Transcript Earnings Call related to JDE Peet's' Full Year Results 2023

Operator: Good morning and thank you for joining JDE Peet's Full Year 2023 Earnings Call. My name is Laura and I'll 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 star one on your telephone keypad. If you wish to withdraw your question, you may do so by pressing star two 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, Laura, and good morning everyone and welcome to JDE Peet's earnings call related to our financial performance of 2023. 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 2023, followed by our outlook for full-year 2024.

After that, Scott will tell you more about the financial performance in 2023, and after that, we will be happy to answer your questions.

Our press release was published at 7 am CET this morning. The release, as well as the slide deck related to this call, are also 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 3. We would kindly like to ask you to read this information carefully.

And with that, I gladly hand over the call to you, Fabien.

Fabien Simon: Thank you Robin. Welcome everyone and thank you for joining the call today.

Looking back at 2023, I am pleased with the progress we have made on many fronts and how we successfully navigated another dynamic environment.

Our achievements in 2023 not only reflect our resilience and agility to perform in an increasingly complex world, but it reflects as well the positive results of the transformation we initiated at the backend of 2020 when we committed to profitable growth in a quality and sustainable way.

Throughout the year, our people and partners across the globe worked tirelessly to pursue our company's purpose to unleash the possibilities of our category and the power of our brands. Their ongoing efforts and passion enabled us to deliver profitable growth while maintaining the high-quality standards that consumers and customers expect from us.

2023 clearly marked an inflection point for JDE Peet's. We closed the year with the strongest organic semester of the company since we became public. We delivered in H2 an organic sales growth of plus 4.3% on the back of positive volume momentum in H2, and the adjusted EBIT increased organically by 5.5%.

We delivered well against the commitments we set at the start of the year, while coping with persistent high inflation and operating in an unusual declining category that was still adjusting globally following the pandemic.

When taking a closer look at our financial results of the full year, you can see that our performance – excluding Russia – is now back to the long-term profitability algorithm that we committed to in 2021.

In parallel, we remained very disciplined to deliver on the capital allocation priorities we set. We reduced further our net debt, and despite meaningful currency headwinds, we achieved a net leverage of 2.7 times – very close to our optimal leverage – with half a billion euro of free-cash flow generated in H2 2023.

I referred earlier to the transformation we started three years ago. Since then, we closed five operating facilities. We reduced our SKUs by more than 20% and our workforce by 10% on a like-for-like basis. This was achieved while delivering our best customer service level, lowest consumer complaints, and historical highest employee engagement in 2023. JDE Peet's, became as well, during this timeframe, an investment-grade company with strengthened capital structure.

This overall transformation enabled us to become simpler, more focused, and to regain cost competitiveness, which was reinvested to fuel our long-term growth. We reinvested in working media that in 2023 almost doubled in absolutes versus a low level of 2020. We invested in R&D, in product innovation, in coffee appliances and in sustainability. We as well built new capabilities like digital and ecommerce.

That reset agenda is now behind us, and we are very pleased to have become a leaner and well invested company, with brands and consumers at the higher end of our priorities.

As a consequence, our competitiveness in the premium side of the coffee category increased greatly, and explained why in 2023, we are likely among the rare branded scaled players in coffee which can claim gaining market shares globally in our geographies, in single serve, in instant and in beans.

At the same time that we strengthened the company fundamentals, we step-changed our sustainability credentials and we are pleased to have turned an historical laggard company on sustainability into a recognised leading one. One of the latest recognition we received in 2023 is the inclusion into a Dow Jones sustainability index, which, to our knowledge, puts JDE Peet's as the only company operating at scale in coffee or tea globally in such an important index.

Because our organic core business was getting back in shape, and supported by a robust capital structure, we could now amplify the company performance with disciplined inorganic moves.

We are entering 2024 with two transactions to be completed in the first quarter: one we discussed in our previous earnings, which is Maratá Coffee & Tea in Brazil; and the second that we announced in January of this year, which is the global CPG license of Caribou Coffee. And I will come back on those two later in my presentation.

Finally on the highlights, we want to share that we are planning a Capital Markets Day at the end of April in our aluminium capsules factory in France, where we will zoom in on a number of interesting topics and developments for JDE Peet's.

Let's now move to the next slide to take a closer look at various elements of our operational performance of 2023

Over the course of 2023, we saw an improvement in our volume/mix performance resulting in plus 1.8% growth in H2 compared to minus 3.3% in H1. This was the result of recovery in Europe, share gains globally on the most attractive segments in Nielsen-measured channels, and acceleration in some faster growing channels that are either tracked or untracked, such as online, clubs, or hard discounters.

As we expected, inflation persisted across a large part of our cost base throughout 2023 as certain input costs such as green coffee, labour and freight actually witnessed further inflation. As a result, we saw a high single-digit increase in our cost of goods sold, on top of the 30% COGS inflation we had to deal with in 2022.

But again in 2023, we were disciplined in pricing for commodity inflation and in revenue management optimisation. Despite the negative category trend, we increased the absolute gross profit from strong efficiencies, simplifications and premiumisations. In H2 alone, our absolute gross profit increased by almost 5% versus a year ago. And importantly, this was achieved without any compromise on the in-cup quality, which we know can be used in the industry by lower, cheaper quality blend. And similarly, we self-funded additional investments in sustainability.

And our compounded efforts on sustainability in recent years are paying off, as you can see on the right-hand side of this slide. The part of the green coffee we buy today that is responsibly sourced, quadrupled over the last three years from 21% in 2020 to 84% in 2023, including 98% responsibly sourced into Europe. As part of this effort, we had 63 active projects at the end of 2023, through which we have reached more than 110,000 additional smallholder farmers during the year.

And when it comes to reducing our greenhouse gas emissions, we had also made good progress in 2023, with a reduction of 6% in Scope 1 and 2 and 10% in Scope 3, which consolidated into 9.3% reduction for 2023 alone.

Sustainability is embedded across all layers and functions of the organisation and plays an integral part in innovations and new product introductions. One example I would like to call out here is the launch of a new breakthrough home-recyclable paper pack for our soluble coffee range, which is the first of its kind in the coffee market. And this new packaging generates the lowest carbon footprint within our existing range and is aimed to foster a more sustainable ecosystem in the soluble coffee market.

At the same time that we managed 2023 well operationally, we did not lose sight of our strategic imperatives to become more global, more digital and more sustainable. Let me now go to the next slide, Slide 7, to share a selection of the most important achievements there in 2023.

First of all, we continue to morph into a more global enterprise. Although we hold ground in Europe and with a solid performance there in 2023, Europe now represents less than 50% of the total company volume, with a meaningfully lower weight of Roast & Ground than two years ago.

In emerging markets, we continue to grow at a faster pace than in developed markets, with a combination of market momentum, but more importantly this year like last year, on the back of market share gains in the large majority of our countries.

In China, we keep growing double digit thanks to our premium portfolio.

In the US, the category was softer in 2023 but we remain optimistic about its long-term growth prospects. This is why we setup a new venture there, which is the launch of L'OR brand and Barista appliance that I will cover in a minute.

We also advanced in our aim to become more digital in an increasingly channel-blurring environment where consumer-facing and relationships are key. Our targeted digitalisation efforts and investments resulted again in double-digit organic growth in ecommerce and digital marketing now makes up about 40% of total working media spend.

And to enable a true omni-channel approach in Europe like we already successfully applied in all other regions, we combined in 2023 our Out-of-Home and CPG Europe segments into one European segment. At first, it enables simplifications and cost efficiency, but this is as well a growth agenda for our brands.

And next to that, we have initiated multiple automation and AI pilots in our supply chain, in marketing and across our back offices as part of our ongoing digitalisation and efficiency ambitions.

Third, when it comes to our long-term commitment to deliver sustainable growth that creates both shareholder returns and societal value, we have made strong progress in ensuring our supply chain is inclusive, regenerative, and authentic through our Common Grounds sustainability programme. This year, we embedded our advanced carbon accounting tool that we developed in 2022 to measure automatically our CO2 emissions per cup across the organisation, as an additional measure used on how we optimise our operations, prioritise our portfolio, and drive innovation forward.

Next to that, we are, with the support of our partner and NGO Enveritas, leading a global effort to fight coffee-related deforestation. We are leveraging a very unique combination of satellite imagery, artificial intelligence, and on-the-ground verification to measure the extent of coffee-related deforestation.

This innovative new programme, which is aligned with the EU's regulation on deforestation-free products, will ensure continued access to the EU market for the millions of smallholder farmers we work with around the world.

And, as you can see on the next slide, Slide 8, the progress we've made in sustainability has not gone unnoticed by the leading ESG raters. Over the course of 2023, we received updated ESG ratings from S&P Global, Sustainalytics and ISS. In all three cases, we improved our scores and rankings, resulting in leading positions in the respective categories and in special mentions by each rater that you can see on the right-hand side of this slide.

Within the CSA rating of S&P Global, which is probably the most extensive ESG assessment that currently exists, we were called out as the biggest mover in the food products industry comprising of 260 companies.

Let's now go to the next slide, Slide 9, to provide you with some more colour about our positions, initiatives and achievements in the portioned espresso category that continues to offer long-term growth opportunities.

Since we democratised the access to aluminium capsules in 2016-2017, we became the undisputed leader in this segment in modern trade. But in 2020, there had been some external concerns raised about the ability for JDE Peet's to keep leadership and pace of growth given the new entrance of a well-known global coffee shop brand into modern trade. Four years down the road, I would like to bring some data and light of JDE Peet's performance there.

In 2023, our aluminium capsules grew by 10%, with a high mid-single-digit growth in volume/mix, and over the last four years, we delivered a double-digit compounded organic growth.

We kept as well our leadership in modern trade and our L'OR brand is about two times bigger than our next best competitor. This is the result of innovations, quality activation, and offering a portfolio of choices appealing to consumers.

And our capsule technology and variety of our offering is well recognised. And we continue to attract partner brands. After illy or Tim Horton's, we are back. We have just announced last week a new partnership with Costa Coffee, the UK's favourite coffee shop brand, whereby JDE Peet's will manufacture, distribute and sell Costa Coffee-branded aluminium capsules in Great Britain from September/October of this year.

The other concern raised since 2020 was JDE Peet's ability to keep operating in an espresso park long term, especially following a competitor move to a closed system with a new, not retro-compatible espresso appliance. And we worked diligently and with a great sense of urgency on this matter since H2 2020, as it would have posed indeed a real risk for us. We innovated and invested behind a new proprietary espresso appliance, L'OR Barista, with one of the variants you see on the left side of this slide here.

The consumer feedback went above our expectations. For obvious competitive and confidential reasons, I can't disclose the exact number of L'OR Barista we sold since 2021, but I can mention that it is over a million machines. And in 2023, about 50% more L'OR Baristas were purchased than in 2022, which was already a very good year.

We launched now L'OR Barista in 14 markets. And in the latest consumer panel, L'OR Barista is reported to be the fastest growing single-serve espresso appliance in 2023 in our core markets outside of the US. That meaningful strategic evolution explained why we were successful to sustain our double-digit compounded growth rate for aluminium capsules.

We believe that the category continues to offer a long-term growth opportunity. Not only do we have the technology, brand portfolio, and leadership in modern trade on the capsule side, but we now have as well a compelling coffee appliance platform for consumers. And over the last three years, we have regained our freedom to long-term growth in espresso and are now confident in our ability to capture our fair share in one of the fastest segments for in-home coffee consumption going forward.

While we confirmed long-term freedom in our established espresso markets, we realised that there was a nascent but possibly a meaningful future espresso-based market where L'OR is not present, which is the US. We noted that the fastest growing single-serve segment there is aluminium capsules. But we were realistic that entering there would require a new infrastructure, go-to-market, brand equity and appliance capabilities.

We therefore decided to setup a new venture in 2023 to test, at scale, the opportunity of L'OR Barista in the US market online on both Amazon and a dedicated new direct-to-consumer channel. And it is fair to say there as well that we were quite positively surprised by the consumer response.

Our L'OR Barista coffee appliance received a best seller badge during the important holiday season in December. And on the capsules side, JDE Peet's reached a double-digit level of market shares in 2023 on Amazon. And when we look at the month of January of this year, this continues to progress further.

So, next to those initiatives, we are amplifying growth and globalisation inorganically, as described on the following slide.

As shared earlier, we have proceeded with two transactions: one in Brazil and one in the US – two very important markets for coffee, in cups and in value.

In Brazil, the acquisition of Maratá will enable JDE Peet's to extend its footprint in the north and northeast part of the country. We will become a stronger number two player nationally in Brazil, from below 22% to – sorry, below 20% market share today to above 25% market share. And in addition, we are expecting synergies in the short term, and over time, premiumisation opportunities from category development. And the transaction has been successfully closed in January.

The second is the global CPG license agreement and the roastery acquisition of Caribou Coffee. Caribou Coffee is an iconic premium brand in the Midwest and is expanding its retail coffee store footprint in the US and in the Middle East, with more than 800 stores now and stores that will remain under Caribou's leadership.

Three years ago, we declared the US as a key priority for JDE Peet's, and we are very excited about these transactions, which will expand further our portfolio of pure-premium player in the US, with Peet's, Stumptown, Intelligentsia as well as L'OR Barista we have just discussed. I do believe that we have now the perfect portfolio of premium brands and technologies in our hand to double the size of our US business in revenue, organically, in the next five to six years.

Some additional financial detail on both transactions can be found on this slide, and the purchase considerations can be found in the subsequent events of our financial statements.

Before I hand over the call to Scott, I would like to share our outlook for 2024 with you.

While we expect the environment in which we operate to remain complex and to continue to pose challenges, we have entered 2024 with both momentum and optimism as we believe the progress we have made over the last three years positions us well to deliver on our medium-term algorithm.

We expect our organic sales growth to come in at the lower end of our medium-term target of 3-5%, with a mid-single-digit organic growth in adjusted EBIT when excluding Russia's performance. When also including Russia's performance, we expect our organic adjusted EBIT to grow low single-digit in H1 and mid-single-digit in H2 as an ongoing trajectory forward.

Our net leverage is expected to be around three times at the end of 2024, taking into account the Maratá and Caribou transactions and a free cash flow that is expected to exceed the level of 2023.

Lastly, we continue to aim for a stable dividend.

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

Scott Gray: Thank you, Fabien, and good morning to all of you.

Let's go to Slide 13 to take you through the most important financial highlights of 2023. 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, and then an update on the status of our balance sheet. I will then finish with a quick reminder of our capital allocation priorities and the Board's dividend proposal.

Our overall organic sales growth of 3.9%, as mentioned by Fabien in his business highlights, was driven by an organic sales growth of 3.3% in In-Home and 6.4% in Away-from-Home.

In terms of profitability at a total company level, our organic adjusted EBIT growth was plus 1.1% versus last year. If we were to exclude Russia from our performance, simply to isolate the impact on performance, the organic adjusted EBIT would have increased by more than 6%. For full-year 2023, we delivered underlying earnings per share of €1.51.

When it comes to cash and debt, we generated €522 million of free cash flow, and our net leverage stood at 2.73 times.

Let's now move to Slide 14 to take a closer look at our sales.

Our organic sales growth of 3.9% was driven by pricing of 4.7% as we continue to pass through the necessary pricing to offset incremental inflation, while volume/mix was close to flat for the full year at minus 0.8% with a strong improvement from a decline of 3.3% in H1 to a positive 1.8% in H2. The organic sales growth was broad-based across geographies, brands and channels as you will see in a minute on the following slide.

The negative foreign exchange impact of 3.7% was mainly driven by the depreciation of our main currencies versus the euro, such as the Russian rouble, the Turkish lira, the US dollar, the Ukrainian hryvnia and the South African rand, which, together with a minor change in scope, reduced our underlying sales growth and led to reported sales growth of 0.5% to €8.191 billion.

Let's now flip to Slide 15 to have look at our sales performance by geography, channel, brand and category.

Developed markets delivered 3.7%, while emerging markets grew at a higher rate, with 4.6% organic sales growth. And, channel-wise, our In-Home channels grew sales by 3.3% while our Away-from-Home channels increased sales by 6.4% organically, partially reflecting a normalisation of the balance between In-Home and Away-from-Home consumption in the aftermath of the pandemic, which, as you recall, had a bigger impact in H1.

To put the normalisation into context, In-Home is still growing organically at a four-year CAGR of more than 6%.

Brand-wise, our global brands grew by 8.5%, while our regional and local brands together delivered 2.7% growth organically.

And when looking at sales performance from a category point of view, sales of single-serve, beans and other premium categories like premium instants together increased by 6.4%, while the rest of the brand portfolio grew by 1.1% organically, as we continue to see premiumisation across the business.

Let's now go to Slide 16 to look in more detail at our adjusted EBIT performance.

Our organic adjusted EBIT increased by 1.1%. What you see in the bridge on this slide is that, at total company level, we were able to increase the level of gross profit compared to last year despite continued inflation headwinds impacting our cost of goods sold. As noted by Fabien, we had a strong organic improvement of our absolute gross profit in H2 of almost 5%.

As anticipated, total SG&A increased moderately, reflecting continued investments behind our strategic growth opportunities such as our appliances and through working media, but also due to the ongoing effects of persistent broad-based inflation, which we continue to mitigate with a strong focus on cost control throughout the organisation.

Fluctuations in foreign exchange decreased adjusted EBIT by 4.1%, of which the majority was driven by the Russian rouble, but also by other currencies, mainly in the LARMEA segment, such as rand, hryvnia and Turkish Lira, but also the Australian dollar, while changes in scope and other non-organic items, including M&A, divestitures and new business ventures, decreased adjusted EBIT by 5.1% resulting in a reported adjusted EBIT growth of minus 8.1%.

On the next slide, Slide 17, you see an overview of the organic sales and adjusted EBIT performance by segment.

Looking at the performance per segment in 2023, you can see that all four segments delivered positive organic sales growth.

When it comes to profitability, the picture is a bit more mixed, with both Europe and APAC delivering strong organic growth, while Peet's had a slight decline and LARMEA was down due to performance in Russia. When excluding the performance in Russia, the organic adjusted EBIT growth of LARMEA was positive.

Let's, therefore, now take a closer look at each segment one by one.

Europe witnessed a strong sequential improvement in volume/mix from minus 8.6% in H1 to a positive 5.2% H2 in 2023, due to both better performance in the latter half and the difference in the comparative base of last year.

The rebalancing between In-Home and Away-from-Home consumption stabilised in H2 as we effectively exited the post-pandemic normalisation period and most of the negative side effects of some of the intense price negotiations with retailers faded out.

For the full year, Europe's organic sales growth of 4% was driven by an increase in price of 4.6% and a decrease in volume/mix of 2.4%, with strong performances delivered by countries such as France, Switzerland and most Eastern European markets and by brands including L'OR, Jacobs and Senseo.

The organic adjusted EBIT increased by 8.6% to just over €1 billion as a result of higher gross profit and efficiencies from the new omni-channel organisation. On a four-year CAGR, the organic adjusted EBIT declined by 2.7%.

In LARMEA, organic sales growth of 4.7% consisted of 2.7% volume/mix and 2% price growth. Most markets in LARMEA continued to perform well, which was partially offset by the brand transition of our main international brand in Russia to a local brand, and by declining prices in Brazil due to lower green coffee prices.

The adjusted EBIT of LARMEA decreased organically by 21.1% to €147 million reflecting a high base of comparison, transactional forex impact and the brand transition in Russia. Excluding the performance in Russia, as I just mentioned, the organic adjusted EBIT growth was actually positive. And on a four-year CAGR, the organic adjusted EBIT growth of LARMEA remains positive at 6%.

In APAC, the organic sales growth of 2.1% was driven by a 4.9% increase in price and a 2.8% decline in volume/mix. Within APAC, top line performance was geographically broad-based with notable strong performances in countries such as Malaysia, Thailand and New Zealand and from brands including Campos and OldTown.

The adjusted EBIT for APAC increased organically by 15.2% to 135 million euro in 2023, supported by supply chain efficiencies, less OpEx, including less A&P and SG&A, but also the impact from SKU rationalisation. On a four-year CAGR, the organic adjusted EBIT growth of APAC is 2.8%.

At Peet's, the Away-from-Home business continued to benefit from the ongoing rebound in Away-from-Home consumption, with same-store sales and ticket size up in Peet's US coffee retail stores. And while the In-Home category in the US was softer, Peet's CPG business held market share. In China, Peet's continued to deliver strong double-digit organic sales growth.

Peet's adjusted EBIT declined organically by 1.0% to €141 million in 2023, as a result of relatively low volumes due to the rather soft overall performance of the category in the US and due to higher A&P spend to support brand and product activations. Based on a four-year CAGR, the organic adjusted EBIT growth at Peet's was 11.3%.

Let's now take a look at our underlying profit in absolute terms and per share on the next slide, Slide 18.

As you can see on this slide, our underlying earnings per share benefitted from stronger organic operating performance in 2023, notably in H2, further supported by lower net financing cost and lower underlying taxes.

Our adjusted net financing cost further improved by €27 million mainly thanks to our active interest income management in the higher-rate environment while keeping a low cost of servicing debt.

Our stronger overall operational performance – with a 7.8% improvement – was, however, more than offset by the net effect of fair value changes of derivatives and gains and losses in FX, translational FX results, and changes in scope. The fluctuating results from derivatives and FX revaluation naturally belong to the P&L of each reporting period. As was the case in H1, those were net positive in 2022 and net negative in 2023, explaining the year-over-year negative impact on our EPS. The vast majority of the negative changes in the 2023 P&L are non-cash items.

Let me now share a bit more detail on our free cash flow and net debt developments on Slide 19.

In 2023, we generated €522 million free cash flow with a stronger H2 performance. This is a lower level compared to our rolling average levels on a full-year basis and is primarily due to the normalisation of working capital that we anticipated and already called out at the start of the year during our full year 2022 and H1 2023 results calls. As we explained before, our working capital has benefitted in 2021 and 2022 from historically high levels of broad-based inflation across raw material inputs including elevated coffee prices.

Next to that, inventories also increased as a result of building higher safety stocks for business continuity and the delays in the supply chain, further benefitting payables due to the additional spend. As global supply chain dynamics improved during the latter part of 2022, we began gradually lowering our safety stocks, and thus, we have been buying less green coffee in 2023. This led to a net cash outflow from working capital, as anticipated.

We had a strong H2 free cash flow delivery despite the working capital impact as the seasonality of our free cash flow is generally more weighted to the second semester. When taking a multi-year view, as we always do, and averaging the last 12-month periods of free cash flow of the last three years, our average free cash flow conversion rate equals 71%.

And looking at the net debt bridge on the right-hand side of this slide, it shows that our net debt position decreased by €160 million as despite our working capital adjustment, we maintained discipline across all the lines while simultaneously continuing to invest behind our strategic growth priorities.

On the next slide, Slide 20, you see the overview of our debt and leverage evolution. For the first time since the IPO, our net debt is below €4 billion. Also, despite the aforementioned currency headwinds, we finished the year with net leverage at 2.73 times, which is slightly above our optimal leverage range.

As explained by Fabien in our 2024 outlook, we project a net leverage of around three times by the end of the year. For the first six months of the year, however, we obviously expect our reported leverage to stand higher than three times. This is primarily because the full cash outflows related to the acquisition of Maratá, which closed in January, and Caribou, which is expected to close around the end of Q1, will fully be reflected in H1, while only a couple of months of EBITDA will be factored into our reported net leverage calculations.

Secondly, because of the seasonality of cash flows as we often generate more free cash flow in the second half than in the first half, therefore, our deleveraging expectation to around three times by the end of the year will naturally be back-half loaded.

Let’s now move to the next slide, Slide 21, and have a closer look at our debt maturity profile.

Following our €1 billion bond issuance in November 2023, our cost of debt is 1.16%, which remains one of the most attractive cost of debt within the broader consumer sector, maintaining our competitive position in the high-rate environment.

Our total liquidity was €3.5 billion at the end of 2023, a higher number than usual given that the full net bond proceeds conservatively remained on the balance sheet over yearend. Correcting for the bond proceeds, our yearend liquidity is €2.5 billion.

Our committed and fully undrawn revolving credit facility of €1.5 billion does not mature until 2028.

Before moving to Q&A, I would like to briefly remind you of our capital allocation priorities, which remain unchanged, and share the Board’s dividend proposal with you; therefore, moving to Slide 22.

Our capital allocation framework guides us as we create long-term value. Our first capital allocation priority is to reinvest in our brands and the growth opportunities within our business.

Our second priority is to deleverage, as we target an optimal leverage of around 2.5 times.

Our third priority is to continue to pursue inorganic growth opportunities, but always in line with our highly selective business and financial criteria.

Our fourth priority is to use excess cash to contribute to shareholder remuneration through stable dividend flows that we expect to sustainably grow over time.

And while our leverage is above our optimal leverage of around 2.5 times, we do not prioritise share repurchases.

If you look at the actions we have taken over the last three years, you will see that they are very consistent with our capital allocation priorities.

Lastly, based on our capital allocation priorities, our dividend policy, and our financial performance in 2023, the Board will propose to the AGM in May to pay a dividend related to full year 2023 of €0.70 per share in cash to be paid similar to last year’s dividend in two instalments of €0.35 each in July 2024 and January 2025.

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

Questions and Answers

Operator: Ladies and gentlemen, we are now ready to take your questions. If you wish to ask a question, please press star one on your telephone keypad. Press 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. We'll take our first question from Patrick Folan with Barclays. Please go ahead.

Patrick Folan (Barclays): Hey, good morning, Fabien, Scott and Robin. My first question just on the free cash flow guide. Can you give some colour on what better – what the better than 522 million of this year means, considering consensus is way above that, just to get colour there? And I think just on the follow-up, can you give some colour maybe on where COGS could land next year considering green coffee price has gone up with robusta? How should we think about the COGS basket? Thank you.

Fabien Simon: Maybe, Patrick, good morning, I can start maybe with the second part of the question and Scott can take the first part, related to inflation for next year.

What we are seeing at this stage is low single-digit COGS inflation for next year. I think low single-digit, maybe mid-single-digit. But we will stay very vigilant. We know we are operating in a category where there are some volatilities on the green coffee side. So, of course, not much impacting us first part but more the second part of the year.

And when we look at the latest developments of arabica and robusta, we are talking about 10-30% increase that is the back end of 2023. And if we see that confirmed, we will, of course, most likely do exactly what we have done in the past – being very disciplined to price for this commodity inflation.

We are entering an important season on the coffee side, that's why it's a bit too early to call out what the evaluation will be. But other than that, for the rest of the portfolio, of course, we have good visibility. And today, a low single-digit is what we – what we are seeing, which confirms what we've said about the last couple of years, which is inflation was coming. We'll be [inaudible], and we are not yet in a deflationary environment but more in a disinflationary environment that we see for 2024.

Scott Gray: Yeah, thanks. And I'll take your first question, which was actually on the cash flow outlook. So, yeah, I mean, as we included in our '24 outlook, we do expect our free cash flow to be greater than 2023. We do have a bit lower coffee prices in H1. And so that also adds a bit to our seasonality, and we'll start to return to our more normal cash conversion level. So, that's what we would expect and it's important. I mean, just like Fabien mentioned in terms of the COGS, we need to see how coffee prices also evolve for the latter part of the year. So, that's something we're monitoring.

And for 2024, we'd expect our free cash flow to certainly be higher than 2023. And it will definitely meaningfully contribute to our deleveraging around three times, and that's why we also guided that. So, obviously, that's going to be a strong contribution there.

And going forward, we also have absolute confidence in our future cash conversion as we look at – and as you see in terms of the second half performance, we still had a drag from working capital.

You can just see the amount of free cash flow that we naturally generate even in that environment. So, we have absolute confidence in the cash conversion going forward. So, I'll leave it there. Thank you.

Operator: Thank you. We'll now move on to our next question from Jon Cox with Kepler. Your line is open. Please go ahead.

Jon Cox (Kepler): Yeah. Good morning, guys. Sorry, I just want to come back to that free cash flow question. Are you still targeting a 70% conversion ratio? You seem to be avoiding mentioning that number and I'm wondering how close you'll be to it this year. My second question is a follow-up being a bit cheeky. The profitability of the Europe business, do you think we're now around ground zero because, obviously, that's come back a long way over the last few years? Do you think now, we're going to see more meaningful progression in that European margin going forward? Thank you.

Fabien Simon: Yeah, good morning, Jon. Again, I can take the first one. Yeah. Thank you for highlighting the strong progress that we have been making in Europe. It's something we have been committed to and we are – that we have delivered. It has been the combination of, one, our recovery in out-of-home and we said back then, it will take us three years to go back to the profitability we are in at the moment. The job is almost completed. We're almost back. It has been coming from the reset of organisation, quite aggressive on the cost side but as well on the portfolio side.

In H2, in Europe, we have had as well the relistings after very difficult negotiation we have had on the back of 2022. And we are very disciplined in the participation in promotion or the execution in promotions to ensure we'd really go after more value accretion – accretive agenda.

But as well, we have continued to work on cost efficiencies. You know, we lately announced, for instance, our – the closure of our process factory in the UK, which helped to contribute on the cost side in Europe. And we have been continuing to gain market share on the most relevant categories. And we like the starting point. And if you look on a four-year basis, we're almost back to where we were.

So, yes, what we see going forward is, as I've said, we are now back to our long-term agenda, reset of the investment that we made. And we want going forward every segment to contribute to the company, generating mid-single digit going forward and Europe to be part of it. So, we indeed expect going forward further improvement from our European business.

Scott Gray: Yeah. And thanks, Jon. And just to add a little bit to cash flow. So, the answer to your question is, we are committed to the 70% cash conversion that we have as part of our long-term algorithm. And as you know, we look at that on a cycle of a few years average. So, our long-term algorithm remains unchanged, including on the cash conversion.

Our cash conversion, best guess at this time would be below 70% in 2024 but higher than 2023 certainly. And, again, the payables are just dependent on price and the level of coffee purchasing. So, that's what we monitor but we have confidence in our free cash flow conversion.

Jon Cox: Thank you.

Operator: Thank you. We'll take our next question from Jeff Stent with BNP Paribas Exane. The line is open. Please go ahead.

Jeff Stent (BNP Paribas Exane): Good morning. Two questions if I may. The first one, could you give us some guidance on the expected development of the new venture costs in 2024 and whether or not that would be a drag-on profit year-on-year?

And secondly on gross margins, by my math, they are about 600 basis points below pre-COVID levels. Is that something you ever expect to recover? If yes, any guidance? And if not, why not? Thanks very much.

Fabien Simon: Good morning, Jeff. Thank you for your question. So, starting with the new venture, we've explained transparently what the new venture is about, which is in a simple term to replicate our successful aluminium capsule agenda in Europe into the US. And we think it's going to be a very exciting growth and profitability agenda going forward.

Of course, when you enter in such a large market where you have to setup everything, online platform, even go-to-market because unlike Europe where our partner, Philips, is distributing. In the US, we have to do everything ourselves because they have no capability neither.reli We have to invest.

When you invest, if you look at the history, in new appliances, the payback is about 10 to 15 years. For us, it's going to be a fraction of that. Why? Because we are leveraging on an existing technology, on existing platform beyond which we have scale already in other geographies.

And the year one is a year where you have the biggest investment. So, we are really expecting that going forward to be lower and lower year-over-year. But we are expecting already next year the – because it's a premium approach – to have the gross profit margin on that product in the US to be higher than total company. So, it's really some phasing of investment which had to be made as we place machines and build equity of the brand, and we are very, very excited about that opportunity.

Your second question is about gross margin. You know how much in our industry gross margin can be a very misleading indicator when you have the volatility of green bean and pricing in the passthrough category. So, I always try to stay away from it, at least on the short term.

But when we're really measuring our indicators in a very constant way – we have been presenting today, for instance, our absolute gross profit that we can see is growing at a higher pace than our top line in H2, which is the agenda we want to go after as we premiumise, as we get operational leverage back.

And as far as percentage, we know it will come back but it's not in our control. The percentage will come back when green coffee will normalise and we know it will. You can't have forever arabica on historical 20-year high. You can't forever, sorry, robusta on 15-year high or an arabica which has been cruising at a much higher historical level. When it's going to come back, we'll be very disciplined on the way we will pass through. And then automatically, the margin percentage will come back and could come back quickly and at a very high level.

We have seen that in the history. I mean, at the time, the company was private. It is exactly the same thing that we see happening going forward. So, we are absolutely not concerned about the percentage, which we know will come back.

Jeff Stent: Thank you.

Operator: Thank you. We'll now take our next question from Bing Zhu with Redburn Atlantic. Please go ahead.

Bing Zhu (Redburn Atlantic): Hello. Thank you for taking my question. I have a question on the category outlook. Can you provide some colour on in-home coffee category, please, because you mentioned in the presentation, you're seeing the coffee category to exit the post-pandemic normalisation? Is there any other factor we should be mindful of –going into 2024? For example, have you seen much consumer behaviour change, or have you seen much of the changes through competitive landscape as the industry is more – some volume pressure? So, any colour on the category would be helpful. Thank you.

Fabien Simon: Good morning, Bing. Thank you for the question. We have been talking in H1 that indeed, the category was still evolving in a post-pandemic way where consumers had been really a bit more away from home. And that's why the category has been adjusting to it. And that's why in H1, the category globally – I'm talking here of volume because value can be misleading this pricing – was in decline by about 3-5%. But we have seen already in H2 some recovery.

In the US, it's still a bit negative at low single-digit level. And outside of the US, we are closely approaching almost the stabilisation, if we look at the last moving quarter, almost to zero, which really confirmed what we have always said, which is that consumers have not drunk less coffee. They were just a bit less at home. And consumers have not been drinking less coffee because there had been some inflation because of the commodity side. It was purely a post-COVID adjustment. So, we feel that the category is getting back on track and in the US a bit later than in – a bit later than in other geographies.

If you look from a more behaviour on the consumer side, we see a bit of a difference between the US and the rest of the world. What we see in the rest of the world, brands are back. If I look, private label is stabilising and it is today lower than what it was pre-COVID, while in the US, there is a bit more a dislocation: premium, super premium growing and private label growing, in between, a bit more challenging. And we are very fortunate to be positioned on the premium, super premium side that's why with our Peet's amazing brand in the US, we have been holding our market share because we are positioned on the good side of the category. And that's why we were very excited as well with our Caribou acquisition to stay focused on the premium side of the market.

We believe that we are more in a normalised way. What we don't know for the US is how it will totally evolve going forward. I have a bit of an intuition here is in the US, a lot of coffee players are actually multi-category players. And the coffee category was a bit more difficult category to manage over the last two, three years. And it is not unlikely that they're inputting most of their investment, effort, innovation, activations outside of coffee but more in other categories. And we know that with – as coffee and consumers are coming back, it will normalise. And that should support, in my view, the coffee category.

If we look from a – what consumers when they're at home consume, we see the trend remains the same. When you go after coffee in-home, you want better coffee, you want a more convenient way to get your coffee, you want to replicate your out-of-home experience in-home.

That's why we see the categories which are beans, single serve, premium instant as the ones that are growing at a higher pace than the rest. But it is a trend we have been seeing now for ten years and we don't see any sign of that changing.

Your second question, oh I think we have already answered that.

Bing Zhu: Thank you, very helpful.

Operator: Thank you. And we'll now move on to our next question from Tom Sykes with Deutsche Bank. Please go ahead. Tom, would you like to check your mute button please, Tom?

Tom Sykes (Deutsche Bank): Apologies, yeah. Sorry, schoolboy error. So, just trying to unpack some of the one-offs that may have been in the adjusted EBIT line in H2, just for the scope, going back to the scope, first of fall, will the definition of that remains the same in full year '24 versus '23? And are you – does that include all of the revenues and costs from the US rollout or are you booking some revenues and costs not through the scope line?

And then perhaps kind of lumping central and maybe even Russia together, the central line looked high in H2 – and obviously, Russia profitability was weak – is there anything one-off that you would pick out in the combined cost base of those two or should we take H2 as a sensible run rate, please?

Scott Gray: So, let me start on those items and then I'll pause and let Fabien add where I missed something. So, maybe first on the scope on the new business venture and, well, the definition will be the same in 2024. There's no change in the definition. I mean, we had the same definition actually in 2022, so the same as 2023 and it will be the same case for 2024.

However, in this – and we had the adjustment that started in the back end of 2022 and carried forward. I think that particular adjustment related to the US. It even phased out in the last couple months of the year because it's an organic scope adjustment. So, it's just looking at the prior-year period.

And actually in scope, we don't see anything notable in 2024 because in that example of that new business venture, that's past the first year of that rollout. So, I don't know if anything you want to add on.

Fabien Simon: Yeah. So, it's going to be back on the organic. So, we don't expect anything there. If anything, we expect positive because on scope next year, we are going to include the acquisitions of Maratá and Caribou because they do not fit in organic in the first year.

Your second question was on Russia, Tom? You know, on Russia, we have been very transparent since the beginning about our position. And in particular, for H2 of this year that we would move even more into local-for-local organisation. We're transitioning our international brands out of Russia, which I think is the right thing to do because there is uncertainty, unpredictability in Russia. But as well, it's a way to protect the equity of our brand, Jacobs. But as well, more and more putting the company focus into the rest of the organisation and as the rest will go at a faster pace, over time to continue to even reduce the weight of Russia in our business and overall, [inaudible] the exposure of Russia for the shareholders.

That's why we guide – we are transparent this year to show our results with and without Russia. And we are back without Russia to our long-term algorithm. That's why even next year, we will stay in our long-term algorithm without Russia.

But the impact of transitioning to local portfolio, higher cost of running business in Russia has had an impact in H2. We're not expecting incremental impact in next year but the effect of this H2 impact will just carry over in H1 because it was not on the base of H1 of 2023. After that, we don't expect really incremental effect.

The only thing we don't know that can turn positive, can turn negative is the currency. Nobody can anticipate and predict what it will be. But we think that now it's passed, and we think it was really the right thing to do.

Scott Gray: Yeah, absolutely. And then on your other question, Tom, I believe related to central cost. I think your question, I guess, is around the unallocated; is that correct?

Tom Sykes: Yes, that's right. Thank you.

Scott Gray: Yeah, absolutely. So, on that, so I think kind of the perceived increase in cost or, I would say, like, the negative EBIT impact there is a year-over-year reported comparison. So, it's not an organic and it's a reported. And you really need to look at the absolute of that one, which is kind of the central balancing.

So, I think the – while the unallocated bucket includes some central SG&A cost, including headquarters, operations, R&D, for example, there are also some other non-people related central costs that are not allocated to the segments. And also, there can be some restructuring things that are one-off that go there that don't necessarily go to an adjustment item because the roles may stay in place and have some double run during the restructuring.

I think there were also some central one-off benefits in 2022. So, that's why the year-over-year comparison had some one-off central cost in 2023, so that causes a variance. And I think, for example, if you look in 2023, we had some – I'll give you some. We had some negative one-off impacts from our captive insurance company, for example, due to the various supply chain issues we had in 2023 in Europe, Asia and the US. So, while there's an impact in the segment, there's also some central cost impact.

And it's important to note that the 2023 unallocated EBIT is quite similar to previous years. So, it's just that one year-over-year comparison. And I'd just look at – in fact, I think on a reported basis, the four-year CAGR is less than 2% and on organic basis is exactly flat over the last four years. So, I believe in 2021, that was 306 million, so quite comparable to what you see in 2023. You just got to look at some context because that could be a little bit skewed on the year-over-year due to those items. So, quite a bit detailed but hopefully that addressed your question on the unallocated.

Tom Sykes: Yeah, it's great. Thank you very much.

Operator: Thank you. We'll now move on to our next question from Robert Jan Vos with ABN AMRO. Please go ahead.

Robert Jan Vos (ABN AMRO): Yes. Hi, good morning all. A couple of questions. When I listened to Fabien's comments on the COGS inflation and you used the term disinflation, all in all, is it fair to say based on what you now know today that pricing will be lower in 2024 compared with 2023? That's my first question.

And my second question is the supply chain financing was 431 million at the end of last year. Scott, can you maybe share with us what the amount is at the end of 2023? Thank you. Those are my questions.

Fabien Simon: Yeah, good morning, Robert. I can take the first one. Yes, indeed. Today, we see disinflation, so lower cost increase than what we have had in the past, which naturally will lead to a lower price. And that's why our organic sales growth is normalising to a more balanced contribution between pricing and volume/mix.

But, again, as I've said, we know green coffee is volatile. If we see, of course, an increased purchasing, we may go back to a bit higher than what we see. But today, it is correct that we are expecting a lower level of price increase than in 2023.

Scott Gray: Yeah. In regards to the question on the supply chain financing, so there was a small increase in 2023 versus 2022 and it's somewhat comparable to 2021 level. I believe that the amount that will be – we'll disclose that shortly, but I can give that to you. I think it's going to be 400, around 490 million. And the increase in 2023 versus 2022 is mainly due to inflation and just the mix of the spend, so nothing structural there. It's just really the fluctuation of that bucket.

Robert Jan Vos: All right. Thank you.

Scott Gray: Thank you.

Operator: Ladies and gentlemen, we are now approaching the end of the call. We will now take our last question from the line of Feng Zhang with Jefferies. Please go ahead.

Feng Zhang (Jefferies): Hi, two questions. The first one is a technical one. So, volume growth in Europe was minus 2.4% in full year '23. H1 was minus 8.6; H2 was called out at 5.2. But if we're using the full year, the implied H2 will be just 3.7%. Can we just get some clarification if there's any restatement made on sales-based growth definition?

And the second one is about the Roast and the Grounds business in Europe. You mentioned before that weight is getting much smaller than two years ago. Are you actively reducing the exposure by cutting SKUs or are you saying the SKU cut of the 20% was mostly just in APAC? Thanks.

Scott Gray: Yeah. Maybe I'll take the first one. And it was a little bit difficult to hear you, but I think I got the point of the question, the volume as well. But on Europe in terms of the volume as we're looking at the semesters, there was on restatement there that we did in Europe. So, anything was just on the year-over-year comparison but no adjustments there. And we have adjusted the base, of course, on our organics and also on – when you look at the volume/mix for the omni-channel combination of bringing retail and out-of-home together. So, it's just bringing those segments together. But, again, it is a like-for-like base and no restatement items in Europe. Fabien, I'll let you take the second one.

Fabien Simon: Yeah. And I can answer on the SKU and the growth segment in Europe. We have been communicating in our Capital Markets Day at the beginning of 2023 our agenda on SKU rationalisation. Back then, we were at 10% adoption and at the end of 2023, we landed at 20%. So, we have really doubled our effort in one year and it affected mostly our European and Asian business in the category of Roast and Ground, in particular, a bit of tea. And it affected as well our out-of-home professional organisations.

And the category, I mean, every category has contributed to it, but it could range from six, seven on the lowest to up to 30, 35 for the highest category. And indeed, Roast and Ground in Europe has been a big contributor to this one on top of APAC. While in, APAC, it was mostly on the professional side.

And what I can share because it's an important measure: two years ago; Roast and Ground in Europe was representing more than a third of our business in the – on the in-home side. Today, we are now approaching like 25%, which is well below the market. And it is important because we continue to premiumise our portfolio but it's as well a way to reduce our exposure to the volatility of coffee, which always it's more countries and categories where Roast and Ground is more exposed. And that's why we feel – I'd say we are cautiously optimistic to your question which was asked earlier on our ability going forward to continue to improve our profitability in Europe.

Operator: Thank you very much. And I would now like to return the call to the speakers.

Robin Jansen: Thank you, Laura. Ladies and gentlemen, thank you very much for attending today's earnings call and for taking part in the discussion about our results. If you have any additional questions, please don't 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.

Fabien Simon: Thank you.

Scott Gray: Thank you very much.

Operator: Thank you. This now concludes JDE Peet's earnings call. Thank you all for attending. You may now disconnect your lines.

[END OF TRANSCRIPT]