# H1 20 Earnings Call, Tuesday, 4th August 2020

**Operator:** Good morning and thank you for joining JDE Peet's First Half 2020 Results webcast. My name is Jerry Howell, and I will be your operator for the call. For the duration of the presentation, all participants will be in listen-only mode, and the conference call is being recorded. Following the presentation there will be an opportunity to ask questions. If you do have a question, please press 01 on your telephone keypad. If you wish to withdraw your question, you may do so by pressing 02 to cancel.

At this time, I would like to turn the call over to our first speaker, Robin Jansen, Director, Investor Relations for JDE Peet's.

**Robin Jansen:** Thank you, Jerry. And good morning, everybody, and welcome to JDE Peet's Earnings Call for the first half of 2020. With me are Casey Keller, CEO and Scott Gray, CFO.

In a moment, Casey will take you through the key messages and business performance related to our half year results. Scott will then tell you more about the segment and financial performance in the first half. We will then take your questions and after that, Casey will end today's presentation with concluding remarks.

Before we begin, I'd like to direct your attention to the disclaimer regarding non-IFRS measures and forward-looking statements on slide 2. We would like to ask you to please read this information carefully.

Our press release and the related slide deck were published at 7.00am CET this morning. Both documents are now available for download from our investor relations website. A full transcript of this conference call will be made available as soon as possible on our website as well.

With that, let me hand over to Casey.

**Casey Keller:** Thank you, Robin, and good morning, everyone. Thank you all for joining us for our first earnings call. This morning we will be covering the first half 2020.

Before we get started, I want to acknowledge the extraordinary time we've all been living through and thank all of our JDE Peet's employees worldwide. As the COVID-19 crisis first emerged in China, our teams prepared and planned to ensure our supply chain could adapt and our employees were protected. As the pandemic spread, we focused on two primary objectives: ensure the health and safety of our associates and maintain business continuity. I particularly want to acknowledge our employees in the plants and on the front lines who persevered to keep production levels high, orders flowing and meet the important needs of customers and consumers.

At JDE Peet's, we mobilised and donated more than 20 million cups of coffee and tea to healthcare workers and communities in need. Our employees participated in hundreds of community initiatives ranging from delivering coffee and tea to those in need to volunteering in food banks, to ensuring elderly neighbours were cared for as they sheltered in place.

Let's now move to slide 5. The current environment and first half results reinforce our conviction in the power of the JDE Peet's strategy and pure-play focus and confirms the investment thesis behind our recently completed IPO.

The large, global coffee and tea category was incredibly resilient during the COVID pandemic. People did not stop drinking their coffee and tea; they moved cups and occasions from Out-of-Home to in-home. The demand for coffee and tea demonstrated again that it is very inelastic. Our focus at JDE Peet's remains squarely on coffee and tea. We see plenty of opportunities across markets in a relatively fragmented category with many local and regional players.

The strength of our portfolio of heritage brands, technologies and routes to market is unique. It allows us to build scale and reach consumers with coffee and tea solutions across price tiers to meet their needs, occasions and budgets. That has been a strength during this crisis and will continue to be an advantage in the post-COVID economic uncertainty.

And we are focused on delivering against consumer's rising expectations for coffee experiences, delivering premium offerings with innovations in Single Serve, premium bean to cup, freeze-dried instant and mixes, and Out-of-Home barista stations. During the pandemic, we realised high growth in premium segments, including aluminium capsules, as consumers sought better coffee in-home.

Let's now move to slide 6 and share the three major takeaways for the first half with you. First, JDE Peet's delivered strong financial performance. We saw record growth in our in-home CPG business across markets. That growth largely offset the significant COVID-19 impact on the away-from-home business, which represented about 25% of our sales last year before the pandemic. Our adjusted EBIT performance was very strong behind excellent cost discipline and operating efficiencies, and we continued to reduce debt behind strong cash flow generation during the crisis.

Second, we successfully kept the business running during the unprecedented disruption of the COVID pandemic. We took proactive steps to ensure the health and safety of our employees and to maintain uninterrupted business operations. Our Company's agile response included a wide range of precautionary measures to protect business continuity throughout the supply chain and keep our frontline employees safe. All of our plants continued to produce, and we maintained service and delivery to our customers.

Finally, consumer habits changed during the pandemic. We all continued to enjoy our coffee and tea every day, but moved those occasions into the home from the office, coffee stores, schools, et cetera. In many cases, consumers were unwilling to sacrifice on coffee quality and migrated to premium solutions in-home. Single Serve options, including aluminium capsules, were the fastest growing parts of the category.

The shelter-in-place mandates stipulated by governments around the world created extraordinary demand in e-commerce. Our e-commerce business increased by 63% in the first half, more than doubling since the pandemic lockdowns. Consumers gravitated to the ease and convenience of coffee and tea ordered online and delivered direct to their homes. That shift is likely here to stay, and we will continue to invest in and drive our e-commerce platform and capabilities.

Moving to slide 7, overall, the company performed well during the COVID pandemic and first half of the year. You will hear more details from Scott, but a few important top lines: our sales were down slightly at minus 1.1% with very strong in-home CPG growth of 8.3%, largely offsetting the significant impact on the away-from-home business during the COVID crisis. In June, the away-from-home businesses showed significant recovery, lifting total JDE Peet's into positive growth for the month of June. On adjusted EBIT, we delivered organic growth of 10.5% to €642 million. Reported growth was plus 9.1%, reflecting strong cost control and focus.

One of our key goals this year was to reduce leverage, and we made excellent progress. We reduced our leverage ratio from 4.2 to 3.4 times over the first half 2020, and we generated free cash flow of €402 million for the half year.

On the next slide, slide 8, you can see the shift in sales from away-from-home to in-home. For perspective, around one-quarter of our business is derived from away-from-home and three-quarters from CPG including e-commerce. The CPG in-home business accelerated growth to 8.3% in the first half '20, almost doubling the rate in fiscal year '19.

By contrast, the away-from-home business declined by minus 30% in the first half, driven by the significant impact of the lockdowns and restricted mobility during the COVID pandemic, particularly in April and May.

It's also important to keep in mind that the away-from-home business has an average revenue per cup that is higher than the in-home CPG business, in some cases – coffee stores for example – substantially higher. However, our EBIT and cash flow is very stable as cups move across in-home and away-from-home.

Let's now zoom in on the in-home CPG business on slide 9. We delivered record organic sales growth in our in-home CPG business worldwide, with strong double-digit growth in many key developed markets. Growth was driven by continued premiumisation with a strong mix towards Single Serve and premium Beans. As previously mentioned, we also experienced high growth in e-commerce across platforms and markets.

Moving to slide 10, we see clear signs of recovery in the away-from-home business in June. As lockdown measures and restrictions lifted, coffee stores and other away-from-home business started to recover. Today, we can share that 85% of all our coffee stores across markets are open again and serving customers. And we see similar progress in other away-from-home channels including offices, schools, bars, restaurants, travel and tourism, et cetera. Even the most hard-hit businesses – large corporate offices and hotels – are slowly starting to recover. Furthermore, while it is a drag on the top line during the decline, the upside is the away-from-home channels continuing to recover will be felt relatively quickly.

Finally, on slide 11, I want to touch on sustainability before turning over to Scott. JDE Peet's has a robust environmental, social and governance framework based on three pillars which cover the entire product lifecycle. Through our Common Grounds programme founded in 2018 in partnership with the Rainforest Alliance, we are committed to addressing the priority issues within our supply chain and have a roadmap in place to exclusively procure green coffee, raw tea and palm oil from responsible sources by 2025.

But it is not only the ingredients that we are focused on. As a leading packaged goods manufacturer, we also recognise the increasing strain packaging places on our environment. In 2020, we launched Senseo Earth, including 100% UTZ-certified coffee wrapped in a compostable coffee pad, brewed in a low impact appliance. Senseo remains the most popular Single Serve coffee system in Western Europe and is now the most sustainable platform as well.

By the end of 2025, JDE Peet's aims to exclusively sell products that are packaged in recyclable, compostable or reusable materials. And finally, we are proud to be actively involved in local communities around the world and believe a connected society starts in our own workforce. Through our Diversity and Inclusion programme, we are committed to reach gender balance within our teams by 2025.

With that, I will hand the call over to Scott, and I'll be back before we go to Q&A.

**Scott Gray:** Thank you, Casey, and good morning to all of you. I hope that you and your families are all staying well during these unprecedented times.

I'll provide some detail about our results for the first half of this year, and then Casey will talk about our outlook before we go to Q&A.

Starting on slide 13, as Casey noted the first half really reinforced the resilience of our brands, products and overall combined business. We delivered strong growth across the CPG in-home portfolio which, as Casey mentioned, represents about three-quarters of our total business. Three of five segments were in positive growth driven by in-home, and the CPG portfolio for Peet's in the US also exhibited very high growth. The challenge during COVID-19 was our Out-of-Home business which was down almost 30% behind the lockdowns and restrictions across markets.

However, profitability was very strong across segments. Four of the five segments delivered positive adjusted EBIT growth including Peet's. And despite the significant sales impact during COVID, the Out-of-Home segment managed costs and customer service to get very close to breakeven on an EBIT basis.

Our business in Europe performed very well with almost 5% growth. We saw high growth in our major markets in Europe, including here in the Netherlands, as well as in the UK, Spain and France. And, there has been a move towards premiumisation with strong development in premium Beans and Single Serve during the pandemic.

The LARMEA segment delivered organic sales growth of 6.3% in the first half with resilient growth in our key markets, despite the COVID economic environment. Freeze-dried instants and Single Serve were strong growth drivers across markets. The region also delivered strong adjusted EBIT growth above 30% behind higher sales and strong cost control.

Growth in APAC reflects the shifts between in-home and away-from-home. Australia, New Zealand and China experienced strong in-home CPG growth while the away-from-home businesses, including coffee stores and food service, were impacted by COVID-19. Again, we saw improved trends in June and expect continued away-from-home recovery in the second half. The very strong EBIT growth reflects lower operating expenses and a soft comparable basis.

Peet's business also contains both CPG in-home and away-from-home. In CPG, Peet's sales grew over 20% over the last four consecutive months behind the strength of our DSD system. We also experienced very high growth on our CPG e-commerce direct and retailer businesses, reaching more than 10% of Peet's total sales in H1 20.

We did see the impact of COVID on the coffee stores and other away-from-home businesses. Most stores remained open for limited pick-up or delivery service to support our customers and communities. Again, we're encouraged by the recent recovery trends in June as stores expand service and more consumers start venturing out to get their coffee and tea.

Clearly, our Out-of-Home segment was heavily impacted in unprecedented ways by the effects and movement restrictions of COVID-19. We saw steep declines in travel and tourism, and drop-offs in demand from education and office customers. Our Out-of-Home teams reacted quickly with agility and flexibility to adapt to a dynamic environment, control costs and pivot to customer needs and opportunities.

We do see encouraging signs and recovery in out-of-home starting in June, particularly in European markets. Our June Out-of-Home run rate improved by about 20 percentage points versus the April-May lockdown period, and that progress continues into July. We believe our financial strength, deep capabilities and flexibility will be an advantage as mobility increases and Out-of-Home channels resume business at different paces.

Let's move to slide 14 and take a closer look at sales. Our diversified portfolio of categories and brands across price points positioned us well as we experienced strong CPG growth. The growth of our CPG business offset the effects of the lockdowns on our away-from-home business with a slight decline of 1.1% in organic growth, of which the volume-mix decline was just 0.9%.

The foreign exchange impact in the first half was primarily driven by the appreciation of the euro against the Brazilian real, Russian rouble, Australian dollar and the Turkish lira. We had total sales of €3.2 billion for the half.

Let's move to slide 15. We had a very strong performance on EBIT as our adjusted EBIT increased organically by 10.5% to €642 million. This was driven primarily by double-digit growth that we saw in all three of our geographic CPG segments, as well as Peet's, and was clearly offset by declines in our Out-of-Home segment.

In addition to our strong CPG growth, our EBIT was supported by disciplined and proactive cost management. During the early and peak phases of the stay-at-home measures, we very quickly determined that our traditional promotional and marketing investments would not be an effective use of capital as consumer behaviour changed dramatically. At the same time, we accelerated our investments in e-commerce and digital marketing. Furthermore, we captured savings across our discretionary SG&A as our way of working changed, and we leveraged our strong company-wide cost culture. While marketing remains an important component of how we reach customers and consumers, during the lockdowns this was a prudent decision.

As we see recovery in channels, we are resuming our investments and will have a higher level of spending in H2 compared to H1 while maintaining our discipline. Our business also delivered very steady and consistent cash flow. In the first half, we had two atypical events that you see coming through in the cash flow. First of all, we incurred costs related to our IPO, which you also see in our net income.

Secondly, we increased inventory as part of our COVID crisis management, in order to have safety stock on hand during the period of disruption to ensure business continuity. We returned back to normalised levels of inventory, especially as our CPG business accelerated, but the average inventory level was higher in the first half.

Otherwise, the underlying drivers of our operating working capital were consistently strong in the first half – a trend we've seen for many years.

Moving to slide 16 on leverage, one of our top priorities is deleveraging. In the first half, we materially reduced our leverage by 0.8 turns to 3.4x net debt to adjusted EBITDA from 4.2x at the beginning of the year. This shows the effects of our strong EBIT and robust cash flow generation, even with some currency headwinds in addition to the positive contribution from the primary proceeds from the IPO.

Reducing our leverage will continue to be important and remains a priority for the business. We are well on track to reaching our objective of having a leverage ratio of below 3.0x by the end of H1 2021. While we have an investment grade business profile today, we want to be a strong investment grade rated company.

We have a very strong balance sheet. Our liquidity position at the end of June was over €1.2 billion. We had €504 million of cash on hand and €718 million of capacity under our committed revolving credit facilities. Furthermore, our average cost of debt is about 2.4%. Even with our high cash flow generation, during periods of uncertainty a strong balance sheet, including a high level of liquidity, is prudent.

Let me now hand back to Casey, who will provide you with an update on our outlook. Then we will open up the call for Q&A.

**Casey Keller:** Thanks, Scott. Before we go to Q&A, let's address our outlook on slide 18. We believe our first half results reinforce our resiliency. The strength of our portfolio of trusted brands, combined with strong execution in our global manufacturing and supply chain during the crisis, make us well-positioned moving forward.

While uncertainty remains on the future implications COVID-19 may have on global markets, we have seen, as I've mentioned before, positive signs of improvement starting in June as markets began to reopen. Assuming this trend continues, we expect positive organic sales growth for fiscal year '20. We also expect that our adjusted EBIT growth for fiscal year '20 will be within our medium to long-term range of 5% to 8% with increased marketing and promotions in the second half. And, as previously stated, we are well on track to achieve our leverage goal of below 3x by the end of first half 2021.

Thank you, and I'll turn it over to the operator to start Q&A.

## Questions and Answers

**Operator:** Thank you, Casey. Ladies and gentlemen, we're now ready to take your questions. If you wish to ask a question, please press 01 on your telephone keypads. If you wish to withdraw your question, you may do so by pressing 02 to cancel. Please remember that you are limited to one question and a follow-up per round.

Our first question comes from the line of Celine Pannuti of JP Morgan. Please go ahead.

**Celine Pannuti (JP Morgan):** Yes, good morning. So, my first question is – thank you for providing colour on the Out-of-Home run rate into June and July. Could you provide similar run rate into the at-home market, especially in Europe? What kind of growth have you seen?

And, as you've seen the lockdown coming off, can you talk as well about how the CPG market demand had done in June and July?

And my follow-up is as well on CPG Europe. Could you provide a bit more granularity on the building block of growth? You mentioned that Single Serve and premium Beans have been driving this. Can you put any colour on that?

Also, if I remember correctly, you ran out of capacity in Single Serve. Is that correct, and how is the situation now? Thank you.

**Casey Keller:** Okay, there are several questions in there, Celine, so let me try and answer those. So first, you know, our Europe business, I think, reported strong growth for the first half. And we saw an acceleration of that growth during the COVID pandemic lockdowns, you know, starting in March. But we still see very strong growth – you know, mid-single digits – in our Europe CPG, you know, in June. So, we're expecting that we will continue to see higher growth on our CPG businesses in Europe and other places as the COVID recovery gradually happens. And remember our share in the CPG in-home channels – our share is higher than our share in the Out-of-Home channels, which is – still remains very, very fragmented.

So, I think you also asked about what we see driving the growth, particularly in Europe. You know, I think realistically we would expect higher in-home consumption through the COVID recovery period across all the segments. But, you know, as we said before, we expect to see some volume growth in Europe, but a lot of growth driven by mix. As we see, the fastest parts of the category are the premium segments. So, you know, Single Serve obviously was the – was very fast-growing prior to COVID, but even accelerated post-COVID. You know, all of our Single Serve technology – Senseo, Tassimo and aluminium capsules – are all growing very rapidly in the double digits. Aluminium capsules, since the COVID pandemic began, is actually for the first half – is growing over 30%. So, we're seeing very strong growth in – that's what's driving the mix. Overall, segments are showing some growth, but those in particular are driving the way forward.

You know, we have talked about – oh, and our Single Serve technologies, for the most part, we're – you know, we're pretty good in terms of Senseo and Tassimo. I think we've said before that we are tight on capacity in aluminium capsules, and we were on some allocation for the last couple of months. But we've been able to meet demand, we've been able to manage through that. And we have additional capacity coming online. I mean in the start of next year, so the very first of 2021, we'll have additional capacity.

So, we feel very comfortable that we'll be able to meet the needs of customers and consumers going forward in Single Serve across the board, but in particular in capsules as we add – we add capacity.

**Celine Pannuti:** Thank you.

**Operator:** Our next question comes from the line of Jon Cox of Kepler Cheuvreux. Please go ahead.

**Jon Cox (Kepler Cheuvreux):** Yeah, thanks very much. Good morning, guys; Jon Cox, Kepler Cheuvreux. A couple of questions for you. I'll try and make it one, and then the – just the follow-up. Was I right in hearing you said in June overall, the Group was now positive? Maybe I've misunderstood that when you were – when you were talking; I'm talking about the Group overall.

And as a follow-up, you're talking about organic growth this year rather than focusing on the volume/mix, which was the basis for the targets. Have you now shifted targets to organic? That's just more of a technical question.

And then another follow-up, trying to put it all together, just on the Out-of-Home, I wonder if you can give us a bit of a breakdown in terms of, you know, share to which segment, whether that's in the office, hotels, restaurants. You're also talking about 25% now is Out-of-Home; I think originally you were talking about 20%. I guess there's some food service you've found in parts of the business. Can you give us anything, any sort of colour on that, because obviously that's a key component: what will happen to sales as we go forward? Thank you.

**Casey Keller:** Okay. I think that just, you know – and thank you, John, for the question. So, on the total business in June, we were in growth. So, the total Group was in growth in June, just to clarify, just to make sure you heard that – that right.

And I think I also said that, you know, that was driven by continued growth in CPG but importantly a recovery of 20 basis – 20 percentage points in our Out-of-Home business. And we're seeing a similar recovery in out-of-home in July as well.

I think the – you know, on the Out-of-Home business, we did quote the 25% number today, and that is an accurate number. So, as we look at the – where our out-of-home businesses are, we clearly have a segment called Out-of-Home, but we do have away-from-home business in all of our segments. Peet's obviously has a significant portion in coffee stores and away-from-home, but also in our APAC region we have quite a bit of Out-of-Home business: we have OldTown coffee restaurants, we have a food service and food service ingredients business. And in APAC itself, that's probably about the same as the total Group, up 25%.

We do see, you know, growth in – and happening at different rates and different channels. We haven't really commented on it yet, but I – you know, I'm seeing the BaReCa business coming back faster, I'm seeing small and medium businesses coming back faster. You know, we can see the pattern in China where our Peet's Coffee stores are now kind over about – or at or above 90% of their run rate, you know, prior to COVID. So, we are seeing that – it coming back at different speeds. You know, I'd say the places that have been most challenged but still showing recovery in June would be large offices and travel and tourism.

Honestly, our approach in the Out-of-Home business is, you know, we have pretty broad capabilities. We have reach and routes to market across all the channels in Out-of-Home, and we're trying to pivot and move to where we see the business coming back faster. So, we're working with customers as they resume operations to get – to get on board quickly. We're even seeing some new customer opportunities in a very fragmented marketplace where we can provide service that maybe others can't.

So, we're trying to manage our resumption and our restart of the business, you know, not only just restarting our current customers, but also looking for where the opportunities are as different channels come back at different rates.

I think that hit all of your questions.

**Jon Cox:** Okay, that's all from me, thank you.

**Scott Gray:** John, just to touch based on your one comment around organic sales versus volume and mix, we did quote organic sales, but we also quoted volume and mix, and volume and mix for the segments. So, underlying volume and mix will continue to be something that – that we will talk about a lot. So, it will both, but volume and mix is still important, and we did disclose that information on the segments.

**Jon Cox:** And is that because you're thinking you're going to see positive pricing in the second half of the year? I'm just wondering why you mentioned organic in the – you know, obviously all the way through the IPO is all about volume/mix. I know today –

**Scott Gray:** No, we – in the IPO, we also quoted organic or what we called like-for-like –

**Jon Cox:** Yeah.

**Scott Gray:** – if you remember, especially when we gave our Q1 updates, so we're showing consistency there, but also quoting underlying volume and mix. So, we continue with both of those.

**Jon Cox:** And the goal is 3% to 5% for both organic mix – volume/mix and the organic like-for-like? The mid – I'm talking about the mid, long-term goals.

**Scott Gray:** The long-term – the long-term range was 3.5% at the constant commodity –

**Jon Cox:** 3% to 5%.

**Scott Gray:** Sorry, 3% to 5% at constant commodity on top, and you're correct on the medium to long-term range.

**Jon Cox:** Yeah. Okay, thank you.

**Scott Gray:** Sure.

**Operator:** Our next question comes from the line of John Ennis of Goldman Sachs. Please go ahead.

**John Ennis (Goldman Sachs):** Yeah, good morning, everyone. My question's on A&P spend. It fell by 200 basis points in the first half, so I guess that implies the full year down at least 100 bps. And I just wondered what you think will happen in 2021. Do you step up investments again and reverse this cut, or do you think you can sustain this low a level of investment? Thanks.

**Casey Keller:** Yeah, why don't I go ahead first? Thanks, John. You know, I think as Scott talked about, during the COVID pandemic, you know, we did reduce marketing and promotions. You know, we saw less need for promotions, in-store activations; we saw less consumer promotions. Honestly, you know, we spent quite a bit on our Single Serve machines and developing those in stores, but a lot of the electronic retailers were closed. And, you know – and I talked a little bit about capsules being on allocation, so we pulled back some demand generation on that.

Honestly, brand – and I – and we disclosed that we were going to increase our marketing promotion in the second half versus the first half. We believe that, you know, advertising, promotion marketing is important to drive the business; it's an important driver of our brands. So, we will move back and step back into investment on our brands as we move forward in the second half and in 2021. We think it's an important component of our business.

I mean, we are – we're always going to be looking for, you know, generating positive returns behind marketing investment, we'll always be looking for efficiencies. We're working on some programmes now to get more efficiencies in our media and advertising and digital spend. And by the way, digital's been one area where we've really maintained strong support and strong investment, because we believe it's so critical for our business. And you can see the growth, you know, of e-commerce – 63% in the first half. We want to continue to drive that.

So, we'll continue to look for ways to optimise our spending, but we do believe it's an important component of our business going forward. But we'll – we'll make sure that as we put the spending back in that it's effective, that it's producing the right return and that it's focused on the places that we want to grow.

**John Ennis:** Thanks. And can I just follow up on something you said there? On the aluminium capsules side, what proportion of your business is that now?

**Casey Keller:** Yeah, we don't – I don't think we disclose the total percentage of the business for aluminium capsules, but it is one of our fastest growing segments. It's – obviously, a very high development, you know, in our European markets. And, you know, I think we talk about our share overall in – in capsules as kind of, you know, 43% to 45% in the traditional CPG retail outlets.

**John Ennis:** Okay, that's helpful. Thanks, guys.

**Operator:** Our next question comes from the line of Tom Sykes of Deutsche Bank. Please go ahead.

**Tom Sykes (Deutsche Bank):** Yeah, good morning, everybody. Just wanted to ask about the revenue split in where you give the Other Food and Beverage category. And that's obviously gone from 13% to 10% of sales, whereas you've obviously seen much more stability in – well, an increase in the proportion of sales coming from Coffee and Tea. Could you maybe just give us a bit more detail of what goes into that?

And then when you've seen a recovery, are you seeing that uniformly across – in Out-of-Home, sorry, in Coffee, Tea and the Other Food and Beverage category?

And perhaps in addition to the comments on Out-of-Home, could you maybe just talk about the impact of any government support – furloughing and the dynamic of those cost-savings as Out-of-Home is coming back, please?

**Scott Gray:** Okay. Tom, I believe you had three questions there, so why don't I start on the first one, which is your question about the Other Food and Beverage that we disclosed in the financial statements and has reduced? I mean this Other Food and Beverage category is made up of some of the dynamics that we talked about in the away-from-home business. So, this is – this is non-coffee and tea, this is some food service. Casey was talking briefly about some of the away-from-home, for example, in APAC and throughout the Company. So, we have some non-coffee and tea that is in this category in this breakdown that you talked about in terms of revenue breakdown. And as the away-from-home business was obviously impacted during COVID-19, that is why you see a decline in this, while Coffee and Tea is obviously a lot driven by – not exclusive, but as we have an uplift in the CPG in-home business, that's where you see the overall benefit of growth there. So, that's why you see a little bit of change in terms of the balance that we have in the revenue split.

Then I'll let Casey answer your question –

**Casey Keller:** Yeah, and I think, you know, it's important to remember, I mean, the Coffee and Tea categories there also include Out-of-Home, so that it's the Other Food and Beverage would be other products sold, you know, as part of our operations.

So, I think your second question was about more colour on the Coffee and Tea coming back and Out-of-Home. We talked about it quite extensively, but, you know, obviously the depth of the lockdowns was in April and May. So, you know, our – and when things were pretty much down in the Out-of-Home business in April, that was the – the – that was our steepest declines on that business. And as I talked about, June, you know, we saw kind of a 20 basis – 20 percentage points recovery in our run rate versus what we were seeing in kind of April, May. So, that was encouraging news for us, and we're seeing that progress continue into July.

So, I mean overall it gives us confidence that we're on the right track. I mean a lot of uncertainty around how channels will reopen and other things: will there be, you know, some – will partial restrictions come back in some places where they – you see a flareup in the pandemic. And yes, but we're prepared to kind of deal with that. And honestly, one of the things we've learnt in this April-May-June period is how to adapt our operations and our service and our business in the Out-of-Home environment to try and optimise our ability to get business while – you know, while the restrictions are in place. So, I think, you know, we'll be – we'll have learnt some things in terms of how we move forward if there is a second wave of partial restrictions that we need to contend with in our business.

I think the last question you asked was about government support. So, obviously, in our Out-of-Home businesses, we did furlough some of our – some of our employees that did service and maintained our operations in the Out-of-Home environment. We didn't – we didn't actually – we took some government support – support where it was possible, but it was pretty small; it was pretty small in the scheme of things. And we did not take support where it would have restricted our ability in the future to kind of shift resources or to pay dividends, for example. So, it was a really – in terms of costings it was there, but for the most part it wasn't a huge part of our cost – cost reduction in – you know, during the pandemic.

**Tom Sykes:** Okay, thank you. Sorry, it's just a very quick follow-up, and the reason for asking on the difference and the mix of the businesses.

As it comes back, are you seeing that the margin dynamic on what Out-of-Home business comes back is the same as the margin dynamic as we were going into COVID, because – just looking at whether that business mix of the Out-of-Home business and what's coming back is the same?

**Casey Keller:** Yes. So, I think what I tried to explain a little bit is that, you know, from an EBIT and a cash flow standpoint, we're relatively indifferent with the movement of the business across Out-of-Home to in-home, or in-home to Out-of-Home, just because we have pretty good – we have pretty good margins and good – you know, good profit on both sides of the house.

I think the dynamic that you do have to understand is that in the Out-of-Home environment, the revenue – the revenue per cup is higher than in the in-home CPG business. And that's because of, you know, all the cost to service and deliver coffee in the Out-of-Home environment; there's a lot more cost there below the – you know, below the – below the revenue line to enable that.

**Tom Sykes:** Sure.

**Casey Keller:** So, I think you'll see – you know, as the business shifted from in-home to Out-of-Home, you see a little bit of an impact from that revenue per cup difference. But I think honestly on the – the other side is the Out-of-Home begins to recover; you'll see an accelerator effect from the revenue per cup as Out-of-Home – you know, as more cups go into Out-of-Home or recover back into Out-of-Home as things normalise.

**Tom Sykes:** Okay, many thanks indeed.

**Operator:** Our next question comes from the line of Mirco Badocco of Bank of America. Please go ahead.

**Mirco Badocco (Bank of America):** Yeah, morning everyone. Thanks for taking my questions. The first one is on coffee stores. I think you flagged around 85% of coffee stores were open in June. I might have missed this, but do you – can you give us the same sort of figure for July as well? And also, can you give us some indication of capacity for those stores? So, 85% stores open, operating at what capacity?

And the second question is, you know, if you can quickly give us some colour on the rollout of aluminium capsules for illy, so anything you can say in terms of where you are in terms of your target universe, or how many countries you've rolled out so far.

**Casey Keller:** Sure. Okay, on the – on coffee stores, I think we disclosed that 85% opened in June. I think that number is increased a little bit in July. So, you know, we are continuing to see more stores open, but I think a lot of stores went back into operation in June. Remember that we kept quite a few stores open even during the April-May period with very limited service, so, you know, pickup mobile order or delivery. So, we tried to have some limited operation as much as possible to serve our communities, to serve our customers – you know, for instance, Peet's and some of the other – and some of our other coffee stores in Europe and in Asia. But, you know, we – as June came back, we were able to bring some customers inside and to have interior business, even if it was just to come inside and order at the counter and then take it away or whatever. So, we saw more and more kind of service operations resuming in June, in addition to opening more stores.

And I think we're hoping in July that we'll – that, you know, we'll see more and more kind of – you know, more and more traffic in our stores coming in as we – as we saw early in July. We'll check that and keep going into August, but I think as we resume more and more service, you'll see, you know, improved recovery in that business as well as stores coming back open.

I think you asked about – I think you asked about the rollout of illy capsules. That's been – that's been a success. You know, we've been very happy with the results. We've, you know, largely launched in most European markets and traditional CPG retail outlets in the last year, year-and-a-half. You know, it's a super-premium offering, high-quality offering. You know, we've been able to get great distribution. You know, we've seen we've been able to get share with that proposition, and we see it as a real strength in our portfolio operating at the super premium element within the marketplace. So, we're quite happy, you know, with what's happened with the illy capsules rollout. And we're looking to – you know, we're in the process right now of looking at a couple of new markets that we would like to roll out in as well.

**Mirco Badocco:** Thank you.

**Operator:** Our next question comes from the line of Martin Deboo of Jefferies. Please go ahead.

**Martin Deboo (Jefferies):** Yeah, morning everybody, Martin Deboo at Jefferies. Just one question, please – margin. Margins went up a striking amount, given that both price and volume/mix was negative in the half. So, can you please give us some colour on the moving parts of margin in H1, specifically what happened to green coffee prices during the half?

And secondly, I think on John Ennis' question, there was mention that A&P was down 200 basis points in H1. Can you confirm that, and any other moving parts like SG&A? Thanks.

**Scott Gray:** Yeah, why don't I start on that, Martin? So, on margin in terms of some of the moving pieces, you're right, there's a number of moving pieces overall in margin. If I look at gross margin, we had some decline in gross margin. This was primarily related to the shift from the away-from-home to the in-home. At gross margin level, the away-from-home does have higher margins. If you – as you had the shift into the in-home, you had a little bit of margin decline there, but that was – had a big offset from also category mix that we had in there related to the increase in Single Serve, the premiumisation effect that we had in the in-home in CPG. So, a couple of dynamics going on there.

And then at the EBIT level, I mean, we have – as we had those shifts from the away-from-home into the in-home, we had very steady EBIT and cash flow, and that's the dynamic that you saw. At the same time, the – at EBIT level, we were supported by a couple of dynamics. One of them you talked about in terms of the A&P reduction and the 200 basis points, which is correct in terms of the A&P level. And then also we had strong cost control, both in terms of operation efficiencies as well as just control of our discretionary spend that we had in the first half, as we had the kind of changing dynamic that was going on. So, we made sure to capture cost there appropriately.

So, you had a number of dynamics going on as you look at the overall change in margin. But again, very – very steady EBIT and cash flow, and then of course CPG driving the overall EBIT growth that we saw in terms of organic EBIT growth.

**Martin Deboo:** And green coffee prices during the half?

**Scott Gray:** Green – yeah, sorry. Yes, I left off – absolutely. So, I left off one of your questions. On green coffee prices in terms of H1, as you see in terms of market, there wasn't a lot of change in terms of green coffee prices. So, in the first half, not a lot of changes there; quite a lot of stability there so not a huge dynamic going on in terms of coffee prices.

**Martin Deboo:** Okay, thank you.

**Scott Gray:** Thank you.

**Operator:** We'll now take our last question from Jeff Stent of Exane BNP Paribas. Please go ahead.

**John Stent:** Good morning. Just – well, an observation, this last question, but, yeah, it's just very unusual, I guess, that you don't hear any talk about market shares from the consumer staples company. So, on that note, I was wondering whether you could perhaps shed some colour on the market share development, particularly in the CPG business and particularly in Europe. Thank you.

**Casey Keller:** Yeah, absolutely, I'm happy to talk about shares. So, if we look at, you know, the shares in Europe, we saw sequential improvement from Q1 to Q2 – you know, almost a whole point. So, we feel very good about our share position and our share progress. I think even if you look at the most recent period, you know, we had strong share development. And we did have a little bit of impact in Q1 from retail negotiations which resulted in lower promotions, but we resolved our annual negotiations by March. So, we feel very good about where we are now, and, you know, our – our share development and our share growth. And I – honestly, I think, you know, we see some strong parts of our portfolio still growing at rapid rates and building share. And so, we've had good progress.

I think if you look at beyond Europe, if you look at, you know, the US, Peet's, the CPG business and traditional retail and Peet's, the DSD operation has shown very strong share growth even – you know, post-COVID pandemic, but even prior to that. So, we are growing share in the premium side of the Coffee category there. You know, Peet's had very strong growth in the CPG e-commerce business, so we feel good about kind of our share position in the US. We – and Peet's, we feel great about, you know, how we're progressing with our share in Europe. And, you know, as we've talked about before, we see lots of opportunity to continue to grow our share position. This is still a very fragmented category with lots of local and retail players, and so we see opportunities in the future to continue to expand not only our presence, but our development and our portfolio in markets.

**Jeff Stent:** Okay, thank you. And maybe just one follow-up, if I may, but I think around about the time of the IPO, you were quoting some share numbers for, you know, aluminium capsules and sort of traditional retailers. Could you tell us what your – and I think that data was from October, if I recall correctly. Could you maybe just shed some light on what that share is now, so what the share is of aluminium capsules in your sort of mid-markets?

**Casey Keller:** Yes, absolutely. So, I think if we look at the markets that we compete in today, our share is about 43%. I think I said before about a 43% share of the traditional CPG-measured channels. So, you know, a very high – very high, very strong share position, you know, in that – you know, and it's – and it's been developed quite bit, I think, you know, over the last two years.

**Martin Deboo:** Okay, that's great. Thank you very much.

**Operator:** That was the last question. I will now hand the floor back over to Casey for his closing remarks.

**Casey Keller:** Thanks, Jerry. I just want to reiterate that we are pleased with our results for the first half of the year in the midst of such global uncertainty. The impressive performance of our CPG business and the recovery that we are seeing, starting in June, of our Out-of-Home business bode well for the remainder of the year. And we are confident that we have the plans in place to build on our first half.

Thank you again for joining us today. Scott, Robin and I look forward to speaking with you in the days ahead. Stay well, stay safe and have a great day.

**Operator:** Ladies and gentlemen, this concludes the JDE Peet's First Half 2020 Results webcast. You may now disconnect your lines, goodbye.

[END OF TRANSCRIPT]