CORPORATE PARTICIPANTS
Damian Gammell - CEO
Nik Jhangiani - CFO
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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 again to everyone joining us today.
Clearly, we all continue to live and operate in unprecedented and uncertain times. So firstly, I would like to extend our sincere gratitude and thanks to everyone who has been and continues to keep us safe and well. Thank you.

We have a strong franchise with solid fundamentals, a solid business, built upon great people, great service and great beverages. We entered 2020 with good momentum. Then the pandemic hit our markets and our communities.

Our response though was rapid, and we have demonstrated our agility and resilience over these past months. We have and will continue to prioritise the well-being of our people, serving our customers, supporting our communities and taking actions to protect our performance and conserve cash, as you will have seen in our results today.

We do believe the most impacted quarter is now behind us. However, we face uncertainty. The full extent of the pandemic is unpredictable and its impact on all businesses continues. Many of our customers continue to operate at reduced capacity and some outlets remain closed, and on the go consumption, in particular, remains under pressure.

With all this in mind, we are very focused on driving a strong recovery in the second half of the year. We are confident about the future of our business, and this future will continue to be supported by an enhanced digital and sustainability strategy.

You will have seen this slide before, but we do come from a position of strength. CCEP has achieved a lot since the merger, and we delivered on our commitments. We continue to operate in an attractive and very valuable category. We do enjoy scale and a market-leading position across our markets, including the more and more important online segment. And critically, we also have a fantastic portfolio of brands and products and packages that are loved by our consumers and customers across Europe.

We are creating a lot of value for those customers and delivering great service. We have worked to build a very solid balance sheet. We do generate a lot of cash. And we have solid access when needed to liquidity, and we continue to be more aligned than ever with our largest franchise partner, the Coca-Cola Company.

Our focus remains on doing all of this as sustainably as possible. And I am very privileged to be working with 23,000 committed, talented and very engaged colleagues at CCEP.

Now to our response to the pandemic.
It was rapid, as I said earlier, and I'm very proud of how all our colleagues and our partners have shown extraordinary ability to adapt by stepping up to the task in very challenging times.

We detailed the key measures we took at our Q1 trading update. So today, I will briefly summarise this, by way of a recap and update.

First, to safeguarding our people, which, as I mentioned, remains the #1 priority. We implemented comprehensive measures in line with guidance. Large-scale home working now almost feels like the new norm, supported by enhanced digital support with specific measures for our colleagues at sites or in the field. We also continue to provide emotional and mental well-being support alongside a very comprehensive communication strategy.

We ensured the continuity of supply of our products throughout the pandemic, with the brands people wanted to buy, shifting production as necessary across our sites and by prioritising core SKUs.

With our communities, we continue to work closely with the Coca-Cola Company, providing substantial financial aid to the Red Cross and other local NGOs. We have so far donated over 650,000 unit cases of product in the countries where we operate as well as giving access to our logistics and transportation resources for relief work.

And we took the right actions to protect our business for the long term. And we increased the cadence of leadership reviews with our teams, our Board and the Coca-Cola Company. While it's also learning from other bottlers across the Coca-Cola system.

We have been and continue to be 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.

And finally, from a broader perspective, you'll remember that we formally withdrew our full year 2020 guidance in March. We suspended our share buyback program. We bolstered our liquidity through the debt markets. And whilst the Board fully continues to recognise the importance of cash returns to shareholders, the decision has been taken to defer consideration of a full year 2020 dividend until quarter 3.

So all in all, a very rapid and solid response to the pandemic.

So now let's look at our first half performance.

I am particularly pleased that we have continued to take value market share in the first half according to Nielsen, both in-store and online. We've seen
behavioral shifts in society in recent months, and people are now living, shopping and working very differently, including a significant increase in demand for online grocery.

We were strong in this base pre-crisis, and this is serving us well today. Overall, our online grocery revenue grew 35% in the first half, resulting in value share gains of 150 basis points. And as lockdown restrictions have limited away-from-home socialising, we have continued to see strong growth in online food delivery to partners, such as Uber Eats and takeaway.com, with revenue growth of around 30% in the first half.

But importantly, our digital momentum goes much further than just online grocery. We’ve also been accelerating our B2B platforms to make it even easier for our customers and wholesalers to do business with us. We have a winning portal with myccep.com, now available in all our markets, with functionality that continues to improve and encourage higher customer reach.

We currently have around 30,000 customers using the platform, a 300% increase since the end of last year, and this number continues to grow, despite most of our away-from-home channel costs been closed from which of the second quarter.

We have a great portfolio of brands. Coca-Cola Zero Sugar was the #1 NARTD brand for absolute value growth during the first half, a fantastic achievement given the backdrop.

The energy category has also been resilient, led by Monster, which saw volume and revenue growth of 7% and 8%, respectively, supported by new flavors such as Pacific Punch and a broader multipack offering in markets such as GB.

As I mentioned earlier, 1 of our key priorities has been to protect our P&L. We remain on track to deliver between EUR 200 million and EUR 250 million in full year discretionary OpEx savings, and Nik will talk more about that later.

And finally, our sustainability agenda remains a key priority for our business. We’ve continued to make further progress in the first half, which I will now come to.

Our integrated sustainability action plan is now importantly underpinned by carbon reduction targets being incorporated into our long-term incentive plans. This makes CCEP a very early adopter in this space. We will do more to reduce our carbon footprint, improve our packaging and support new packaging solutions and continue to use less water. You will see here a few
examples of some of the progress we are making on our sustainability objectives.

I am especially proud that Sweden recently became our first 100% recycled PET market, and the first in the Coca-Cola system.

We also recently signed to recover better business statement, a call to action for business leaders and governments globally to prioritise science-based climate action in their COVID-19 recovery efforts. We wholeheartedly support this agenda. And for us, the pandemic has strengthened our determination to go further and faster in building a better and greener future for our business, details of which we will continue to share with you in due course.

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

Thank you, Nik.

**Nik Jhangiani - CFO**

Thank you, Damian, and thank you all for taking the time to be with us today. Here you will see our first half financial summary.

Our revenue declined by 16 percent on an fx-neutral basis, driven by a 26 percent decline in the second quarter reflecting the impact of the pandemic. Our COGS per unit case increased 3 ½ percent on a comparable and fx-neutral basis, mainly driven by an under recovery of our fixed costs. Comparable and fx-neutral gross margins were down 355 basis points as a result.

This, combined with an 11 ½ percent reduction in operating costs driven by discretionary opex savings, led to comparable operating profit of €398 million, down 48 percent on a comparable and fx-neutral basis.
I'll talk more about revenue, COGS and opex in more detail shortly. Our comparable effective tax rate declined to 24 percent mainly due to lower corporate tax rates in France and Belgium, as well as a change in profit mix. This resulted in diluted earnings per share of 57 euro cents, down 50 percent on a comparable and fx-neutral basis.

We saw a broadly neutral result on free cash flow, reflecting the top line impact of the pandemic, front-half loaded capex and an increase in receivable days.

As you are aware, free cash flow generation has been a core priority of our business, and we have delivered over €3 billion over the past three calendar years. As soon as the pandemic hit our markets, we moved at speed to review all sources and uses of cash to preserve maximum flexibility. This included
deferring non-critical capex projects where we remain on track to deliver savings of €200 million for the full year. We continue to expect 2020 capex of circa €350 million excluding leases, with approximately €240 million of that spent during the first half.

On working capital, we have proactively chosen to support our away from home customers during this challenging time. This in some cases has meant extending payment terms and this is reflected in an increase of circa 13 receivable days versus the same period last year. We expect this impact to be temporary and as a reminder, we come from a solid working capital base having delivered around €650 million of improvements over the last three calendar years including a 14-day reduction in receivable days.

As Damian referred to earlier, we do believe the most impacted quarter is behind us. So, as we look to the second half, we do expect our free cash flow to significantly improve, reflecting the general seasonality of our business, the easing of the effects of the pandemic and our capex being weighted to the first half.

And finally, on shareholder returns, we returned approximately €130 million to shareholders before the suspension of our €1 billion programme which we announced in March. And on dividend, I’ll talk more about that in the context of our full year 2020 outlook later in the presentation.

So, let me now provide some insight into the impact COVID-19 had on our business during the half, primarily the second quarter.

The most significant impact has been on our away from home channel. 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.

At the peak of the crisis, we believe that roughly 75 percent of away from home outlets were closed. These closures resulted in a 50 percent decline in away from home volumes during the second quarter. As social distancing measures were lifted, the number of outlets open sequentially improved throughout the quarter, and we now believe that around 70 percent of outlets are now open.

Trading in the Home channel has also been volatile with volumes down 3 ½ percent during the second quarter. Volumes initially benefited from household stocking when the pandemic first hit our markets but this quickly unwound, and we saw reduced footfall in supermarkets as social distancing measures resulted in fewer physical shopping trips overall. This was partially offset by an increase in demand for online grocery as Damian talked to earlier.
The pandemic has clearly had a significant impact on the way people are choosing to shop, evidenced by fewer shopping trips overall but with bigger basket sizes, and less on-the-go immediate consumption. The chart on the right shows that neither channel is immune to this trend with both channels having exposure to the smaller, single serve immediate consumption packs. These packs typically account for approximately 35 percent of group volume with around a quarter usually sold through the Home channel via front-of-store and supermarket convenience formats.

Unsurprisingly, future consumption packs such as large PET and multipack cans have been performing better although this does vary by market. For example, in France stricter initial restrictions on movement resulted in fewer shopping trips to out of town super and hyper market locations.

So overall, we saw a volume decline of 22 percent in the second quarter with a sequential improvement in monthly trends as highlighted on the next slide.

So as restrictions eased throughout the quarter, our volumes also improved from a 36 percent decline in April to a 9 percent decline in June. This mirrored outlet re-openings in the away-from-home channel but also an increase in consumer mobility as social distancing measures were lifted, helping the Home channel as well.

These trends have continued into July, with volumes broadly in line with June, reflecting this gradual easing of restrictions. Of course, the restrictions have not gone away. As Damian said earlier, many of our away from home customers who have reopened, are doing so at reduced capacity and on-the-go consumption remains under pressure.

The rate of improvement has varied greatly across our markets due to differences in approach, timing and extent of lifting of lockdown restrictions. For example, HoReCa outlets were able to open from May on a phased basis in Germany and Spain but not until July for GB.

The combination of adverse channel, pack and geographic mix resulted in a 5 percent decline in revenue per unit case in Q2 and a 2 percent decline for the first half with an improving trend in July reflecting outlet reopenings in Iberia which I’ll come back to shortly. As a reminder, away from home revenue per unit case is approximately 15 percent higher than that of the Home channel, and immediate consumption packs are also accretive to mix compared to multipacks or large PET.

Let me now provide more revenue detail by geography.
Given detailed commentary by geography is provided in the release, I want to focus on Iberia, having clearly suffered disproportionately from this pandemic, as well as provide an update on our customer negotiations. As you are aware, Iberia over-indexes in its exposure to the away from home channel which ordinarily serves as an advantage versus other markets. Including cash & carry volumes, which last year accounted for around 12½ percent of Iberia volumes, its total exposure to the away from home channel is approximately 60 percent, compared to closer to 30 percent for markets like France and Germany.

As a result, Horeca closures and the associated decline in glass and immediate consumption packs profoundly impacted both volume and revenue per unit case, resulting in a total revenue decline of 48 percent in Q2, although this did sequentially improve throughout the quarter as outlets reopened.

And as highlighted earlier in the year, we have seen some temporary disruption during the first half as we continued to negotiate with a handful of customers. Whilst I am pleased that we were initially able to successfully agree on our local pricing plans in principle, certain international aspects were delayed, and the resulting impact is visible in the revenue performance of France and Germany in particular. Our priority is, and will continue to be, to lead the category for sustainable value creation for our customers and we have every intention of resolving this as quickly as possible.

Moving now to COGS.

As you are aware, cost savings from a COGS perspective are more limited, with typically around 85 percent of our total COGS being variable as you can see here. This would include our concentrate purchases and finished goods, accounting for 45 percentage points, which naturally have fallen in line with our incidence model reflecting the decline in our revenue per unit case. Commodities account for a further 25 points and have been mainly favourable with lower PET and aluminium prices partially offset by an increase in sugar prices. Please bear in mind that our commodities exposure is largely hedged for this year. We are now around 80 percent hedged for 2021 giving us good visibility on our commodities exposure.

Approximately 15 percentage points relates to manufacturing costs and D&A, both of which are largely fixed. And, as expected, we saw an adverse impact on our COGS per unit case resulting from the under recovery on this fixed cost base given the lower volumes produced.

This effect, combined with an adverse mix impact primarily due to higher demand for cans which cost more to manufacture, resulted in a 3½ percent increase in COGS/UC on a comparable and fx-neutral basis.
We expect this impact to moderate in the second half as volumes improve. Importantly we came into the crisis with a solid understanding of our cost base, given ongoing work around our accelerated competitiveness initiatives, which enabled us to react even more quickly when the pandemic hit our markets.

The decline in operating profit was therefore moderated by robust action on discretionary spend, over and above purely variable savings, despite some additional one-off costs coming into the business such as bad debts, inventory write offs and protective equipment for our colleagues. Some costs have declined naturally, such as seasonal labour given the quieter summer, as well as travel and meetings. We’ve also flexed our trade marketing expenses and pulled back on our promotional spend.

Our actions in the first half to protect the P&L have put us firmly on track to achieve the previously announced discretionary opex reduction of €200 to 250 million on a full year basis.

And as a reminder, we would see roughly two-thirds of our total opex as fixed, and a third as variable as broken down on this slide.

Importantly the crisis is providing the license to accelerate our competitiveness initiatives to become an even more agile and efficient business. We will not lose that opportunity therefore we do anticipate that some of these cost savings will be permanent for example we expect less travel to become the new norm.

We entered this crisis with a strong balance sheet, reflected in our investment grade credit ratings, having de-levered quickly since the merger driven by our strong free cash flow generation.

We have a balanced profile of long-term debt maturities and were pleased to secure an additional €850 million of funding in the debt markets through two transactions during the first half, taking advantage of favourable market conditions. These proceeds continue to provide us with additional liquidity and flexibility, including the repayment of maturing debt later in the year. We also continue to have access to other sources of liquidity, including around €900 million of cash and a €1.5 billion sustainability linked RCF. And this is backed up by our €1.5 billion multi-currency commercial paper programmes of which approximately €300 million has been issued.

So, we have ample liquidity providing us with financial flexibility in the current uncertain environment. And importantly there are no covenants on either our long-term debt or our facilities.
So finally, before I close on the financials, I wanted to touch briefly on the way we are looking at the balance of 2020.

We remain unable to provide full year guidance given the lack of visibility on the second half. That said, there are some factors worth highlighting.

We do believe the most impacted quarter is behind us, however we still face much uncertainty on the balance of year. We remain focused on driving as strong a recovery as we can in the second half of the year and Damian will come on to talk to this in a moment.

I’ve already talked to COGS and Opex but from a technical guidance standpoint, we now anticipate a full year tax rate of circa 24 percent versus previous guidance of 25 percent due to lower corporate tax rates in some markets and the geographic mix of profits.

And as regards our dividend, the board continues to recognize the importance of cash returns to shareholders. While the business continues to improve each month, given the ongoing uncertainty of the impact of the pandemic, the board continues to believe it is appropriate to defer consideration of the 2020 dividend, in lieu of two interim dividends, until Q3 when visibility will have improved and of course, in line with our normal cadence.

And now back to Damian to close. Damian.

**Damian Gammell - CEO**

Thank you, Nik.

As I said earlier, we are very focused on driving a stronger recovery as we can in the second half. We reassessed our price pack architecture alongside optimizing our promotional efficiency to cater for the changes in shopper behavior. So more focus on large packs, reducing our SKUs, which at the height of the pandemic was down by over 1/3, helped us ensure product availability and visibility for our customers.

It has also driven further efficiencies in our supply chain, which we are obviously determined to retain. A very stringent reintroduction criteria have already been put in place and are working well.

We also pushed extra adjacencies to capture more of your away-from-home dining occasions, transferring to home, both in-store and online. And we’ve reallocated our colleagues, especially our frontline field sales from away-from-home to home to increase our coverage. This has been a great support
to our home channel customers who obviously have an increased workload at this time.

All of this has meant that despite the pandemic, we are maintaining great customer service levels at over 97%. Equally, as now, our away-from-home outlets are reopening, we have been there to provide the support, helping not only with product, but everything from digital menus to the sanitizing of cold drink equipment. And to ensure we can support them as quickly as possible, we are working with Google Data to identify outlets as soon as they reopen. A rebuild journey supported by the launch of the new “Open like never before” summer marketing campaign with the Coca-Cola Company will also support our efforts in away from home. On digital, we are benefiting from the sizable investments we’ve been making over the last couple of years, which will support our growth year to go and also into 2021.

And finally, our people. Well-being is our #1 priority. We continue to provide health and well-being support. We continue to communicate regularly and efficiently, and we recently performed a full survey to check how all our colleagues were feeling. I am pleased to say that they remain engaged with many enjoying the flexibility of our new working practices.

This is a great business, and we are confident in its future. We are in the privileged position of making, moving and selling some of the world’s most loved brands. We have great people who are passionate and committed to what they do. We build strong and lasting relationships with our customers, and we work alongside our partners to support the communities we serve.

We have a great platform for growth. We’re leading in a big, valuable category that is robust and resilient and set to keep growing long term. Our goal at CCEP is to beat the market, growing ahead of that and building market share.

We want to continue growing and sparkling and double our already strong energy business. We will build a platform for growth in coffee with Costa, which I will come back to shortly.

We have a track record of creating value for over 1 million customers, helping them become more profitable businesses. By serving these customers with world class execution, we will return to the levels of growth we enjoyed for the last 4 years at CCEP.

This growth will be done in a sustainable way. I take huge pride in the sustainable business that CCEP has become. The pandemic has strengthened our determination to go further and faster. So as we grow, the focus on sustainability will become even greater.
We will continue to invest, but in a more targeted way. We will focus on the biggest opportunities, the capabilities and the technology that our people need to win. This will require us to manage our costs, making choices about spending and looking for more ways to be more efficient with no return to our pre pandemic cost structure.

Digital solutions will play a vital role in our growth. The pandemic has shown the important role digital platforms are playing for our customers and consumers, and we will continue to lead this opportunity.

We will strengthen a workplace culture that embraces well-being inclusion, diversity and equality. People should have the ability to continue to act with agility and challenge the status quo.

Building a platform for growth in coffee is a very exciting opportunity. This is a large and growing category. And as a result, I am pleased that we recently appointed a new senior leader to look at hot beverages across all of our CCEP markets. Outside of GB, Costa will be launching in all our other markets, starting with express machines and proud to serve in Germany this autumn. We look forward to sharing more in due course.

So in summary, we are confident about the future. We entered 2020 with momentum. After our best year so far, generating EUR 1.7 billion comparable operating profit. And EUR 1.1 billion of free cash flow in 2019.

We demonstrated our resilience these past months evidenced in our first half performance. While we still face uncertainty, the full extent of the pandemic is unpredictable and its impact on our business continues. However, we are very focused on driving a stronger recovery as we can in the second half by leveraging the solid capabilities we have built at CCEP.

So we face the future with hope optimism and confidence. We are ambitious about our future and confident in our ability to grow, but done sustainably for a better shared future as we believe a more sustainable business will win longer term. And now we would like to open up the call for questions. Thank you, operator.
QUESTIONS AND ANSWERS

Operator

Your first question comes from Bonnie Herzog from Goldman Sachs.

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

I did have a question on margins. Obviously, it's not surprising to see the deleverage this quarter, given the pressure on your top line that you called out. But just trying to think about how margins could look in the back half, especially as volumes have improved sequentially during the quarter. Maybe you could touch on some of the puts and takes in terms of the possible stepped up spending you might be doing ahead of the recovery. And then any offsets like the ability to flow through even more of the cost savings initiatives that you touched on, again, that you kind of started earlier in the year. I think that would help us in terms of phasing.

Nik Jhangiani Coca-Cola European Partners plc - CFO

Great, Bonnie. So clearly, as I highlighted in our opening comments, the biggest impact comes from the fact that you had the under recovery given the Q2 volume drop off. And as you rightfully said, that's going to continue to improve. And we've seen sequential improvement already happening in Q3 and and I'm sure we'll talk a little bit more about that. So clearly, the under recovery drag should improve. So you would expect that the COGS per unit case should trend downwards versus what you've seen in half one. Obviously, difficult to give you exact guidance because we need to see how that trend continues to happen. But clearly, if you're looking at something at that 3.7% half 1 growth, you're probably looking at something closer to the 3% for the full year. So clearly, you can see that half 2 would improve. Again, this being subject to various scenarios that we've done on volume.

Then on the OpEx side, clearly, if you look at the EUR 200; million to EUR 250 million that we committed to if you see the bridge that I provided, you see about EUR 165 million of savings coming through. This is largely as a result of
those mitigations then some savings on variable expenses as a result of lower volumes and then some one-off costs.

So if you look at that trend of what we’ve delivered against that EUR 200 million to EUR 250 million, you’re probably looking at another EUR 50 million to EUR 100 million to go. Now again, Damian and I continue to be focused on is their ability to flex that up or down depending on how the volumes come through. So if volumes continue to pick up, you’re probably going to see at the lower end of that. If volumes don’t pick up based on various scenarios given outbreaks again, you might see it at the top end and maybe some more as well. And we’ll update you in October as we continue to see August and September play out. So hopefully, that helps.

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

It does. But Nik, if I may just clarify one thing on similar on the discretionary spending thinking about your willingness to spend ahead of some of the markets, maybe as you’re seeing some of the recovery and away from home openings happen. Just wondering how aggressive you’re going to be in some of your markets in terms of spending ahead of this?

Nik Jhangiani Coca-Cola European Partners plc - CFO

Well, clearly, as we see that volume recovering, we are going to go back and spend some of the TME that we’ve cut. And potentially, as needed, support promotional activity as well.

So like I said, if you’re looking at the second half being in the range of 50 to 100 you might see that with volumes picking up being closer to the 50 and if they don’t, we’ve got 100, and we’ll continue to look at other things that we can do. Things like travel, meetings, things that we can do that, clearly, we just don’t see happening, and we’ve cut back hiring freezes, vacancy rates not being filled. The seasonal labor, those will all happen essentially in Q3. So we feel good about our outlook.

Damian Paul Gammell Coca-Cola European Partners plc - CEO & Director
Bonnie. Just to build on what Nik said. I think we are seeing volumes improving as we come out of June, July, into August, and we are seeing mix improving, which is great. I think when I look at year to go and what we have in place to accelerate our performance, a lot of that comes back down to our price promo, which is pretty much baked in, as you know, in Western Europe.

And secondly, to the power of our field sales force, which we have already. So in terms of large incremental investments as outlets reopen, really what they're looking for is the cooler working? Can I get their order? Are we helping them with digital menus? And are we helping them reopen. And in some ways, that's a cost that is really covered by our existing cost base, to field sales. And then on the grocery side, as Nik said, this volume picks up, we're seeing the benefit of our refocused promo spend.

Sanjeet Aujla Crédit Suisse AG, Research Division - European Beverages Analyst
Hey Damian and Nik. A couple questions from me. Over recent years you've had success growing the away from home channel and smaller packs. How much will this strategy be impacted by COVID and consumer sentiment? Do you need me make tweaks to your strategy?

Damian Paul Gammell Coca-Cola European Partners plc - CEO & Director
We believe in the strength of away from home in Europe. So we'd already recognized that in the first 4 years, we had really done a good job driving away from home. And we've also driven our retail business. And I think what we've done really well is we've driven single-serve and retail really well. And again, we're seeing that recover faster as we go through the year as people are obviously now returning back to supermarkets.

And the other element that I'm getting excited about is if, for some reason, there are consumers who are reluctant to go out, in the short term, a lot of them are moving to online food providers.

And again, pre-crisis, we've invested a lot in our digital platforms to work with a number of the large providers to ensure that our share online was, in some cases, greater than our share in store.

So I think in the short to medium term, that combination will serve us well. I think long term, clearly, we will take a view on away-from-home over time. But ultimately, people will still be drinking our beverages.

And I think we will continue to reconfigure our route to market and our pack offerings to make sure we capture that opportunity.
Obviously, our customers in away-from-home are also looking forward to a brighter future as the pandemic hopefully recedes. But they're also adjusting their business and moving online as well. So a lot happening in that space, but it doesn't really change our view on mix, price and volume over the medium term. And as I said, that's something we'd already talked to at the end of last year.

And as we saw some of the away-from-home mix starting to optimize in some markets, clearly, smaller packs and retail became a focus, and that's going to drive our mix in 2020 and into 2021. So Nik, maybe I'll let you take the second part of that question?

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Nik Jhangiani Coca-Cola European Partners plc - CFO

Yes, sure. So Sanjeet, I mean, clearly, as I indicated, while volumes were pretty much in line in July versus what you saw in June, the mix was definitely improved.

So we don't give out an exact number in terms of the price mix, but it was improved as a result of those outlets opening, as Damian said, some of the stuff that we're doing to drive back business and to be away-from-home, single serve business. And again, I can indicate to you, while early days, August seems to be trending positively as well versus July in terms of mix.

So we're seeing that trend for sure, but we just continuously stay vigilant in terms of what might happen with any new outbreaks or what that means in terms of some more restricted lockdowns, et cetera? But so far trending in the right direction.

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

Got it. Got it. And whilst your on, can I just follow-up on your comments on the commodity cost outlook for 2020 and 2021. Given that you have decent hedges in place and good visibility. Can you just give us some indication of where you expect commodity cost to land year-over-year in 2020 and 2021?

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Nik Jhangiani Coca-Cola European Partners plc - CFO
Well, so clearly, for 2020, our commodity costs will be down. And you’ve seen that in terms of my comments for the first half, mainly driven by PET and aluminum. And then we’ve had a negative impact on sugar, but that’s really coming from our hedging because as we went into 2020, our exposure was largely hedged. And we have fixed-price contracts, and we have some floating but with the floating, we went ahead and hedged.

So right now, as we look at 2021, clearly, we would see a downward trend on the commodity side. Can’t give you an exact number. But we are, again, putting in some favorable hedges compared to our 2020 hedged rate. And as I said, our total COGS is definitely trending down for the full year versus what you saw in the half one. So again, all heading in the right direction.

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

Yes. And Sanjeet, just maybe a bit more colour. I mean, I think one thing we’ve learned is it is not time to be passive in the pandemic. So we are being extremely agile, and we’re looking at a lot of opportunities. As the uncertainty continues, we’re spending a lot of time on data analytics. We’re working very closely with Google. So we’re being very aggressive and action orientated around how we capture the opportunities that are evolving as this continues.

So I think that’s something that’s got us to a better place today, and it’s certainly going to help us get to a better place by the end of the year.

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**Operator**

And your next question will come from Lauren Lieberman from Barclays.

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

I wanted to just talk a little bit about kind of coordination with the Coca-Cola Company on some of the, I guess, call it, like reactionary measures that could prove lasting and beneficial. And so cap of mind was, I guess, one absolute marketing spending. I know you spoke -- you just gave us a lot of detail and help and understand the importance of field sales as really being the key on
reopening. But I was curious about more traditional marketing spending to the system as a whole coming from if you recall that there was a headline I think it was in March about the pullback in spending across GB.

So kind of where you stand on that front if you're getting the support you need? And then secondly, about SKU rationalization. You guys definitely spoke also earlier ahead of this call about the work you were able to do to streamline production. But KO has since discussed getting more aggressive on the Zombie stuff as they've talked about and the large percentage of their SKUs that drive a very small percentage of global business. Of course, we have no idea how much of that falls into your market.

But just kind of thinking about the coordination of those efforts going forward. And like you said the stickiness of some of this, I guess, more streamlined production?

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

Lauren, thank you. So I mean, I'd characterize the way we've been working with Coke has been really fantastic throughout this period, very aligned very agile, lots of communication. So we've really stepped up from what was already, I think, a very solid relationship and aligned since we created CCEP into a new level of collaboration and decision-making. So I think that's been great on both sides. Everything that Nik and myself have talked to for the second half of the year, and actually it's a read-through to 2021 these are fully integrated plans.

So we are seeing the level of above the line marketing support coming back now in our territories to support the pack price initiatives that we're launching customer by customer. We're also seeing open like never before, a great campaign to support and encourage both consumers and customers in away from home. And clearly, a lot of that funding is going above the line. So we are seeing the spend we need coming into the second half of the year and into 2021. But we spent a lot of time already talking about '21 with the Coke Company because clearly, we believe being more focused is going to lead to a faster recovery and greater shareholder value. And we're aligned on that.

So that has led us to the conversation around SKUs. And again, we've had very firm support from the company on the decisions we made on SKUs. I suppose a little bit different for CCEP. I mean we never had the level of -- and I like that phrase zombies and that probably on a global footprint, naturally you will have as the Coke company, we were quite disciplined anyway.
So what you’re seeing more on our side is a greater prioritization of brands certainly in sparkling, a greater priority of packaging innovation to get our mix back to where we’d like it to be. More support for categories where we’re winning like Tea. And obviously, I mentioned in my prepared remarks, very exciting conversations around what type of investment that we jointly need to get behind Costa. And we’ve taken the decision to move one of our best executives into a role to give that more momentum as we come out of ’21 -- out of ’20 and ’21.

So we are working on integrated plants, funded top and bottom by ourselves in the Coke company. We are aligning and have aligned already on 2021 brand initiatives, which gives us a lot of confidence, also allows us to make the right choices around CapEx and their supply chain needs are ’21. So that’s great. And we will continue to keep our SKU level very optimal. And as I mentioned, we’ve put in a very strict reintroduction protocol with the Coke Company and any SKUs that want to come back. And so far, they’ve been few and far between.

We’ll probably add a few more as we get through the year, but certainly, we’re going to remain well below what we entered the crisis with. So yes.

All in all, I think a very positive dynamic with the company at the moment. And I’d also comment, that’s also similar with Monster. And again, we’ve seen their business perform better than sparkling through the crisis, and we expect that to continue into the second half and into 2021 as well. Thanks Lauren.

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Nik Jhangiani Coca-Cola European Partners plc - CFO

Lauren, just to give you some color on the SKUS, just to give you some numbers. So we have probably a little over 4,000 SKUs across CCEP. And then we’ve identified, as Damian said, we don’t necessarily call them zombies because we don’t have as many. But we’ve looked at the tail that we believe need strong criteria to be reintroduced. And that’s probably about 40% of those SKUS. And we’ve set a target that at least 25% of those that tail should be cut, if not more. So we’ve set an initial target of at least 25%. So net-net, a minimum of 10%, but you’ll probably see more coming as well. And that obviously drives a lot of efficiencies in our supply chain, too. So it should definitely be one of those prominent type of savings that we should see going forward.
Operator

Your next question will come from Bryan Spillane from Bank of America.

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

So my question is on category, I guess, right now, I know on our end, we use Nielsen, we tried with like open table, some other sources. But I'm curious just what you're doing now? What tools you may be using now to get better visibility into the reopenings, into which channels are coming back faster? And if that's something that may be more permanent in terms of the way you're looking at the business and just getting better visibility.

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

Bryan, I mean, obviously, Nielsen covers -- well, let's say, pre 2020, it covered about 50% of our revenue. So we've spent a lot of time working on efficient and cost-effective ways to get more transparency in the rest of the market. And we use a combination of insights with a lot of our customers, we share EPOS data, so we're getting a read directly from the outlet with the adjacency work we're doing with Google, we're also getting real-time reads on outlets that are planning to reopen because, obviously, what we're seeing is that they start to post reopening dates and times online, and we can pick that up through AI.

We have a huge sales force. And while we've redirected some of our sales force to home market in the short term, which has been great. As market reopens, they're going back out to their away-from-home wood. So you can't beat eyes, ears on the street to look at what's happening.

So that's definitely helping. And then we are also a big player with a lot of wholesalers in Europe. And clearly, what we're doing is also tapping into their database and also getting a read from them because, clearly, as away-from-home opens, it's not just beverages, but we're we're getting a read on food ordering, condiments and also with our cold drink business, we typically get requests to work on equipment and sanitation.

So we're doing a lot to get all of that data together, and we've created a very cool kind of macro database that allows us to work with all of that data. So at the moment, just to give you some numbers, we're seeing outlet reopenings
across our markets and away from home, getting close to 70% to 80% in away from home, which is great.

Obviously, some of the areas that are more challenged are touristic zones, and some of the larger cities where, obviously, some customers are taking their time to reopen, but that is improving. And we’re seeing a range of footfall numbers.

Certainly, some outlets are doing better. So their footfall has increased. So a lot of the food to go, take away, a lot of our customers who are big and home delivery are doing more business than they did pre crisis. And clearly, more of the fine dining and areas where probably space is more constrained, they’re struggling and they’re probably the ones that are making the decision. It’s not quite the right time to reopen. So a lot of analytics. It’s allowing us to deploy our resources better. It’s also allowing us to measure are we beating the market, which is important for us. And I think that’s something that we’ll continue to focus on as we go through August and into September.

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Operator

Your next question will come from Simon Hales from Citi.

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Simon Lynsay Hales Citigroup Inc., Research Division - MD

A couple, if I can, please. Just following on from the comments you were making around supply chain benefits, you hose from SKU rationalization and Damien, your comments in the presentation about no return to pre pandemic cost structures. How does that make you think about margin evolution perhaps beyond of 2020. I note that, obviously, one of your peers yesterday was indicated they thought they might regain 2019 EBIT margin levels by the end of 2021. The interest in your general thoughts as to the evolution of margins over the next sort of couple of years? And then secondly, back to the Nik’s points around the commercial issues in Germany and France. How much of a drag do you think that has been on your business in the second quarter? How do we think about that as an ongoing negative? And how quickly can you resolve that? Is it a Q3 issue or still a whole H2 issue that we need to think about there?
Damian Paul Gammell Coca-Cola European Partners plc - CEO & Director

Simon, maybe I’ll start with the second part of that question and then provide some color on the cost, and then I’ll let Nik talk a little bit more about our margins.

So clearly, we have had some challenges with a number of our retail customers as we came out of Q1, pretty much across Europe. We were able to deliver on what we felt was the right pricing strategy. But into Q2, obviously, it’s taken longer than we would like. And I think our customers would like with that particular group to get to a resolution. But we feel we’re definitely -- we continue to trade with them. We are not at the level that we would like or they would like. We’re working very hard for a resolution that will allow us to come out of Q3 stronger with that group into Q4 and into 2021.

So obviously, those discussions are ongoing. So I can’t comment too much, but I would say that we’ve made great progress in recent weeks. And clearly, what the pandemic has shown a lot of our customers is that consumers really go back to brands, they love and trust. And certainly, our brands fit right within that. So and our retail business is outperforming as well. So I think that gives us good momentum into Q3 and into Q4.

On the cost side, clearly, it’s very hard to kind of use the word opportunity when we’re talking about a crisis that has impacted so many people and families. But suffice to say, it has shaken up our business in terms of being able to make faster changes in some areas of our cost structure. Some of them are quite logical. Nik has called them out, whether that’s travel, meetings, et cetera. But also in supply chain, it’s allowed us to run more efficiently, we’ve kept our service levels very high. It’s allowed us to challenge ourselves again and are we deploying existing resources to the best locations to make those choices.

And clearly, that’s going to continue as we get into Q3, 4 and into 2021. So our confidence in that is steadfast is that we’re not going to return to our pre-crisis cost base. And we’re not there now. We won’t be there by the end of the year, and certainly, we don’t want to return to it. So a lot of those changes, we’re baking into our plans for ’21 and ’22 and beyond. And Nik, I’ll just hand over to you to just give some commentary on margin.

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Nik Jhangiani Coca-Cola European Partners plc - CFO
Yes, sure. So I think for us, if we look at recovery, threefold focus, free cash flow and how quickly can we get back to that at least EUR 1 billion of free cash flow. I think that's a critically important measure for us.

Two, obviously, that's driven then by profitability. And so what's our absolute level of operating profit recovery back to '19 levels and then obviously the margin. Now a lot of that is going to be driven we hope by solid top line growth.

But as Damian said, continuing to rationalize and reassess our cost base. And where we’ve cut, have strong reproduction criteria, not just in elements like travel and meetings, but we look at our office space footprint, look at ways of working internally and with the Coca-Cola Company, look at our investments in trade marketing expenses that we’ve cut and how do we reintroduce those and spend smarter and more efficiently.

So we’ve got a whole program around that. So I think I wouldn’t give you a time line by which we want to get back to 2019 margins. I'd give you a time line that says, if we look at the next couple of years, we clearly feel, if we look at that order of priority, getting back to free cash flow first would be our top focus of getting back to that level, then our absolute profit and our margin will follow, obviously, based on top line, affordability as well as what we do on the cost side. So strong focus on recovery.

Operator

Your next question comes from Edward Mundy from Jefferies.

Edward Brampton Mundy Jefferies LLC, Research Division – Equity Analyst

I’ve got 1 question and 1 follow-up. First question is on Spain, which is 1 of your most successful markets when it comes to away from the home. So it’s always going to be disproportionately hit by the supply-driven crisis, in particular, they saw a very hard lock down in Spain in Q2. To what extent do you think the weakness is due to domestic consumer reluctance to start going up again, both into restaurants and just out and about and to what extent it’s due to tourism?

And then my second question, and my follow-up question even, is really around the dividend and what sort of financial and nonfinancial parameters you’ll think about when you’re looking to size the dividend that you’re
planning to announce with Q3. And this sort of a 50% payout ratio, a reasonable proxy similar to history?

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

Ed, thank you. So just on the Spanish comment, I would say, looking at what we’ve seen since the Spanish domestic market has reopened, that the majority of what we’ve seen in our Q2 numbers was, as you called out, was a lot more from Spanish consumers either not being able to go out due to some of the lockdown or being reluctant to go out quickly. And I think that’s held up because we’ve seen that improve in July and August.

So clearly, there’s a lot more domestic tourism in Spain. There is and any month of the year, a really healthy away from own business in Spain without tourism, just by the culture and the nature of our business there, which is fantastic.

And that is recovering, and that’s what we’re seeing in our numbers. Clearly, we’ll still have a headwind from foreign tourists not going to Spain, albeit that some have gone back, but obviously not at prior year levels. Yes. But I suppose what we’ve seen in our numbers is Spain’s business has recovered faster than tourism, which leads us to believe that, obviously, the bulk of the headwind was really domestic consumption mainly due to your domestic guidelines rather than just tourism.

And obviously, that helps us as we move into Q3. And Nik, I’ll hand over to you on the dividend question.

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Nik Jhangiani Coca-Cola European Partners plc - CFO

Sure. So Ed, clearly, we continue to have a lot of discussions with the Board around this and just to reinforce our Board completely is on board with what we’ve been doing over the last years on the progressive dividend policy, where we got up to the 50% dividend payout.

And there’s no wavering at this point from that, we feel that’s a good level and a competitive level. I think if you ask in terms of what we’re looking to see. I mean, clearly, we’ve got a good tick in terms of access to liquidity because that’s strong, as you’ve seen with everything that we’ve done to shore up our balance sheet even further. Leverage will clearly be impacted, but that’s
mathematical. And again, back to my earlier point, when I talked about free cash flow being a priority as we go into the recovery, clearly, that will deliver very quickly given strong free cash flow generation.

So really, the thing that we're looking at is that top line recovery to give us that confidence. And then obviously, that converting into strong free cash flow for the balance of the year. So no real change. Board continues to understand the importance of it, and we'll update you more in October.

Operator

Your next question comes from Rob Ottenstein from Evercore.

Robert Edward Ottenstein Evercore ISI Institutional Equities, Research Division

Great. A couple of questions. First, I just wanted to drill down a little bit in terms of -- and I know you probably don't have very complete information, but the July results, you mentioned that mix has gotten better, but the results look like basically a stabilization from June in terms of volume, both down 9%. And I'm just wondering if there's any kind of color or nuance there in terms of the weather or number of days included. Is just to try to get a better sense, are things just basically stable? Or are there factors, other factors at play, perhaps the retailer issue that you spoke to? So that would be my first question.

And then the second one, we've seen in the last couple of months, a pretty significant increase in the euro versus the dollar. And I was just wondering if you could remind us how you think about that? Any implications to your business, your cost structure, your relationship with the Coca Cola Company? Anything that we should be thinking about?

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

Robert, thank you for the question. So I think there's a couple of factors that I would call out on your June, July question. First of all, we did enjoy fantastic weather in June. So that's definitely a factor. What I think probably another element, and again, it's hard to put a number on this, but a lot of our outlets in
away from home, really only started reopening in June. And so what we have seen is obviously a restocking benefit in June as they reopened and restocked. And clearly, by the end of June, most of the outlets that are opened in July have already reopened. So there is a timing factor.

What we're seeing from a traffic and a sellout factor is that July is better than June. And for us, that's important. And we're seeing that continuing in August. So I think from a reportable level, there's a couple of factors that initial buy in is always going to give you a balance, which is great. The weather gave us a bit of a lift in June. But we have seen our business improve in July and August. And Nik, I'll let you cover the currency question. Thanks, Robert.

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Nik Jhangiani Coca-Cola European Partners plc - CFO

Yes. Robert, on the euro dollar, I mean, clearly, our exposure is limited to commodities that we buy in dollars, which would primarily be part of our sugar, where we buy New York 11 and we do contracts there as well as on aluminum.

So we have taken an approach, obviously, as we always have, to hedge our commodity exposure. We do not cover for translation exposure. But again, here, we have no dollar base translation exposure anyway. So that's kind of covered in what we would look at as our hedged year-on-year cost, which is both the commodity and the currency fund. So hopefully, that helps.

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Operator

Your next question comes from Richard Withagen from Kepler.

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Richard Withagen Kepler Cheuvreux, Research Division - Research Analyst

I want to ask on your conversations and meetings with the other bottlers in the Coke system, what are some of the learnings as it comes to recovering from the pandemic that you have implemented at CCEP?
Damian Paul Gammell Coca-Cola European Partners plc - CEO & Director

Thanks, Richard. Yes, we've had -- I think we mentioned it in our last call, we've had, led by some really good open forums with all the bottlers at a CEO level and at a functional level to share learning. And I think that's been one of the benefits, if there has been of what's happening is we've really been sharing ideas. That has ranged across the whole business. So we shared great ideas on supply chain, SKU rationalization. We shared great ideas around reopening strategy and marketing campaigns like open ever before, like never before.

Our HR teams have shared, I think, the work that we've done around supporting our colleagues at this time through our well-being initiatives and making that very accessible. We shared ideas with all the bottlers around that. We've also shared areas of focus for cost reductions beyond supply chain. So I mean, I could spend a lot of time, Richard, detailing the conversations. And I suppose they are continuing. We're still learning. As I said, we're not passive in the pandemic. We're very active. And as we continue to try things and learn, we're sharing that learning and other bottlers are doing the same. So that's great for me and my position as I focus on returning to '19 levels as quickly as possible. I can also tap into all of that learning globally, and that's continuing to happen. And I don't see that stopping. And I think it's made the system stronger.

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Operator

Your next question will come from Sean King from UBS.

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Sean Roberts King UBS Investment Bank, Research Division - Equity Research Analyst of Beverages

Thanks for the question. I believe on the last call, you mentioned that 25% of the bottling and canning lines were prudently idled. Where do we stand today as things improve in terms of line utilization?

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Damian Paul Gammell Coca-Cola European Partners plc - CEO & Director
Thanks, Sean. Yes, we're back running all our lines. I mean, clearly, as we've seen the recovery coming and as we've seen the opportunity to build inventory with our customers we took the decision really in March, April and May to spend production on those 25 lines. And that was predominantly, as we talked about glass manufacturing or small packs I there was no demand. 2 things happened.

One, we created demand in retail for a lot of those packs. And therefore, we started to reactivate a number of those lines even before the away-from-home market opened up.

And then the second impact has been new way from all market has opened up. So at the moment, we're running across all our plants and all our lines. And as Nik mentioned, that they're running more efficient than they were before on the back of some of those SKU decisions. So everything is open for business, and everything is running at the moment, which is great for our people.

Operator

Our final question for today will come from Charlie Higgs from Redburn.

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

A final ESG 1 for me, please. And you set an RPET target of 50% by 2023, which is probably the most ambitious target I've seen out of any soft drinks company. Can you just talk about the cost of transitioning to that? And what's the differential at the moment between our PET and virgin PET? And then what your strategic partnership with cure enables you to do?

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

So thanks, Charlie. You're correct. I mean, I think we have set a very ambitious target, but it's also 1 that we're looking to beat. So while 2023 may seem aggressive, we're committed to trying to get there even faster. So on a number of fronts, we've obviously been active to our CCEP ventures to
partner with companies that we believe can sustainably lower the cost of recycled PET.

And really, that's what that venture is going to allow us to explore and obviously utilize in our business going forward. We've also looked at how do we create more value from a consumer and customer perspective because what we do know is that consumers and indeed customers obviously, prefer brands that have better sustainability credentials.

And clearly, as we move faster on our PET, those credentials go up. And as I mentioned, Sweden, you'll see in our Swedish business, which has performed well during the last number months, we spent a lot of time communicating boldly to consumers about the benefits of the packaging and it's 50% recycled content.

So we're going to keep doing that. We haven't called out the incremental cost of that directly. But Nik, maybe you want to just talk about how we're thinking about that.

Nik Jhingiani Coca-Cola European Partners plc - CFO

Yes. So I mean, clearly, we are seeing that there is an on cost. But as Damian rightfully said that we see this as being more shorter-term in nature as you start seeing much more supply of recycled PET come on. And that's why we're investing in new technologies and partnering up with several companies to ensure that we can be ahead of that curve.

And then we truly believe over time, there should be something that consumers value. And hopefully, we can see that in our revenue generation as well, but we want to do it for the right reasons to begin with.

So we will give you that guidance as an all-in basis as opposed to calling that out separately.

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

Thanks, Charlie. So I'd just like to close with a few comments. First of all, I just want to thank everybody for joining us today. I just also want to go back and reiterate our thanks and gratitude to everybody who's helped us through this crisis, keep us well and safe and continue to do so. I particularly want to thank
all of my colleagues at CCEP, who really are working to get our business back to growth, and we’re seeing that paying off, both in the second quarter, but more particularly as we go through July and August. We have more momentum, particularly in volume and mix. We’ve got very solid and great plans for a year to go, and those plans have now rolled into 2021, which gives us good visibility on both our revenue and on our cost base. And gives us confidence in our business. And our ability to generate great value for our shareholders, our customers and all our stakeholders. And most importantly, and back to the last question, that will be done more sustainably than ever. And we believe that is a competitive advantage for us at CCEP. So thank you for joining us. Look forward to our next update, and I hope everybody continues to stay well and enjoys the summer. Thank you very much.

Operator

Ladies and gentlemen, this concludes today’s conference. Thanks for your participation, and have a wonderful day.