Transcript Earnings Call related to JDE Peet's' FY 2022 Results

Operator: Good morning and thank you for JDE Peet's Full Year 2022 Earnings Call. My name is George. I'll be your operator for today's call. For the duration of the presentation, all participants will be in a listen-only mode and the conference call is being recorded. Following the presentation, there will be an opportunity to ask questions. And if you do have a question, please press star one on your telephone keypads. If you wish to withdraw your question, you may do so by pressing star two to cancel.

At this time, I'd like to turn the call over to our first speaker, Mr Robin Jansen, Director Investor Relations for JDE Peet's. Please go ahead, sir.

Robin Jansen: Thank you George, and good morning, everyone and welcome to JDE Peet's earnings call related to our financial performance full year 2022. With me are Fabien Simon, CEO; and Scott Gray, CFO.

In a moment, Fabien will take you through the operational and financial highlights related to our business performance in 2022. After that, Scott will tell you more about the financial performance in 2022 and the outlook we shared at our Strategic Update Meeting at the end of January. After that, we will be happy to answer your questions.

Our press release was published at 7.00 CET this morning. The release as well as the slide deck related to this call, are available for download from the Investors section on our website. A full transcript of this conference call will also be made available in that same section on our website, as soon as possible after this call.

Before I hand over to Fabien, I'd like to direct your attention to the disclaimer regarding non-IFRS measures and forward-looking statements on slide three. We would kindly like to ask you to read this information carefully.

And with that, I hand over to you, Fabien.

Fabien Simon: Thank you, Robin. Welcome, and thank you everyone for joining the call today. Last year was another year of new and compounding global challenges. In spite of the turbulent environment, JDE Peet's well delivered on its guidance set at the start of 2022, and which remains unchanged throughout the year.

Not only am I pleased that we continue to build a track record of reliable delivery, but, as importantly, I am proud of how our performance was achieved. We did not make any compromise on the fundamental drivers that makes the business a quality one over time, being: one, quality of product, service and execution for our customers and consumers; second, holding or increasing investments behind brands, innovation, our talent capabilities; and third, ensuring an inclusive approach with an elevated agenda and progress on ESG.

But it doesn't mean it was an easy year. In the face of an unprecedented level of inflation, we had to make difficult but courageous choices, both on accelerating our cost competitiveness, and on leading price increases for the category globally, with the implied short-term challenges that comes with it in Europe in particular.

We believe that we acted as a true category leader, demonstrating agility and resilience at time of turbulences, and in parallel keeping course of our strategic growth agenda, this to ensure an enduring shareholder return as well as a positive societal value.

Looking at key metrics at the end of 2022, such as brand health, share of voice, market shares, gross profit, or deleverage, to name a few, I am reinsured and convinced we have made the right choices throughout the year. When I mention we, I refer to the 20,000 employees around the world, who worked incredibly hard, with passion, together with every partner in our ecosystem, and make all this possible. Here I would like to thank all of them once again.

Let's now have a look at some of the performance highlights of 2022, starting on slide five. I think this slide nicely wraps up how we have been successfully managing all the challenges in 2022. We delivered mid-teens top line growth, of which 11.3% organically, and which was driven by historically high pricing, coupled with relatively stable or increasing volume/mix in all segments, except in CPG Europe.

The gross profit increased by 3.3%, from our intentionality on cost of goods efficiency and discipline on pricing. And while we were managing inflation in a very disciplined way, we, in parallel, stayed focused on our long-term growth agenda and continued to invest. As a result, our absolute level of A&P spend is now above the level we had in 2019 and which led to a total SG&A increase of 10.9% in 2022, lowering our adjusted EBIT by 5.9%, or 9.3% organically.

Bottom line, our underlying EPS increased by 6.3% to €1.91, and our strong cash conversion model delivered free cash flow of more than €1.3 billion, which funded the more than €800 million we returned to shareholders in 2022.

Last but not least, on sustainability. As mentioned previously, until two to three years ago, we were not doing much. Looking at where we stand today, I am very proud of the broad-based progress and huge step forward we've made on each of the ESG areas, as well as the ambitious and achievable goals we've set for the future.

Let's now move to the next slide and compare our actual performance with the objectives we set at the start of 2022. Despite the challenging environment in which we operated, we delivered against all the financial targets we set at the start of the year. We delivered double-digit organic sales growth, we protected our absolute gross profit level and even increased it, we continued to invest behind our brands and strategic growth opportunities, which is visible with an increase in working media of 22% in 2022, and we delivered substantially more than €1 billion of free cash flow.

Let's now go to the next slide, to have a look at how we are emerging from last year into 2023. I think this slide puts into perspective not only how we exited 2022, but as well the outcome of the last 2.5 years of the transformations we operated at JDE Peet's, as highlighted recently during our most recent Capital Markets Day. We are now a stronger enterprise than when we entered the public market in 2020, and a more competitive one.

Our growth portfolio is stronger, we are a well-invested business, more productive, with solid fundamentals and with a very attractive capital structure. I will not cover all the points here, but just to highlight a few. Our brand consideration is at a higher level. We accelerated our omnichannel portfolio with, for example, digital commerce representing 9.5% of our revenue. We are leading on coffee share of voice, we achieved historical best performance in consumer complaints or safety in operations. And in a world of increasing net debt to support shareholder returns, we do it in a fully funded way from our free cash flow.

We believe that all our last 2.5 year efforts and achievements have positioned us well and competitively for 2023 and beyond.

Turning now to the following page, and looking at our historical organic revenue growth, we can see how we elevated JDE Peet's growth to another level, and now operating at or even above the long-term growth rate of the category globally. As you can see on the left-hand side of this chart, our 3-year average growth rate has increased from 1.1% in the period '17 to '19 to 5.6% in the period '19 to 2022. This is a result of a disciplined execution of portfolio management, of increasing focus on innovations, of expanding our footprint in specific channels and geographies, and by resuming bolt-on M&A and partnerships.

As a result, the step-up in our multi-year growth trajectory was broad-based, happening in emerging markets as well as in the developed markets outside of the US and as well in the US, where we outperform the category in a repeatable way by now.

And on the next slide, slide nine, you can see how we have grown in 2022 across geographies, channels, brands and categories. As mentioned before, our top line growth performance is well-diversified and broad-based. In 2022 again, we can truly see the competitive advantage of our portfolio diversity.

Developed markets delivered 6.6%, while emerging markets grew by close to 30% organically. Supported by our omni-channel strategy, our In-Home channels grew sales by 9% while our Away-from-Home businesses increased sales by 22% organically, partially reflecting a further normalisation in the balance between In-Home and Away-From-Home consumption following the fading away of the pandemic.

Across brands and price points, fundamental at times of inflation and cost of living pressure, our global brands grew by 7%, while our regional and local brands together delivered 12% growth organically.

And finally, when looking through the lens of the categories, sales of Single-Serve, Beans and other premium categories, increased by 9% while the rest of the brand portfolio grew by 14% organically.

Now let's move to the next slide, to one of the biggest topics of 2022: inflation. Here on the slide, at the bottom left of the page, you can see the magnitude of inflation across a selection of our input costs. And in the bar chart, you can see that the negative impact of inflation for JDE Peet's cost of goods has cumulated to €1.4 billion over the last two years, of which the vast majority happened throughout 2022.

When you are confronted with a level of COGS inflation greater than your adjusted EBIT, your priority is very clear and you have to be intentional about it.

This is why we guided for 2022 with the objective to protect the absolute gross profit, to protect our freedom to invest for the long-term growth, as we refused to cut our marketing investments to make up for the bottom-line. And because we anticipated it, and called it already in H1 2021, we could mobilise the organisation and act with pace on the mitigating actions:

we closed factories, we reduced our workforce by more than 5%, we simplified our portfolio with a double-digit reduction of our SKUs, and we executed disciplined pricing fully justified by input cost inflation. Which brings me to the topic of pricing and price elasticity on the next slide.

The historically high level of inflation we are confronted with, led to an unprecedented required level of pricing of almost 16% in 2022. And although this looks very high as a percentage, the increase in price on an average cup of coffee consumed at home is limiting to just below €0.01. This means, that, on average, if a consumer would drink 500 cups of coffee at home in a year, of JDE Peet's products, the average incremental costs for the full year, is limited to around €5 euro only. Saying differently, only one Vanilla Latte less or only one Iced White Chocolate Mocha less at a coffee store would pay for the entire year of inflation of 500 cups drunk at home. The affordability In-Home, of what is declared essential by consumers, explains the resilience of the coffee category historically.

Looking at 2022, actually our volume/mix growth was either stable or still growing in all segments, except for CPG Europe. Have we lost volume in CPG Europe? Yes, we have. But I would encourage to not misread the number. We have not lost short-term volume and market shares because of consumer elasticity, but for two other reasons. One, because there had been some transfer of cups from In-Home to Away-from-Home on the back of some pandemic recovery.

And second, and this is the biggest reason, is because we were confronted with customer retaliations as we were leading on price increases. When you are not on shelf, obviously you have less volume than normal, and lower market share performance. But this is temporary when negotiations are resumed and resolved.

Let's now go to slide twelve to further prove the case and zoom-in on our market share dynamics. Here you can see that our overall market share, across the world and based on the markets where we operate, was very resilient up to and including Q3, and those periods included already some waves of price increases.

In Q4, our drop in market share clearly reflects the impact of the volume drop we experienced in Europe due to retaliations that I just talked about. And, as expected, once we were able to solve the disputes in the course of November, volumes and related market shares rebounded, leading to a global market share in December that is actually just above the market share level we had in the first half of 2022. We are therefore exiting 2022 with the same level of market share as we had at the start of the year, while we again have been leading on pricing. I'm trusting here that 0.08%, or 8 basis points would classify as holding market shares.

So when assessing the competitive position of a company, one should not just look at one quarter, or one region, or a subset of a region, in isolation, but also look at what is happening globally and at all the different regions individually.

While our market share in Europe was temporarily impacted, and already to a large extent back, our market share in the US held up very well, and our market share in our emerging markets was actually 86 basis points higher in December than what it was in the first half of 2022.

Let's move now to the following slide and have a closer look at how our market share evolved and how competitive we are versus other groups of players in the industry.

This looks a bit of an eye-chart, but let's read this from left to right, as time passed in 2022, and by key actors from top to bottom, JDE Peet's, other branded players operating in multiple countries and regions, purely local players, and Private Labels.

This table shows that in the first half of 2022, I mean, a moment where JDE Peet's led on pricing, Private Label gained market share at the expense of international branded players, other than JDE Peet's. Then, in the second part of the year, while we were leading on new waves of pricing, we lost market share to other branded players, mostly local, while Private Label had to give back some of their gains from the first half, as they followed very closely on price increase.

Then, towards the end of the year, we started to rebuild market share after the disputes ended. And that rebuild happened at the expense of local branded players and Private Label. Leading on pricing came at a price, for about four months, but we believed it was the right thing to do, as a leader of the industry. And as we presented during our Capital Markets Day, the price increases are, by and large now converging.

As a result, we have entered 2023 with a resilient and pretty competitive market position, while we have been leading on price. Our positive exit market share performance is actually more an exception in the international players branded space today.

Now, before handing over the call to Scott, I would like to move to the next slide, to conclude with some key highlights of the broad-based and significant progress we've made across the ESG spectrum.

As we shared a few times, we believe that the only way to ensure long term and sustaining shareholder value, is by fostering on inclusive eco-system. And this is well anchored in our growth and purpose-led strategy. Our sustainability strategy is embodied by our Common Grounds programme and is built on three pillars: Responsible Sourcing; Reducing the company's environmental impact; and Connecting People and Communities.

And as shared during the Strategic Update Meeting and at the start of this call, we have made considerable progress on all three pillars. With the first pillar, we increased the level of responsibly sourced coffee from 30% in 2021 to 77% in 2022.

With the second pillar, we reduced our greenhouse gas emissions by 15% for Scope 1 and 2 and by 1% for Scope 3 compared to the 2020 baseline. And, thirdly, within our Connecting People programme, we conducted a gender pay equity analysis, which now includes even the US, that we did not have at the time of our Capital Markets Day, which showed that, within JDE Peet's, the difference in the pay is less than 1%, which is well under the future EU directive's threshold of 5%.

Next to that, 41% or our leadership roles were held by women, which is very much in line with our employee base, where 43% are women.

And it has been very rewarding to receive multiple upgrades from ESG rating agencies in the course of 2022, that highlight both our progress, but as well our strong relative position.

We are conscious that sustainability is a journey, with no quick fix or no easy solutions, but we are committed to play our part, and to progress year-over-year. And now that our journey is well embedded throughout the organisation and integrated within our operating system, I am confident we will deliver on our ambitious goals.

With that, I will now hand over the call to Scott, and I will be back when we start the Q&A.

Scott Gray: Thanks, Fabien, and good morning to all of you. Let's go to slide 16 to take you through the most important financial highlights of 2022, and after that, I will go, as usual, into a bit more detail on our sales, adjusted EBIT, the performance by segment, as well as our performance related to profit and cash flow. I will then provide an update on our financial position as well as our return of capital to shareholders, before finishing the presentation with the outlook for 2023 that we shared with you at our Strategic Update Meeting at the end of January.

Our overall organic sales growth of 11.3%, as called out by Fabien in his business highlights, was driven by an organic sales growth of 8.9% in In-Home and 22.3% in Away-from-Home, reflecting both the resiliency of the In-Home category against a high comparable base, which included some benefits from COVID-19, as well as the continued rebound in Away-from-Home consumption as lockdown measures continued to be lifted across many markets.

In terms of profitability, our adjusted EBIT declined by 5.9%, driven by an organic decline of 9.3%, which brings the three-year organic CAGR for adjusted EBIT to minus 0.8%. Our underlying earnings per share increased by 6.3% to €1.91 cents.

When it comes to cash and debt, we generated close to €1.4 billion of free cash flow, which we allocated, amongst other things, to the dividend payments in January and July and the €500 million share buyback that we executed in May.

Our net leverage of 2.65 times at the end of the year was very close to our optimal leverage level range, with a mid-point of around 2.5 times.

Let's now move to slide 17 to take a closer look at sales. As Fabien already mentioned, our organic sales growth of 11.3% was driven by strong pricing of 15.8%, while volume/mix remained resilient or increased across our segments, except for CPG Europe, where volumes were negatively impacted as a result of retailer retaliations during price negotiations, lowering total company volume/mix by 4.4%.

In-Home delivered close to 9% organic growth, while sales in Away-from-Home continued to benefit from increasing activity levels, most notably in the commercial channels, once lockdown measures were lifted. The positive foreign exchange impact of 4.7% was mainly driven by the appreciation of our main currencies versus the euro, such as the US dollar, the British pound and the Brazilian real, which, together with a minor change in scope, increased our sales by 16.4% to €8,151 million on a reported basis.

Let's now go to slide 18 to look in more detail at our adjusted EBIT performance. What you see in the bridge on this slide is that despite the unprecedented level of inflation we are facing, we were able to increase the absolute level of gross profit compared to last year.

During the year, we continued to invest in our brands and other strategic growth priorities, which resulted in an increase in SG&A, which, in turn, lowered our adjusted EBIT by 5.9%. When excluding the net effect of fluctuations in foreign exchange and changes in scope/other, the adjusted EBIT declined by 9.3% organically.

On the next slide, slide 19, you see an overview of the organic sales and adjusted EBIT performance by segment. All five segments increased their top line organically, and with the exception of CPG Europe, the other four segments delivered strong organic adjusted EBIT growth, ranging from mid-single-digit growth for CPG APAC, to 38% growth in CPG LARMEA.

In CPG Europe, while the organic sales growth was driven by double-digit pricing, the lower volumes in CPG Europe reflect: a negative impact of retailer negotiations across various European markets while being off shelf for periods of time in some markets; the shift of certain consumption occasions back to Away-from-Home channels as lockdown measures continued to be lifted; and a lower level of promotions.

Notable strong performances were delivered by countries such as Poland, Hungary and Denmark and from brands like Jacobs and Gevalia. The organic adjusted EBIT decreased by 26.2% to €807 million in 2022, mainly due to lower volumes caused by retailer retaliations, the effect of timing of pricing for further inflation, as well as a step-up in marketing investments as we continued to invest in our brands and our strategic priorities. As a result, the three-year organic adjusted EBIT growth was minus 5.6%.

In 2022, CPG LARMEA recorded the highest level of price increases, driven by the relatively high proportion of Roast & Ground in its product mix as well as by the meaningful fluctuations in various currencies in the region. Despite this historically high level of pricing, volume/mix remained stable. The strong performances were broad-based across geographies, product portfolio and price points.

Brazil in particular delivered resilient volume growth while recording the strongest pricing in the region. As a result, sales in CPG LARMEA increased organically by 32.5%. Organic adjusted EBIT increased by 38.1%, reflecting higher pricing from the timing of price increases to pass through inflation as there was phasing impact and the related low base of comparison. On a three-year CAGR, the organic adjusted EBIT growth was 17%.

CPG APAC delivered a solid double-digit growth level despite the fact that a few of its markets continued to be impacted by lockdown measures in 2022. The organic sales growth of 10.1% was driven by 8.6% price and 1.4% growth in volume/mix with notable strong performances in countries such as Thailand, Malaysia and China, and from brands including OldTown, Super and Moccona.

The adjusted EBIT for CPG APAC increased organically by 6.6%, supported by volume/mix, despite the continued impact from lockdown measures on the Away-from-Home businesses and a step-up in investments in the region, while also benefitting from a low base of comparison. On a three-year CAGR, the organic adjusted EBIT declined by 1%. Peet's had a strong performance, as the Away-from-Home business benefitted throughout the year from the ongoing rebound in Out-of-Home consumption, delivering high single-digit same-store sales growth in its coffee retail store network in the US, while its In-Home business delivered low-teens organic sales growth in 2022 and mid-teens organic sales growth on a three-year CAGR.

Adjusted EBIT increased organically by 9.8% to €147 million, despite a step-up in investments to build capabilities in the US and expand our footprint in China, resulting in a three-year organic CAGR of 15.8%. In 2022, the Out-of-Home segment significantly benefited from the continued lifting of lockdown measures and increased pricing in the low teens to responsibly pass on input cost inflation.

As a result, organic sales increased by 26.6%. This performance was also broad-based, with notable strong performances in countries such as Germany, the UK and France and from brands including Douwe Egberts, Jacobs and Gevalia. As a result of the strong pick-up in volumes on the recovery, operational leverage and efficiencies, the Out-of-Home segment organically increased its adjusted EBIT by 31.6%.

Let's now take a look at our underlying profit in absolute terms and per share on the next slide, slide 20.

Our underlying earnings per share increased by 6.3%, to €1.91 in 2022, as lower net financing costs and lower underlying taxes, coupled with a higher net benefit from positive fair value changes of derivatives and FX favourability, were partly offset by the decrease in organic adjusted EBIT as a result of increased investments in brands and our strategic growth opportunities.

Let's now move to the next slide, slide 21, and provide you with a bit more detail on our free cash flow and net debt development. In 2022, we generated 1 billion 358 million of total free cash flow, which is quite similar to the free cash flow we generated in 2021 and significantly above the more than €1 billion of free cash flow we provided as an expectation for the year. This brings our three-year average free cash flow conversion to 77%.

And as you can see on the right-hand side of the chart, without the €500 million share buyback we executed in May, our strong free cash flow would have lowered our net debt by more than €700 million to close to €3.5 billion as we maintained discipline across all the lines, while investing behind our strategic growth opportunities and adhering to our capital allocation priorities.

Including the share buyback, our net debt was 4 billion and 50 million at the end of 2022, still around €200 million lower than at the end of 2021.

On the next slide, slide 22, you see the historical evolution of our net debt and leverage ratios since the IPO. As you can see, both our debt and leverage ratio show a downward trend, except at the end of June '22, when we had just executed the €500 million share buyback. At the end of December '22, our leverage has improved versus the start of the year, finishing at 2.65 times. Again, this is close to our optimal leverage range which is around 2.5 times.

Let's now move to slide 23 and have a closer look at our historical free cash flow generation and free cash flow conversion when taking a three-year rolling average to properly capture the full cycle of coffee prices, which naturally impacts working capital.

On the left-hand side, you see how our free cash flow generation, based on a three-year rolling average, has evolved since 2019, supported, among other things, by our consistently negative operating working capital, as is shown by the line in that same graph. Our working capital cycles effectively provide a natural hedge during periods of pricing for higher coffee prices.

In 2022, and the latter part of 2021, in addition to our consistent efforts to maintain, strengthen and optimise our working capital, our working capital has also benefitted from historically high levels of broad-based inflation across raw material inputs including elevated coffee prices. The higher inventories in 2022 related to safety stocks for business continuity and the impact from retailer retaliations were more than offset by an even higher increase in payables.

We expect some of this working capital benefit to reverse if coffee prices remain lower than recent periods and as we intentionally normalise our inventory levels, which we plan for the first half of the year, as the global supply chain dynamics have improved.

On the right-hand side of the slide, you can see how this positive dynamic in the second half of 2021 and 2022 that I just referred to, has supported our free cash flow conversion level, raising it above the targeted medium-term level of 70% on a three-year average basis, after two consecutive years of average conversion below the target. Such fluctuations around our target are expected over time, in line with the cycle of coffee prices.

Now turning to the next slide, slide 24, I want to quickly remind you of our strong debt profile, with an average maturity of five years and no bonds maturing before the end of 2024. Also, each of our annual maturities is below our average annual free cash flow generation and we have enough liquidity to service our debt maturing through 2027. Our total liquidity increased slightly from €2.1 billion at the end of 2021, to €2.4 billion at the end of 2022, consisting of a cash position of over €900 million and available committed and fully undrawn RCF facilities of €1.5 billion. Our debt – including bonds, our RCF and related derivatives – carries an average cost of debt of a 0.5% and none of our debt contains financial covenants.

Before concluding my prepared remarks with a recap of our outlook for 2023, I would like to spend a few minutes on our return to shareholders in 2022, on slide 25.

In 2022, we returned €845 million to our shareholders, through the €500 million share buyback in May and a total of €345 million in dividends that we paid through two instalments in January and July, representing a dividend pay-out of 38% of the underlying profit of 2021. Despite a strong return of capital to shareholders, our capital allocation and financial profile provides us significant financial flexibility.

Based on our capital allocation priorities, our dividend policy, and our financial performance in 2022, the Board will propose to the AGM, which will be held in May, to pay a dividend related to full year 2022, of €0.70 per share in cash, to be paid in two instalments of €0.35 each in July 2023 and January 2024.

Before moving to Q&A, I would like to briefly remind you of the outlook for 2023 that we shared at the end of January during our Strategic Update Meeting, which remains unchanged. As we said in January, when looking at 2023, we expect that many of the conditions and challenges we faced in 2022 will persist to some extent in 2023 and, consequently, will continue to impact the macroeconomic and business environment, thereby limiting the visibility on what will transpire during the year.

Despite this, we expect to build on the progress we've made in 2022 and aim to deliver organic sales growth at the high end of our medium-term range of 3-5%, a low single-digit organic adjusted EBIT growth, with a moderate increase in SG&A, and a stable level of dividend versus 2022.

When looking at the phasing within the year, we see 2023 as a year of two halves, with a decline in organic adjusted EBIT in H1 and an increase in organic adjusted EBIT in H2.

This brings me to the end of our prepared remarks. And with that, I will now turn it over to the operator to start the Q&A.

Questions and Answers

Operator: Thanks very much, sir. Ladies and gentlemen, we’re now ready to take your questions. If you’d like to ask a question, please press star one on your telephone keypad. That is star one on your telephone keypad to ask a question. Please remember that you are limited to one question and a follow-up per round. Let's wait for our first question. We have a first question coming in from Mr Faham Baig of Credit Suisse. Please go ahead, sir. Your line is open.

Faham Baig (Credit Suisse): Hi. Thanks for taking the question. I have two, if that's okay today. The first one is that the three-year CAGR EBIT growth was noticeably strongest in the CPG LARMEA division. And I guess you called out Brazil as one of the drivers. But the other large market there is Russia. How have profits evolved there? And what does Russia account for the division or the Group's profit in 2022, that would be helpful.

And then secondly on input cost inflation. I noticed the year-on-year impact slightly reduced in the second half, presumably down to some of your input costs and energy falling. Are you able to provide guidance on input cost inflation for FY 23? That would be much appreciated. Thank you.

Fabien Simon: Good morning, Faham. Thanks for the questions. I will give a try and maybe Scott will build further on this.

Starting on LARMEA. What I would say is you should look really at LARMEA and what you have been doing is correct, is to look on a longer time horizon. And I'm sure you have been noticing that the progress in 2022 is already lower than 2021. But as well in the second half of 2021, we have had a negative progression on our EBIT there because we were having an unbalance between inflation and pricing, which we have corrected in the first half and second half of 2022. And actually, all our businesses have been showing a progress on adjusted EBIT. And the biggest step up has been in countries like Brazil and Turkey, where we have most of that differences.

Specifically to Russia, we don't disclose the profitability by country, I mean, anywhere around the world. But I'm not going to hide behind the fact like when you stop advertising in a country, of course, this gives a bit of a short-term upside on profitability. But what I would say here it is very short term because I see that the cost of making business is increasing in Russia. I see that our brand awareness starts to suffer from less support behind. And actually, we are expecting the profitability in 2023 to be quite meaningfully down versus the one in 2022.

We don't disclose neither guidance, but I think it's a bit of a specific case here. We would expect most likely to have a double-digit reduction on EBIT 2023.

So there have been some short-term uplift, but it's not what is driving the overall one of the region, this is a very large region from us, from Latin America, Africa, Middle East, where the biggest upside has not been coming from Russia.

Your second question is on input cost inflation. Although, I appreciate your view, I don't fully concur with your perspective that the inflation in H2 is lower than H1. You have to look at the quantum of inflations and not only on the percentage because inflation started mostly in H2 of 2021, much lower in H1 of 2021, which makes the comparison basis in 2022 may be a bit misleading.

But for sure, the way we look at it is how much is the inflation we are confronted with on a quantum level because this is the pricing and the efficiency we have to drive behind, but as well from an exit level. And that's why we have been in a very transparent way showing how much our absolute inflation on COGS has been piling up over the last 18 months in particular.

As far as 2023 is concerned, so we will not give a particular guidance, but our view is pretty clear; we are not at the end of inflation. The peak of inflation is likely not yet behind. I know there are, today, quite some upticks that may make people think there is some easing like when you see the gas price in Europe short-term basis or some ocean freight here and there. But we should not make a mistake. There is underlying pressure on inflation, and it remains.

Just look at the coffee price over the last two weeks, how it evolved. Today, the coffee price is higher than the level where it was in Q1 of 2022. If you would factor on top of that the currency level, with the weakening of the euro compared to the same period last year, it's on a higher level of inflation. There is an ongoing pressure coming on the labour side. I think it's really coming broad-based. And that is the reason why we were very intentional on pricing because we had very early on the view that it is not a temporary thing and it's going to be for long.

And I think today we should not confuse deflation with disinflation. In my view, we are more entering a disinflation time, which will be longer than many may expect, which means still an increasing level of cost, and this is what we are geared up to. The good news in a way is because we are very disciplined last year, we don't have a catch-up to do. We just have to do the incremental efficiency and pricing needed to cover the next level of inflation, and we will do it.

Faham Baig: Thank you very much, Fabien.

Operator: Thank you sir. We'll now move to Mr John Ennis at Goldman Sachs. Please go ahead.

John Ennis (Goldman Sachs): Thank you very much. I've got one for Scott and one for Fabien. Scott, maybe you could give us a bit of a guide on net interest charges in 2023? Because I guess they fell in the second half of this year. And could you also give us a steer on working capital? I appreciate you put the slide in, but perhaps you could be a bit more explicit in terms of the magnitude of unwind you're expecting this year? Particularly interested on the payables number because that was a bigger inflow than I was expecting. I appreciate it's correlated with green coffee prices. But any numbers you can give on interest and working capital would be appreciated, Scott.

And then Fabien, on the market share developments in Europe, you said that the relative pricing is now converging with competitors.

So I'm interested in your thoughts on volume share. What's your outlook for volume share for 2023 and what do you think happened to volume share in 2022? Thank you.

Scott Gray: Yeah, sure. So I'll take your first two questions in regard to net interest and working capital.

I mean, first of all, in 2022, yes, we had a strong delivery in terms of our net finance income and expense line. And this is driven by several components. I mean a big contributor of this, of course, was the improvement that we had following our refinancing and also the deleveraging benefits that we had. But also, we had strong results from FX and derivative results as well as you know we position ourselves and if you're in a rising rate environment, etc. So a lot of benefits that came through in terms of the P&L.

And then going forward, I mean, most of the benefits of the refinancing now are in our base, and we should have a very stable run rate going forward. So while it won't be a benefit year-on-year, we have our financing locked in. And so that should be quite stable in the year.

On the other items that can fluctuate, of course, we don't forecast our mark-to-market evolution. And so by nature, a lot of these drivers are quite unpredictable. But at the same time, I don't see for a reason that we should have a reversal throughout the year. So we should see quite a lot of stability in net interest in 2023 with what we know, right, back to the mark-to-market comment.

On the working capital guidance, a lot of this is a bit back to what we can expect in terms of market as well. I mean we were just talking about the coffee prices and coffee prices were coming off for a short period of time. Coffee prices are back quite elevated. And this is why if we look at the – if we look at 2022, when we were guiding for more than $1 billion of free cash flow, we had also some tailwinds that came from the higher inflation that came through, right? So it was higher payables that came through, offsetting the inflation that we also had in the other lines of the working capital.

And at some point, we naturally expect this to normalise. And so that's the natural cycle that we follow, and that's what I was discussing there as well.

In addition, we built some safety stock, as I noted. And as the supply chain starts to normalise, over time, we will bring that down, and the spend in payables is greater than the inventory impact. So as we bring that down at some point, that will reverse off. So a little bit of a phasing and that's why we had a little bit stronger in 2022. And so you really need to connect those two years. So I do expect that the payables will be coming down and would be a bigger offset than the inventory in 2023.

So that's really what we can guide to at this point because it's hard to guide specifically on working capital, given all the fluctuation that is driven by inflation, notably.

John Ennis: That's helpful. Thanks, Scott.

Fabien Simon: And John, on your question on market share, I understood it was really specific to Europe. So what I would say first is the market share that we report are really the result of just the choice we made and that I stand behind. And the choices were not to buy our market share, not to look at short term, but very importantly to not compromise on our gross profit and our exit financial shape and our exit market share, which is what matters most for us.

If you look between volume share and value share, there is a little bit more of volume share loss than market share loss, which is logical because we are leading on pricing, which offset a bit of the volume loss, but not that significant in the magnitude, if I recall well, of about 30 basis points. And at the end of 2022, in December, we have not yet fully recovered, to be transparent. We are at about 75-80% of recovery, which is a very, very strong performance. Which means that you're absolutely right. For 2023, we are expecting to be in a further positive gain territory, both on volume and on value.

John Ennis: Perfect. Thank you.

Operator: Thank you, Mr Ennis. We'll now move to Martin Deboo of Jefferies. Please go ahead.

Martin Deboo (Jefferies): Good morning, everybody. Can you hear me?

Scott Gray: Perfectly.

Martin Deboo: Okay. Thank you. Coming back to Faham's question on LARMEA. You focused on Russia. I think the other half of LARMEA is Brazil. And what's interesting about Brazil is just how good the pricing is in the market. And this seems to be a market effect, not a JDE Peet's effect, because Strauss, your major competitor in Brazil, is also posting very strong numbers. And just the pricing you're getting there seems to be way ahead of underlying coffee inflation, even if you allow for transactional FX on the real. So I'm just interested what is driving such strong pricing in Brazil? And how sustainable is that?

And then just very quickly on Russia and LARMEA. Fabien, you were in front of the Dutch Parliament talking about your Russia policy. And what I took from that is you're staying in the market on a low investment model. But can I just sort of reconfirm that that's the case? Thank you.

Fabien Simon: Yeah, sure. Martin, good morning. Let me take both. If I miss something, I'm sure Scott will help me.

In Brazil, actually the inflation is purely local because coffee is really growing in Brazil, as you know, and there are very limited imported items. We feel that 100% of the inflation is local. And the large majority, close to 95% is really driven by coffee, which has been increasing at a very, very strong level last year. You have two parts. You have the Arabica part, where we have all been confronted with and you have the Conilon part, which is the equivalent of Robusta for Brazil, which has been growing very fast.

And why it looks pricing at a higher level, it's because Brazil, it is one of the lowest, I would say, price per cup you can see in the world. And then at the same time, it is mostly a Roast & Ground country as a category, which means the weight of coffee in the total revenue pool is much greater than in other places in the world. But from an absolute standpoint, if you would look at it from a euro per kilo inflation, we talk about the same level.

And in Brazil, like everywhere around the world, we have been leading on pricing. And you were referring to the joint venture that Strauss had there with 3C. You can see that we have been pricing slightly before and at a slightly higher level, and they have been catching up. And it's interesting. We have been gaining market share during this process on the full year in Brazil. So we are very, very happy with our performance there.

The only challenge we have had was more of phasing between H2 2021 and H1 2022 that Scott has been alluding to. So we are very comfortable, still a very sustainable performance and our shares are confirming it.

As far as Russia is concerned, indeed, I have been to a hearing in the Dutch Parliament last week confirming our positions and which was really anchored around transparency and honesty on where we are. I know there are a lot of companies having a lot of comments on their intention in Russia, which sometimes doesn't fully match with what they do. For us, we are very clear. We are very clear that we were staying in Russia for three important reasons.

One, we are providing an essential good alongside bread, milk, eggs to the population. Second reason is we have an ethical obligation to support all our employees who have nothing to do with this war. And third, we would have the risk if we would exit, the Russian government made that very clear, our assets would be expropriated. And it will not solve anything because our team will work under constraint there, and our business will still be available.

But it doesn't mean we don't do anything because we absolutely don't find it acceptable of course what is happening. We have been reducing our investment. We suspended all our advertisements of our – of the international brands. And it's still in effect today. We have not approved any new capital investment to increase capacity or expansion in Russia. We have not distributed any cash dividend from our Russian operations. And we are really progressing at a pace to as much as possible operate our business on a stand-alone basis as much as possible, isolated from the rest of our organisation to enable us to be prepared for further options if we have to. And it is something we continue to monitor very carefully, and we're not ruling out taking other measures.

But I would say, at this stage, we have been doing what we said we would do in a very open, honest and transparent way.

Martin Deboo: Okay. Thanks for that, Fabien. Very useful. Thank you.

Operator: Thanks very much, sir. We'll now go to Mr David Hayes of Société Générale. Please go-ahead sir.

David Hayes (Société Générale): Thank you so much. Good morning, all. So two for me. One on European dynamics and one on the cost inflation again. So just on the European dynamics, could you just –I might have missed this, apologies. But are most of the key delisting now resolved or are there delistings still being resolved kind of boost or help into the second quarter? And I guess just to your point earlier about the pricing, which we saw at the CMD. You were pricing ahead of competition, which you just mentioned was to make sure that you were covering profitability as quickly as possible. But was there – is there any other specific dynamics that meant that you guys priced earlier than some of the competition that now become less relevant?

And then the second one on the cost inflation, on slide 10. Can I just quickly check that the €1.4 billion is an organic number effect? And then you talked about 36% inflation in the first half for that input cost number. Can you give us the same metric for the second half versus that 36% that you gave in the first half? Thank you so much.

Scott Gray: Sure. Maybe I'll start on the cost inflation. So David, just in regards to the €1.4 million [billion], that is at constant currency. So it's effectively an organic number.

And then, in terms of the H1, which we showed, which I believe was 36%, it's a high 20s percent, that would be the equivalent of that number if we report it in the exact same way.

And the reason for that is back to a response we've made earlier, is really looking at the reference base in terms of H2. So it's not that the amount of inflation is slowing down, it's that it's increasing off a higher reference base from the prior year of H2 '21.

And maybe Fabien on the European question.

Fabien Simon: Yeah. And maybe another way to look at the inflation part, if you would look at the cumulated inflation on the P&L, H1 '21 plus H1 '22 which is the same as H2 22/H2 21. So that's why percentages can be misleading, that's why for us it's the quantum that matters most.

On the market shares in Europe. So, as I've said earlier, I'm very, very pleased by, I would say, the courageous choice we made because it positions us in a very good position. In 95% of the cases, everything has been resolved towards, I think, November or maybe one in December. But you have to acknowledge that the pricing is something which is very dynamic.

As I've said earlier, we don't think the peak is behind. We have to put more pricing. So we are entering other rounds of negotiations as we speak. But of course, I can't disclose much at this stage. But what I can say is the tone of the conversations is much easier and for a couple of reasons. The first reason is we don't have to do any catch up and to put the new pricing, but only to put the new pricing.

Second reason is, in a way the approach we have been taking has been mutual on the gain and on the loss between us and the retailers. And I don't think there is much willingness to be in the same situation because nobody has been winning from that. But of course we are clear that if we would have to do again the same thing, we'll do again the same thing because our inflation is absolutely justified.

But we can see that, I would say when I talk to all our general managers in Europe, they feel in a much better place than where they were last year. That doesn't mean it's going to be easy. We'll have to stay very disciplined and we will be.

David Hayes: Thank you.

Operator: Thanks very much, sir. Ladies and gentlemen, we’re now approaching the end of the call. We'll now take our last question from the line of Patrick Folan of Barclays. Please go ahead, sir.

Patrick Folan (Barclays): Hi. Good morning, Fabien and Scott and Robin. Just two questions for me. The first one, just on slide 13 on the market share evolution. Looks like international brand share is kind of the one that stood out progressing quite positively in the recent months. What categories are you seeing those branded players gain share? And is that a development that maybe has something to do with the customer retaliations you saw a few months ago?

And then just back on the COGS inflation comment. I know there are a few questions on it. But you know if you continue to experience that COGS inflation through H1, which would hit the low single-digit EBIT growth target, are you offsetting any of that in SG&A? Or what are the moving parts there? Thank you.

Fabien Simon: So I will start with the first one. And let's make sure I understood well, your question was more on the market share dynamic and more on the pure local players versus the rest, right?

Patrick Folan: Yeah.

Fabien Simon: Okay. So okay. So I think – I mean, of course, the challenge with this slide is it's a market share combination around the world. So you can have always a different set of dynamics country by country. But I think you have a combination of two things. One, you do have some players who are, I would say, a bit less disciplined when they are private on the overall financial shape. It's one reason.

The second reason is a good majority of them, they do have a portfolio of lower premiumization, which requires to do a bit more pricing. So some of them are purely Roast & Ground players, for instance, which needs them to do higher pricing, which means from a value market share, optically, they are gaining a bit, but from a volume it's a bit more stable. That slide would look slightly different on volume. It will show a bit less of a gain momentum on the local player as well. And I'll let Scott.

Scott Gray: Yeah. Maybe on your second question, if I understood you correctly, in regards to the inflation that we've been talking through that is coming through in the COGS and if we'd be offsetting any of that also in terms of the SG&A. And the answer is, yes, we continue to offset inflation across the P&L, and we have been doing that for the last couple of years as well, and we will continue to do that as we look at total SG&A.

Now one of the things that we called out is we expect a moderate increase in total SG&A in 2023. And that's also because we will continue to invest in the growth priorities exactly as we've been doing. So we don't want to take shortcuts there. So the net effect will be an increase. But when we look at our core SG&A, that we will be looking at initiatives there also to manage our inflation as we always do and as we've done with several of our initiatives that we've talked about as we look to get more efficient in the organisation.

David Hayes: Thank you.

Operator: Ladies and gentlemen, that will conclude today's Q&A session. We turn the call back over to the speakers for any additional closing remarks. Thank you.

Robin Jansen: Thank you, George. And ladies and gentlemen, thank you very much for attending today's earnings call and for taking part in discussion about our results. If you have any additional questions, please do not hesitate to contact the IR team. We're happy to answer your questions. And again, thank you very much, and enjoy the rest of your day.

Operator: Thank you much, sir. Ladies and gentlemen, this now concludes JDE Peet's earnings call. Thank you all for attending. You may now disconnect your lines.

[END OF TRANSCRIPT]