Britvic Preliminary Results 2022

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Transcript

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Simon Litherland: Good morning everybody, and welcome. It's really great to see so many people in person again for our 2022 full year results. This morning, I'm going to start with some highlights of the year, and then Joanne's going to follow with the detail of our financial performance. And then finally, I'm going to present a few slides on our future growth potential and investment plans. So despite the well-documented headwinds facing consumer goods companies, 2022 has actually been an excellent year for Britvic. We've delivered very strong in year performance and have also continued to deliver on our strategic priorities emerging as a stronger, faster growing and more agile Britvic. Although revenue benefited from the lapping of COVID restrictions in hospitality, and of course, a hot summer, I'm really pleased with our accelerated top line growth and the strong momentum we have in many of our trusted family favorites and innovation brands.

We've successfully managed to navigate the significant inflationary headwinds through a combination of price and promotion management and cost and efficiency initiatives, and we have a strong balance sheet and have managed cash very well over the last few years, enabling us to deliver excellent returns for shareholders through dividends and our first ever share buyback.

It's been an excellent year across all key metrics, revenue, profit, and margin. We're all ahead of last year with EPS up 29.3%. We returned 106 million pounds to shareholders while still reducing net debt, and our leverage is down to 1.9 times, its lowest level since 2015. Our ESG metrics remained strong across engagement, calories per serve, and carbon where we have achieved a cumulative reduction in emissions of 34% since 2017. We've delivered strong revenue growth across our strategic priorities. Firstly, GB carbonate grew 14.6%, driven by our continued focus on low and no sugar. I'm especially pleased with a 27% growth in Tango, thanks to incremental distribution and three new sugar free flavors.

Pepsi also grew strongly, up 11.8% and the Pepsi Max Taste Challenge returned this year and after an eight week activation program, 70% of the 34,000 people who did the taste test preferred the taste of Max to the leading Full Sugar Cola. Our global premium brands, Mathieu Tessier and London Essence came back strongly after the pandemic and have real momentum growing 77% this year. Mathieu Teisseire is now available in 20 countries, and to build awareness and drive growth, we have a global network of brand ambassadors and eight activation studios and key markets, and we've launched the digital platform to support our distributors and customers.

On London Essence, the package product is now available in 6,500 hospitality outlets, and it has 11,000 retail distribution points, and we have now installed over a thousand freshly infused fonts in GB. As you know, we are the global leaders in liquid concentrates, and our brands grew over 5% this year. In GB, we took Robinson's marketing in a new direction with in-store activation of both the big fruit hunt and our sponsorship of the Hundred cricket enabling brand visibility across the whole summer. In Ireland, MiWadi was up 18.4% and Tessier grew 12 and 25% in France and Holland, respectively.

In Brazil, we delivered another year of double digit growth. Also, on the back of growing our concentrates brands plus very strong growth in Fruit Shoot, which was up 93%. An exciting expansion in newer categories such as grape juice, tea and mixes. And finally, in total, our innovation brands and packs this year generated over a hundred million pounds of revenue, an increase of 49% year on year. The strength of our branded portfolio has enabled us to take price to help navigate the inflationary headwinds. Price elasticity has been broadly in line with our expectations, and so our growth has been balanced across volume and price with volume growth in both halves of the year.

The supply chain flexibility, we developed through our business capability program, has allowed us to continue to evolve our pack architecture to achieve key consumer price points and our investment in the new Kantar commercial systems has proved well timed, helping us to optimise pricing and the return on our promotional investments. We were also able to partially mitigate the effects of inflation through a number of cost and efficiency programs, including recipe agility and SKU simplification, and our procurement capability was a real asset this year as our strong supplier relationships and improved hedging capability both proved essential.

We are very focused on continually improving the customer, shopper and consumer experience of Britvic and our brands, and we continue to work closely with our customers to create shared value. And I'm delighted that we've been recognised with our best ever results in the GB and Ireland Advantage Group customer surveys with top three placings across all of grocery, wholesale and convenience and coming first in GB for e-commerce. The strength of those customer partnerships has resulted in an outstanding in-store execution for our brands, including greatest distribution, share of shelf space and improved levels of feature and display, all crucial growth drivers in an impulse category like soft drinks. In immediate consumption, a channel where we under index, we deliver 20% growth in GB. We continued to increase investment in our consumer experience with absolute AMP spend growing by 6.4%. An efficiency of spend proving by focusing on the best returning initiatives.

Our in-house digital studio continues to deliver disruptive consumer engagement, such as the launch of Tango Berry Peachy, and during the year, we relaunched Plenish with new packaging that highlights its premium and natural credentials, and we've also reformulated and relaunched Robinson's Ready to Drink. We continued to invest in innovation to broaden our portfolio and meet new consumer needs, and highlights this year have included growth from new flavors across multiple brands, and beyond the bottle where we've leveraged our leadership and flavor concentrates to launch a unique flavor tap and in Ireland where Ballygowan Hint of Fruit gained an outstanding 18% share of the flavored water category in just seven months. Across our supply chain, we continued to enhance our resilience. A few examples of which you can see on the slide.

Our transition to digital manufacturing will increase efficiency, reduce cost and add capacity, and we've increased our carbon dioxide resilience through strengthening our relationship with our main supplier, diversifying our supply base, process improvements, and adding additional storage. At our Beckton factory, we've increased our warehousing capacity, and we've upgraded our national distribution center. We've also increased our transport flexibility with a broader range of hauliers and dedicated trucks for our internal stock movements.

We also continue to invest in increased capacity and capability to meet growing demand. With a new can line in GB, two new carton lines and a contracted grape processing facility in Brazil, and in France, we entered into a new strategic third party production partnership to support the growth of Mathieu Teisseire globally.

Finally, sustainability is integral to our strategy and informs our decisions on a daily basis. You will be familiar with our Healthier People, Healthier Planet framework, which has been recognised externally receiving a number of industry and investor awards this year. Offering low calorie drinks remains a point of category leadership for us, averaging just 24 calories per serve, and we continued to move to more proactive health drivers, such as increasing the naturalness of our brands or adding health benefits such as vitamins to selected Robinson's and MiWadi variants. Our employees have proved hugely resilient in these challenging times, and we continue to offer multiple initiatives to look after their wellbeing, including hybrid flexible working.

And under healthier planet. We continue to bring down our carbon emissions in every business unit as part of our path to net zero switching over to green energy sources and solutions in a number of our factories globally. We also support multiple local initiatives across our markets, such as sustainable agriculture to reduce the use of pesticides in Brazil, our partnership with the River's Trust in GB and championing biodiversity in Ireland. Those are just some of the highlights of our 2022 performance. I'll now hand over to Joanne for the financial review.

Joanne Wilson: Thank you, Simon, and good morning everyone. Before we get into the detail, figures on my slides will focus on adjusted measures on items expressed in percentage growth terms are calculated on a constant currency basis. As Simon headlined, we have delivered an excellent performance in the year across all key financial metrics despite the challenging external environment. Underlying group revenue increased 15.5% on year on year with double digit revenue growth across all our business units. Encouragingly strong and balanced revenue growth continued in our second half with an increase of 15% in quarter four, helped by the hot summer. Adjusted EBIT increased 16% to 206 million pounds, resulting in an adjusted EBIT margin of 12.7% a year on year improvement of 10 basis points. Adjusted EPS increased 29.3%, and our full year dividend of 29 pence represents a year on year increase of 19.8%, maintaining our 50% payout ratio. The higher EPS growth in the year reflects this adverse impact in FY 21 from the revaluation of deferred tax.

Our cash performance continued to be strong, reflecting our relentless focus on cash management with three cash flow of approximately 129 million pounds enabling a further reduction in our net debt. As a result, we have delivered on an adjusted net debt to EBITDA ratio of 1.9 times, our lowest leverage since 2015. Turning onto our business unit highlights, in GB, we have made strong progress with volume growth of 5.5%, which together with price mix growth translated to revenue growing by 15.1%. Pleasingly, we saw volume and revenue grow in every quarter of the year, and this was from across both our retail and our hospitality channels. Growth in the first half was helped by the final COVID restrictions in 2021 and in the second half by the hot summer we all enjoyed. All of our skill brands performed strongly. This was led by our low or no sugar carbs variants, Pepsi, 7Up and Tango, all of which were in double digit revenue growth.

We continue to focus on growing our immediate consumption pack formats, which resulted in revenue growth of 20.4%. J2O and Fruit Shoot benefited from increased socialising compared to 2021 with growth of 32.3% and 15.1% respectively. And Robinson's remand in revenue growth in both Squash and Ready to Drink packed formats despite consumers spending less time at home. In Brazil, our core categories of concentrates and Ready to Drink juices were in growth with Maguary, DaFruta, Bela Ischia performing well across both categories. The strongest performance was in Fruit Shoot, which was up 93% year on year, benefiting from pack price architecture matched to regional demographics. Coconut water was more challenging with revenue down 22.9% due to the continued shortage and high cost of ingredients. Other innovations such as nuts, *Selecao)]* and natural tea grew strongly. Ireland saw revenue increased by 17, sorry, 18.7%, and all brands were in growth, including Pepsi at 17.3%, MiWadi at 18.4% and Ballygowan at 22.7% supported by the launch of three Hint of Fruit flavored water variants.

In France, revenue increased 12.3% led by our syrups brands, Teisseirer and Moulin de Valdonne. And in other markets we delivered growth across various sub-channels, including Benelux travel, export on the Middle East. The brand contribution declines were primarily due to the lag effect from price increases, which were largely taken in quarter two. In response to the inflationary pressures, which impacted the P and L from the start of the financial year. At interims in May, we talked about the further inflationary pressures we were experiencing as well as supply chain disruptions. We are continuing to experience both with significant market cost volatility in the past few months, partly as a result of the knock on impact from energy prices across the supply chain. While certain commodity prices have begun to soften of lit, we expect costs to remain elevated throughout our financial year 2023. This is partly due to the hedges we put in place throughout 2022 consistent with our rolling hedge policy and also the continued inflation we see across certain other commodities, energy and labour.

We have greater visibility of inflationary pressures than we had entering FY 22, and we anticipate inflation to be low double digits in the year ahead. The most significant impact is seen across packaging, including cans and PET, where the conversion cost of raw materials is a significant driver of the cost equation in ingredients in CO2 and also in energy. We continue to remain focused on minimising the impact in our business and working with our suppliers to build resilience across the supply chain. We shared previously the three key levers we used to mitigate the impact from inflation. Our revenue growth management capabilities from inflation. Our revenue growth management capabilities, smart procurement, and productivity initiatives, these all continue to be a focus for us. I am pleased with the progress we made against each in FY22, and I'm confident we will build on this capability to continue to mitigate the pressures throughout this financial year. We are currently over 70% covered for our COGS and other purchases in FY23 through either hedges or fixed-price contracts. We have also broadened our value engineering with the aim of not only reducing our costs, but also increasing resilience and driving process efficiencies through initiatives such as recipe agility. Finally, our revenue growth management capability has proved to be a critical tool for us in FY22 across each of our business units and we enter FY23 with even stronger plans for our pricing, our promotions, and our pack architecture. These will be further supported by the commercial systems implemented earlier this year, which will pay dividends in the year ahead as we go even further to optimise returns from our promo investments.

Moving onto our balance sheet. Our relentless focus on cash has yielded strong results, enabling both continued investment at appropriate levels and returns to shareholders. Our free cash flow at 129 million pounds is almost 50% higher than in 2019, enabling us to pay down our debt since then by 91 million pounds, alongside launching our first-ever share buyback program and reducing leverage to below two times. Finally, our return on invested capital is broadly in line with 2019 levels at 16.4% and benchmarks well against our peer group.

Our strong cash generation gives us choices and flexibility on how best to deploy our capital, ensuring we are appropriately balancing investment in the business, as well as delivering nearer-term returns for our shareholders. Our disciplined approach to capital allocation has not fundamentally changed. The dividend payout remains at 50% of earnings, and we continue to invest in the future growth of the business through CapEx and selective M&A. In the absence of M&A this year, we announced a 75-million-pound share buyback program, which is progressing well and is expected to complete in calendar Q1.

Finally, for me, I wanted to share some modeling considerations for 2023. You'll find more detailed guidance on Capex, tax rates, interest, and adjusting the items in the appendix. We anticipate that our revenue growth will be price and mix-led, with volume growth partly dependent on how consumers respond to increasing pressure on their wallets. As mentioned already, we expect cost inflation to be low double digit and ahead of what we experienced in 2022. We will offset this partly through further price increases and cost efficiencies and are confident in our ability to execute our plans successfully. While the economic backdrop and consumer environment remains uncertain, we will continue to invest in our growth drivers with a focus on our brands, supply chain effectiveness and capacity, and our sustainability initiatives. This investment will be skewed to our second half.

Our first half last year was impacted by a time lag between inflation, hitting the P&L, and landing our price increases. Lapping this together with investment plans skewed to the second half and a particularly strong Q4 in 2022, will, we expect, result in a higher share of profit in each one than would normally be the case. With a continued focus on disciplined cash management, we anticipate strong cash conversion, enabling us to reduce net debt further. The first six weeks of trading, while still early in our new financial year, is in line with our expectations, and we continue to see robust demand for our brands, with elasticities broadly as expected. Thank you for listening, and I will now hand back to Simon, who will share why we are confident in our winning growth strategy.

Simon Litherland: Thanks, Joanne. Before I look forward, let me just take a moment to reflect on Britvic's longer-term performance. Our strategy has been extremely successful in driving consistent top-line growth. Even through the pandemic, our five-year revenue CAGR is over 5%. We have translated this strongly into cash and marketbeating returns over multiple years, and we are confident we can build on this strong track record of growth and shareholder returns in the years ahead. In the final few slides, I will explain why.

Firstly, we participate in a very attractive category. Soft drinks continues to grow faster than wider consumer goods, as it has for many years, for several key reasons. Per-capita consumption of non-alcoholic beverages continues to increase, and even before the significant inflation of the past couple of years, soft drinks has consistently increased its value over its volume. Despite this consistent value growth, soft drinks remains one of the most affordable consumer goods categories, with price per unit well below the vast majority of others. And soft drinks is both a regular staple and an affordable treat, one that people continue to buy during downturns. Private-label presence in the category is also relatively low, and in both 2008 and this year, unlike in most other consumer goods categories, private label performance has lagged brand performance. Indeed, in the last 12 weeks, private-label volumes have declined, while brands continue to grow. Within this growing category, our strategy, which we have shared with you on previous occasions, remains consistent and is creating sustainable growth for Britvic. I'll now dip into each market to share some of the key drivers, which give us confidence in future growth.

Firstly, within GB, our low and no-sugar carbonates will continue to fuel our growth. We have turned Pepsi MAX into the biggest cola variant in the UK, 7UP Free leads its segment, and the resurgence of Tango is delivering strong double-digit growth. As the sustainability agenda gathers pace, we expect increasing quantities of soft drinks to be created at the point of consumption, and Britvic is uniquely placed to profit from this as the global leader in liquid flavor concentrates, and in Robinsons, we are the brand leader in the space in GB. With Aqua Libra Co and our broader dispense expertise, we are also providing the taps and equipment that service this trend.

From a portfolio perspective in GB, we still have white space and high-growth opportunities in a number of subcategories such as energy, tea, plant-based drinks, or infused or flavored water. Likewise, there are specific growth opportunities and sales channels where we under-index, such as immediate consumption, discounters, hospitality, and food service. We have a well-invested supply chain, and we continue to build new capacity and improve flexibility and agility at highly-competitive costs, and we do all of this sustainably, continuing to lead the health agenda for both people and planet with industry-leading calories per serve, minimising packaging, reducing our carbon footprint, and actively collaborating across the industry to deliver workable deposit-for-return schemes.

Brazil is a key growth market for us, and here we intend to expand in two dimensions. From a category perspective, we continue to make progress in revitalising the liquid concentrates market for the Brazilian consumer, for example, with the launch of Dafruta Tropical and Bela Ischia syrups. We also continue to grow into new categories that we've entered recently, such as grape, coconut, and tea, and we'll continue to build our Britvic brands in Brazil such as Fruit Shoot, London Essence, Pressade, and Mathieu Teisseire, or access new growth spaces through further brand introduction locally, innovation, or bolt-on M&A. And as our portfolio builds, it will unlock further growth opportunities in new channels where participation today is relatively limited, such as wholesale and hospitality.

From a regional perspective, we have the opportunity to build out from our existing regional strengths in São Paulo, Rio, Minas Gerais, and the northeast, to other large population centers, most notably in the south. As we do so, we anticipate that our supply chain will become more efficient, leading to increased margins and reducing carbon. And we'll also continue to prioritise water conservation and reforestation in Brazil as part of our healthier planet initiative.

In the rest of the world, we continue to expand the presence of our premium brands, London Essence and Mathieu Teisseire. We are building momentum in the Middle East and Asia, as well as in our core European markets. Closer to home, in Western Europe, we continue to build on our strong portfolio and momentum we have in Ireland with both our existing carbonates and stills brands and some exciting innovation. In France, we will remain focused on growing our four core brands and on improving our margin over time. And we remain excited by the growth potential for the Teisseire range across Europe. For example, in the Netherlands, we have grown market value by 23% this year and now have a category share approaching 10%. Excuse me. So we are really clear that our strategy will continue to drive strong growth, and in '23, we believe we'll not only manage inflation successfully, but we'll also continue to make strategic progress and invest behind our brands and our business.

On this slide, I've called out a few examples of our key activities for this year. We have some really compelling brand activation coming up, starting with Christmas, with “Make The MAX Out Of It” on Pepsi, and win some “J2O Jingle” with Fruit Shoot. Sorry, with J2O and Fruit Shoot” Merrylicious” returns with a clear bottle and a preservative-free liquid. We have a really strong Robinsons plan this year, which we'll share more of in the spring, alongside further development of Tango and Pepsi flavors. We'll also continue our strong brand partnerships such as Ballygowan with Irish Rugby and Golf, Pepsi with the Champions League in football, and Robinsons with The Hundred cricket. In the supply chain, we're adding further capacity in GB with another can line in Rugby and a new small PET line in Beckton. We will also reduce carbon emissions by investing in an innovative heat recapture system. And of course, it is crucial that we continue our disciplined approach to revenue growth management, cost control, and cash.

So in summary, despite the significant headwinds, we have delivered an excellent performance across our key metrics this year, and we continue to make good progress on our strategic priorities. We have once again demonstrated our resilience and agility as a business, and we are merging from these challenging times as a stronger, better Britvic. It is clear to us all that 2023 will be no less challenging, but I have every confidence that we are very well-placed to continue our strong track record of growth and superior shareholder returns in the years ahead. Thank you for listening, and we'll now take your questions. And when we do come to you, if I could please ask you to state your name and the organisation that you represent for the webcast? Thank you.

Yubo Mao: Morning, Simon. Morning, Joanne. It's Yubo Mao from Morgan Stanley. Two questions from me, please. Firstly, just on the state of the UK consumer, you mentioned current trading remains robust. Are you seeing any changes in consumer behavior such as channel or package mix? And can you talk a bit more about how you might be preparing for any of those changes if they were to come? You already talked about revenue growth management, but can you elaborate on that? And secondly, just on private label, it's very interesting to see brands have continued to gain share from private label, even during recessions. Why do you think that is the case? Thank you very much.

Simon Litherland: Okay. Yeah. Thanks, Yubo. Yeah. Look, I mean, we are seeing changes in shopper and consumer behavior, I think, since COVID. So clearly, the channels have sort of equalised up to pre-COVID levels, but shopping behavior, you're seeing smaller basket sizes, increased frequency of shop, shoppers are shopping around more through discounter's grocery, online's dropped back, although still considerably ahead of pre-COVID levels. And yes, consumers are looking for price offers, and so feature and display plays a big part in this category as well.

I think we're particularly well-placed, particularly with HFSS legislation, which obviously is restricting location display on higher HFSS products, which doesn't affect us, and I think that creates incremental opportunity. And we've got strong feature and display plans through Christmas and into the new year. And then from a pricing perspective, clearly what's really important in our categories are relative price points to our key competitive set, and I think we're in a pretty good place in that regard, even with incremental price increases in quarter one this year.

And then we obviously leverage mix, brand, channel, customer, but also pack because that can make a real difference. And with the investment we've put into the supply chain over the last number of years, our flexibility is significantly greater than that which it used to be. So big-pack cans, for example, we have the ability to not only offer 24 packs, but also 18 packs to give a lower-entry price point. Or another example is we're launching a 750 mil single-concentrated Robinsons into the value retailer channel to hit a one-pound price point. So I think there's plenty of levers for us to kind of play to where the consumer is, and I think our goal is to be where the consumer's shopping, and the breadth of our portfolio and strong distribution enables us to do that.

And then private label, look, I think this category is genuinely less exposed to private label. If you think of some of the big subcategories, cola or energy, for example, it's hardly existent. Our main exposure is with squash and Robinsons or Teisseire, which compete with private label.

And I think we will see a bit more of a shared challenge in that space, partly because we are significantly higher priced with Robinson's and Teisseire versus

Private Label. And so our response though, is we are driving for value versus volume in our concentrates categories, but we'll back that up by increasing our investment. And we've got some really strong plans behind Robs in particular this year, which we'll share more of with you in the spring. Andrea.

Andrea Pistacchi: Andrea Pistacchi from Bank of America. Three questions if I may, please. First digging a little deeper on price in GB, I think you had 9% for the fiscal year, strong performance. Are you able to break out how much of that was price? And on this also, your ambitions in terms of pricing, not of course an exact number, but your ambitions for fiscal '23 and whether you think one price increase will be enough to recover the portion that you intend to recover the cost pressures.

The second, following up on the question about the consumer environment, if you could be a little more specific on the out of home, what's going on there? Some companies have called out some softness in the on trade, so more in the hospitality, the out of home segments. What are you seeing there and what's your expectation?

And then the last one on Brazil please, you had a better performance on margins in the second half. Brand contribution margins are still quite low there. You're taking a lot of action to improve that over time. What do you think is that timeframe to improve margins and what is a fair level, do you think, of margins in Brazil?

Simon Litherland: Great. Thanks, Andrea. Let me take the second one and if you want to do one and three.

Joanne Wilson: Yeah.

Simon Litherland: And I'll just go first to the second one. So yeah, look, the out of home channel has actually remained robust for us through the back end of last year and into this quarter and we aren't seeing any drop off in forward orders or anything for Christmas. I think obviously our exposure is very much to manage retail and I think they are probably in a stronger position than some of the independents. We are seeing some incremental closures of pubs and restaurants, but as I said earlier, I think we're really well placed. If we do start to see consumers starting to eat out and drink out less, we'll pick them up in the at home channel or in the on-the-go channel. But as yet robust.

Joanne Wilson: Yeah. Andrea, just two parts to your pricing question. One is what droves the ARP increase in '22 and then how are we thinking about this year? So there's a few things. Obviously headline price increases that we took in early Q2 and that was across the portfolio that resulted in a higher ARP, but we also saw positive mix in '22 and that was partly driven by pack and channels. So obviously hospitality recovered, that helped. And also immediate consumption, we talked about the 20.4% growth in immediate consumption. So a positive mix and I would think as we go into '23, to the question on mix, yes, there may be some implications on the consumer, but I think we'll drive to continue some of those trends that we saw in mix in '23.

In terms of '23 pricing plans, as I said, we have greater visibility of inflation this time than we did this time last year and we have built our pricing plans around that, not just in GB but in all of our markets. So we will be taking price earlier in GB, so we'll take pricing in Q1 this year, so we won't have that lag effect that we had last year in H1. Again, those prices will be across the portfolio. It will not be a blanket increase, but it'll be those SKUs and brands where we feel that it's appropriate to take a higher level of price and perhaps for others at lower level.

Simon talked about also some of the price pack architecture that we're doing so that we show up in value retailers as well as we show up in our grocery malls and that we are appealing to all type of consumer demographic groups in terms of how they're feeling the pinch on their wallets. And that's really important.

In terms of confidence, we're confident in our plans for '23, executing those pricing plans. Will we need to take more than one? I think too early to say, but we're pleased with the pricing plans for Q1 and confident that we'll execute those well.

So in terms of improving margins, so we talked probably the last two sets of results about the drag on Brazil from the inflation that we were seeing in that market. Obviously it's a higher elasticity market and we taken multiple price increases in Brazil, so smaller but more often. In Q3, we took a significant price increase, so high single digit in that market. That was very intentional. We also took other actions, for example, recipe agility and on our operation side to reduce costs. And as a result of both of those actions, we've seen a really positive trend on our margin. So we exited our Q4 on a mid-single digit margin in Brazil, which is really encouraging and we expect with the rollover of price into '23 that will continue.

The elasticities that we expected to see are evolving as we expected, so we're not seeing a higher elasticity than we expected as well, which is also encouraging. In terms of the aspirations for that market, we would look to get up to high single digit margin in Brazil over the medium term. That's obviously been delayed a little bit with the last few years and the high inflation that we've seen. It will be a lower margin market than GB and some of our other more mature markets, but high single digit is, we believe, the right ambition.

Charlie Higgs: Hi there. Charlie Higgs from Redburn. Three, please. The first one's on Pepsi Max, where we've had yet another really strong year. I was just wondering, can you talk about the outlook into 2023 and where does the growth come from here? Is it expanding pack distributions or is it more from flavor line extensions? Then the second one is on Rockstar, where it looked like sales were down double digit. Can you just talk about what was driving that and your plans going forwards and if you've had anything from PepsiCo regarding a potential Celsius distribution agreement coming next year.

And then the third one is just on Capex where we've had the BCP investment, we've now got some more lines in GB and then a great facility in Brazil. What is your outlook for CapEx over the medium term and how much of that is going to be growth investment versus maintenance?

Simon Litherland: Great. Thanks, Charlie. I'll take the first two and then you can pick up the third if you would. So yeah, look Max, we are really pleased with the performance. We've taken share consistently for a number of years now and I think a number of things are driving that. Firstly, the taste, and I talked about the recent taste test challenge. 70% of people prefer the taste of Max and that's really, really important for soft drinks. I think the marketing programs that we have on Max are particularly well targeted at our target consumer. So music, football, et cetera. Our flavour strategy is working really well for us. If you look at the scale of our flavors relative to the competition, that their performance is really, really strong.

And how do we continue the growth? Increasing penetration for sure, and we can see that coming. And then we've also got distinct opportunities. So immediate consumption, we under index with the brand. Food service, we under index with the brand, and a number of other channels. So there are multiple levers which I believe we can still pull to continue the Max journey, which has now had pretty much a 32% share of the category, which is great. And as you get scale, that helps.

On energy, and Rockstar and Celsius. The answer to Celsius is no. Pepsi haven't approached us at the stage. On Rockstar, look, energy remains in a really exciting category. It's the second biggest category in the market as you know, and growing really strongly. Rockstar, I have to be really honest, hasn't gone according to plan. We always knew it would be challenging entering into that category with Monster and Red Bull and we've particularly been hampered with supply chain difficulties.

What we have done is we've repositioned the brand from a price perspective. We've got new packaging, we've got a new range with low and no sugar and we feel that we are now well set up to start to invest and take share back in this category. We will move manufacturing in house towards the back end of 2023 on the back of our new can line, which obviously also enhances profitability.

I think as I probably said when we took Rockstar on, we genuinely believe that with PepsiCo we are in a position where we can make something of this brand and take some share over time. But we also said that it would take time and it wouldn't be a strong profit contributor for a number of years and that's certainly going to be the case, but we will play and I think '23 you should start to see a turnaround in that performance. And then do you want to pick up the Capex?

Joanne Wilson: Yeah, so Charlie, just before I start, in terms of our Capex, very disciplined approach to the Capex. We're really pleased with the capital investment that we've made over the last five years. It's all high returning and I think we've built a stronger, better business as a result of that. In terms of this financial year, we're guiding to 85 to 95 million pounds of Capex. We delayed some of the projects that we had through COVID and we saw a reduction. So there's still a little bit of catch up.

The biggest drivers of that capital investment are really continued capacity investments. So we'll see another can line and GB and a small PT line and another line in Brazil as well. And that is really reflecting demand that we are seeing and are having to outsource that manufacturing. So it's very, very strong paybacks and that.

We're also upgrading our national distribution center well through that, we'll complete that this year. So there's a little bit of CapEx and our tech program continues and the big focus on tech now is digital manufacturing and that continuous improvement. So a lot of those energy efficiency projects that we're investing in, you can imagine the payback on those is looking very healthy, but it goes much beyond energy as well and looks at waste efficiency and predictive maintenance. And so again, strongly returning.

And there's another bucket of commercial assets which is all around our dispense assets, which we own and they tend to be 10 to 15 million pounds a year. So in terms of the question of maintenance versus growth, very focused on growth investment. I would say less than 40% is care and maintenance. And so the majority of that capital that we're spending is really towards growth. In terms of further beyond '23, with guide at the right time, I would expect it to be somewhere around about 80 to 90 million on a more medium term basis.

Simon Hales: Hi, Simon Hales from Citi. Simon, can I just come back to your comments around Private Label? I think in previous downturns, clearly we've seen Robinson's suffer from that shift to own label. Where are we now compared to previous downturns in terms of the price premium of Robinson's? And maybe more broadly, what gives you the confidence perhaps that the Robinson's brand can weather this storm better than perhaps it did in previous downturns. Obviously you've expanded the portfolio in recent years at different price points. I'm just interested in your broader views there.

Simon Litherland: Great. Yeah, look, Robinson is a significant premium. I think our average retail price for Rob's is over a pound 50 and forown label, it's closer to a pound. Clearly relative to some of our branded competitors, it's less of a premium and holding that is key and that's why we're going to increase our investment behind the brand. I think the good, better, best strategy has really worked for us. Clearly at the top end, you're appealing to different consumers and at a more premium price point. So what we're talking about is effectively good, which is where the big rub with own label comes. But the Rob's benefits, we've got benefits drops and adding benefits into Rob's as well. We think that's an exciting opportunity for us and we've got strong marketing campaigns featuring display and distribution gains coming through some of the big retailers as well.

So we've got a really exciting plan. There will always be some trade down in that category, but we believe we got a really good chance of maintaining and growing share into '23.

Ashton Olds: Hi, guys. Ashton Olds here from Berenberg. A couple questions from me. Maybe firstly just on the hedging, you see that one of the key deltas in the cost base was the movement in conversion costs. Is that something you can hedge against? Secondly, just on the hedging profile for FY23, you said you're about 70%. Can you give us a bit of color as to what those exposures are and then as you build exposure into FY24, I imagine it's pretty difficult to give a definitive answer, but do you of feel as if the cost base is looking a bit more flat on FY24 versus FY23? Sorry-

Joanne Wilson: You tell me. {laughter}

Ashton Olds: No, no, no. I'm just trying to, I guess, just trying to understand the shape of cost inflation. And finally maybe one for you Simon, just on volumes, I think they're up 2% in the second half and that was with a bit of a boost from the good weather. How are you thinking about the volume trajectory into FY23, particularly with your pricing actions and what you think around elasticities? Cheers, guys.

Joanne Wilson: Okay, so if I just start with the conversion course. So I think what we've seen in the last three months is a lot of market volatility around the cost of energy in particular. And many of our suppliers aren't hedged, so we are hedged. If you look at par and gas, we are over 80% hedged for par and over 90% for gas. So from a direct point of view, good visibility in what those costs are.

In packaging like plastic bottles and glass, which are a small percentage of our overall, and cans, which are obviously a bigger percentage, there is a significant part of that cost is driven by the conversion, so it's energy intensive processes and also labor. And so therefore we're seeing an indirect effect, if you like, from that volatility and energy from some of our suppliers who aren't hedged from both energy and labor.

So what we are able to do is we're working with some of our suppliers to hedge on their behalf and make sure that we mitigate all of those costs, look at the manufacturing, the process, and look where we can partner with them to reduce costs. But that does drive a little bit of volatility as...

... costs. But that does drive a little bit of volatility as we go through the year, because we can't obviously manage all of that cost. And I think we're not alone. I think across the industry others are experiencing that.

In terms of the profile for '23, we're over 70% hedged and that's across everything. So if I look at the commodities, we do hedge aluminum, sugar I touched on, gas and power, carbon. We're 100% hedged on carbon. We're over 80% hedged on aluminum, so a much higher level than 70%. There are certain things that we can't hedge and therefore we have more exposures. So ingredients, acid's more difficult, juices. But we spent a lot of time in the last 12 months building our resilience and we're holding higher stock levels of those ingredients where we've seen more inflation. So, that will help where we've seen supply chain disruption. So going into this year, a lot more resilient than we were 12 months ago. And obviously we don't hedge 100%, so we'll go up to maybe 80, 90%. So in the second half we'll have a little bit more exposure in some of the items like aluminum and par that I touched on. But I think overall over 70% at this time, the point of the year, great visibility and make sure that we can build the right plans and execute against those.

In terms of FY24, honestly really, who knows? I think what we have learned over the last 12 to 18 months is the supply shocks that come either from geopolitical or other constraints across the global supply chain. And what we've just got used to doing is dealing with those really effectively. We've had CO2, we've had assets, is another great example, sweeteners, and we've managed to build resilience as I say. So I think the risk of those shocks is probably a little bit lower, but you can't mitigate that against that fully. I think if we go beyond '23, and it's only my personal view, well, we may continue to see inflation is on labor and wages. So if you look at the gap between real incomes and inflation, that remains significant. And then also on energy. So if you look at energy across Europe, it feels that that will remain elevated and a challenge, but there are opportunities to look at purchase power agreements as well and we're looking at those to mitigate that further on risk.

Simon Litherland: Look, I don't know the answer to the question. I don't know what the consumer does. What I can say is, look, I think revenue will be more price led than volume led, revenue growth in the year. I'd also just repeat what I said earlier, that this category is relatively and elastically, it is a low price consumable, it is an affordable treat. In past recessions, volumes have held up well and certainly our intent is to outperform the market both from a volume and a value perspective. And we have really clear growth drivers in each of our markets, as I hope sort of came across in the presentation. Our core brands have got momentum and that's not just the lapping or the hot summer. They genuinely have got momentum.

We've got clear growth drivers, whether that be through specific channels or through specific customers. And of course, this category, a lot of it is sold on promotion, 60 to 70% of sales are on promotion. So it is an impulse category. So gaining the distribution, gaining the featured and display where the exciting in-store activation makes a real difference. And I think we're getting that right. We've got great customer relationships and we're bringing excitement to the category. So look, I genuinely don't know, that is probably the single biggest question we have is exactly how volumes turn out. But we've got really robust plans and I'm really confident that we'll find a way to respond to the market and find a way to have a great year.

Richard Felton: Good morning. Richard Felton from Goldman Sachs. Two questions for me please. First of all, could you provide a little bit more color on what the Kantar commercial tool brings to your decision making? Is it better data? Is it faster information? And how has that impacted your approach to RGM this year and how can you maybe leverage it more in '23 as you face another year of elevated COGS pressure? And then my second one is, it'd be great to hear some more detail on the opportunity of your global premium brands. Obviously impressive growth this year, sounds like you're quite focused on driving that opportunity further. So how big is it as a percentage of a group today and how does the gross margin profile of those brands compare to group average? Thank you.

Joanne Wilson: Do I do the Kantar?

Simon Litherland: Correct. Yeah.

Joanne Wilson: Thanks, Richard. So we went live with the Kantar system in February, so we've spent the last six months embedding that and we have a good return from that implementation plan for this year. I mean, you sort of answered the question. The most helpful thing that we now have is real time data on our promotions. So we see much quicker how those promotions are working for us. And as we build up data on promotions that have worked at different times in the year and on different groups, different skews, we get better and better at the returns we get from those promotions. That's really the key.

The other benefit is how we work with our customers. So before we implemented the system, we've improved all of our product and our customer hierarchies. So that means better visibility and transparency with them, which goes into building our JBPs and our trade plans for the year with them. And it's a tool that we'll continue to build on and continue to deliver strong returns from it. But, very confident. I think it's an incredibly timely investment, because promotional activity and how we optimise that is going to be key this year to mitigating the inflations. We talk a lot about headline price, but our category has got 50 to 60% promotional participation and been able to drive and optimise returns and that will be key.

Simon Litherland: Yeah, thanks Richard. Our global premium brands, look, we're really excited about both Mathieu Teisseire and London Essence. They bounced back really strongly from COVID and clearly the launch strategy, particularly for London Essence was into the on trade. So that really did sort of hold us back for a couple of years. And actually what it created was the opportunity to go into retail, particularly in bigger markets like GB and Ireland earlier and performance has been really strong. We grew over 90% in GB when the category declined. Still really relatively small, still very small, sort of hardly registering from a group perspective, but growing really fast. And we've always said these brands will take five, six, seven years, but we are getting traction and we're getting traction from distributors around the world. We continue to build our distribution both in the on trade and in the retail channel in GB, I, and now in Belgium and Holland as well. And at some stage you get to a tipping point where we will start to scale.

Mathieu Teisseire is a higher margin brand. It's actually one of our highest margin brands in the portfolio and I think this is a real exciting proposition for us. It's bang on trend, flavoring water, coffee, alcohol and non-alcoholic beverages. It's also used for desserts and flavoring desserts, et cetera. So a really wide spectrum of use for the brand.

And in terms of scale, Moulin is probably the point of reference, which is a global brand and of good scale, over £300 million. So it's a big enough category and we're starting to get some really exciting traction with it.

London Essence, actually slightly lower margin at the moment and lower than our group margin, primarily because it's outsourced in the UK and we will start to bring that in house as we add more capacity. So cans will come in in '23 and we'll look to bring glass in, in due course. And then clearly most of our manufacturing is localised as well, but as these brands do scale up, our intent will be to look for local manufacturing as well in due course. Thanks, Richard.

Andrew Ford: Morning. Andrew Ford from Peel Hunt. Just a couple of questions from me and the first one, apologies, it might have already been answered, but on managing that double-digit cogs increase you're expecting next year, what sort of balance do you see between the recovery being between price and promotion versus the value engineering side and cost control? And following on from that, it feels like we might be reaching sort of a tipping point with how much price the UK consumer can bear as a whole. And I understand the category is fairly resilient, but obviously some of your customers will be looking at maybe a bit more holistically. So I wonder if you can give us an idea of how much harder pricing discussions are getting with your customers. Thanks.

Simon Litherland: Yeah, sure. Shall I take the second one?

Joanne Wilson: Yeah.

Simon Litherland: Which is the easier one and you can do the first. So look, I mean we start from a really good place with our customers and I think a lot of it has highly approached the conversation. We have successfully got price away across our markets with probably France being the most challenging. And I think that will prove to be the case this year. We're really confident in GB and I that we will get the price we want, some of it's headline and some of it's promo management. And so frequency and depth, that's very much in our control and we can see how that plays out as the year progresses. And depending where the consumer is, we'll be able to tweak that through the year. So over time, it'll get more difficult, but at this stage we're really confident for '23. And in Brazil, as Joanne said earlier, we took some big price increases to the back end of our last fiscal. So we're needing to take price in the first half, certainly in Brazil, and I say France being our big challenge.

Joanne Wilson: So look, I think how to answer this question is taking price is the biggest driver to offset the inflation that we see, but it's not the only lever that we have. So we've talked about promotional strategy, we've also talked about our price pack architecture and the cost efficiencies. And if I come back to price, in '23, we will have rollover benefit from the price that we took partway through '22. And in a market like Brazil, that will be very important in '23 to mitigate the inflation that we're seeing. And we're not anticipating taking further price in Brazil until the second half as a result of that rollover. In GB and Ireland, we talked about Kantar that will also support the returns from that implementation, some of the mitigation against inflation this year. And in price, we will take the price that we believe that we need to take and that is a responsible price to take for our consumers as well based on the elasticities that we understand.

From a promotional point of view, as I said, we tend to gloss over that, but it is a key lever for us and we've done this through the last 12, 18 months, quarter to quarter, what do we need to do with our promotions and how do we need to work with our customers to make sure that we have the right value proposition at the shelf edge? I mean, I think soft drinks offers fantastic value for consumers and we can dial that up or we can deescalate it if we need to. And our lead times to doing that are much shorter than they were two to three years ago. So that gives us agility and flex. We've got much better at in-store execution, the F&D as well, which supports that, which means that more of that can help mitigate the inflationary pressures that we're seeing. And also in PPA, we're very much focused on making sure we have the right entry price points across value retail as well as the grocery malls, making sure that that's right for the consumer and also that that's driving the right PPL for us.

We talked about efficiencies, so you mentioned value engineering. We also have our digital manufacturing program that's ongoing and will continue to drive efficiencies through our supply chain. We have taken a very disciplined approach to discretionary spend. We haven't allowed all of the pre-COVID costs to come back into our P&L and I think that's important. And across the business, we're always looking at opportunities to reduce cost and you've seen that in '22 where the decline of brand contribution was offset, not just by operating leverage, but also efficiencies in the rest of the P&L. So if I were to answer your question, the majority comes from revenue growth management, so I'd say 80, 90% and the rest from other efficiencies.

Simon Litherland: Very good. Okay. I've been given the time check. Listen, thanks very much to everyone for your questions. Thanks for coming today. It's really great to see everyone face to face again. Thank you.

Joanne Wilson: Thank you.