin headwind, and I was wondering you could quantify that. The channel headwinds are pretty clear.

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**Nik Jhangiani Coca-Cola European Partners plc - CFO**

Yes. The channel headwinds are, in some ways, representative of that as well because clearly, typically, what you’re going to find is more -- it's largely immediate consumption packs being sold in the away from home. So if you think about the fact that there are some immediate consumption packs that are going into the home channel, that's a good proxy for now. We don't give a detail around that. Yes.

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**Operator**

Your next question comes from the line of Charlie Higgs from Redburn.

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**Chris Pitcher Redburn (Europe) Limited, Research Division - Partner of Beverages Research**

It's Chris Pitcher from Redburn. Two quick questions, hopefully. Could you talk a little bit about the promotional environment? And while we appreciate that the gross margin will be lower in home. It looks like quite a lot of promotions being pulled to whether -- how much that goes to offset the negative mix?

And then secondly, looking beyond COVID and the recovery, you put out in the German Capital Markets Day the big away-from-home opportunity. Does that still stand? Do you think it will take longer to deliver on that as perhaps people return to work slower, outlets, reduced capacity and the like. Could you talk a little bit about the longer term planning?
Damian Gammell Coca-Cola European Partners plc - CEO & Director

Chris, on promotions, I would imagine and what we're seeing is that the initial drop-off in the level of promo intensity is starting to unwind. So I think at the beginning of the crisis, there was obviously a massive peak of demand in retailers, and it made sense at that time to roll back some promotional activity because clearly, the priority was to maintain stock on shelf. And in some countries like Belgium, there was even like an industry mandate not to promote. But all of those decisions now are being more or less reversed. And you see the home market promotional calendar starting to look more normalized. And as you can appreciate, as the market moves much more into the home market, I'd expect that promotions, as in a normal year, will become -- and are becoming more part of the day-to-day business.

So obviously, we'll continue to look at if we are promoting what packs we're promoting, how do we do it smartly, how do we get a good IRR and what makes sense from a financial perspective. But I think the market will continue to operate competitively anyway, and therefore, promotions will pretty much remain as before. There might be some slight decrease, but that's really been at the beginning, and I see that changing as people kind of get used to more normalized volumes in the home market.

On the away from home, I think the opportunity as we laid out in Germany. And unfortunately, we were looking forward to our Capital Markets Day this year, where we would have given a bit more color around that opportunity. I think it still remains. I think the structural opportunity that away-from-home represents long-term in our business remains. I think it's a fair question on how much time have we maybe lost in capturing it due to the crisis. So for me, it's more about will it take a little bit longer to get there. And clearly, as we look at 2021, and we would expect a bigger recovery just with the comps that we'd see coming from this year, assuming that restrictions and some of the social measures are eased as we go through the end of this year and into 2021. And so I think it's there. I mean, will people eat out less forever? Will they not enjoy going to bars or restaurants, I think that's a big call to take at this moment. I think people in some ways, may value that more, given it's been taken away from them for the last 4 to 6 weeks. But let's see. But ultimately, the opportunity was immense. So even if it's 5% lower than we originally thought, it certainly still gives us a lot of headroom for value creation based on what we shared with you in Germany.

Operator
Your final question comes from the line of Eric Wilmer from ABN AMRO.

Eric Wilmer ABN AMRO Bank N.V., Research Division - Analyst
One question from my side. A number of European countries have introduced
employment benefits, providing partial compensation for labor cost. I was wondering to what extent CCP is making use of such benefit schemes.

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

Thank you, Eric. We are and have looked at that since the crisis began. And we have used short-term working schemes previously in markets like Germany and in the Nordics. So at the moment, we have looked at schemes in Norway, Sweden, Germany and Belgium. We are currently not participating in schemes in Spain, GB or France. But it's obviously something that we'll continue to look at. It's not a big part of what we're doing to mitigate our cost, and it's something that we look at on a case by case basis. But as we look at some of the schemes that clearly being implemented by governments with a view, certainly in some of the larger markets, more towards businesses that have completely ceased trading or are undergoing significant reductions. I mean, we're -- while we're in a challenged situation, we are fortunate that a large part of our business still operates we're still manufacturing. We're still making, moving and merchandising products. And as things start to hopefully look more positive with the easing of restrictions, we'll be putting more people back to work anyway.

So we'll keep looking at it. It's very small for us at the moment. I'd imagine that we'll probably stay in that range, but we will take it on a case-by-case basis as we see this crisis evolved in the coming weeks. But at the moment, it's not a big part of our plan.

We got 1 more question, operator? Or was that the last question? I think.

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**Operator**

One more question did come in. You have a follow-up from Nico Von Stackelberg from Liberum.

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**Nico Von Stackelberg Liberum Capital Limited, Research Division - Research Analyst**

Yes. Just a sort of a similar follow-up question. Are you making use of VAT deferral schemes? That can be quite material, I imagine, particularly in the U.K.

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

Nik, do you want to take that one?

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**Nik Jhangiani Coca-Cola European Partners plc - CFO**

Yes, sure. We have looked at those, and that is a part of some of the schemes
that we’re just looking at to manage our cash flows. But I don't think that comes at really any cost to any of the governments, but we have looked at that to manage our cash flows and our liquidity.

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

So thank you, and operator, we’ll now just move to some closing remarks. So again, I'd like to thank everybody for joining our call today. I'd also like to take this opportunity to thank our customers and our employees who continue to support our business. We are very much in response mode and recover. We're -- I think we've responded very quickly with speed and agility and with full alignment with the Coca-Cola Company. It's a great business. It's a great category, and we're a strong company, and we continue to focus on our great brands, great service and great people. And as Nik has highlighted today, we've got a very strong balance sheet and very good liquidity.

We are now looking forward to the recovery phase and to the sustained phase where we can get back to delivering sustainable shareholder value, maintain our strong focus on cash and continue to build our business for growth into the medium and long term. So thank you, everybody, and I trust everybody stays well and safe. And we look forward to our next call together. Thank you very much.

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**Operator**

Ladies and gentlemen, this concludes today's conference. Thank you for participating, and have a wonderful day.