Transcript Earnings Call related to JDE Peet's Full Year 2021 Results

Operator: Good morning and thank you for joining JDE Peet's full year 2021 earnings call. My name is Nazanin and I'll be your operator for the call. For the duration of the presentation, all participants will be in a listen-only mode, and the conference call is being recorded. Following the presentation, there will be an opportunity to ask questions, so if you do have a question, please press zero one on your telephone keypad. And if you wish to withdraw your question, you may do so by pressing zero two to cancel.

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

Robin Jansen: Thank you Nazanin and good morning everyone, and welcome to JDE Peet's earnings call related to the financial performance of full year 2021. 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 full year business performance. After that, Scott will tell you more about the financial performance in 2021. Fabien will end today's presentation with our outlook for 2022 and some closing remarks. After that, we will be happy to answer your questions.

But, before we begin, I'd like to direct your attention to the disclaimer regarding non-IFRS measures and forward-looking statements on slide two. We would kindly like to ask you to read this information carefully. Our press release was published at 7.00 am CET this morning, the release as well as the slide deck related to this call are also available for download from the investor relation's section on our website. A full transcript of this conference call will also be made available in the same section of our website, as soon as possible after this call.

With that, let me hand over to Fabien.

Fabien Simon: Thank you Robin, and thank you everyone for joining the call today and for your interest in JDE Peet's. I trust that you and your relatives are all doing well.

A bit more than a year ago, we shared that JDE Peet's is a defensive growth story by nature, but with a view of greater top line opportunities than what the company delivered historically. So, our agenda since then has been to get structured to unleash these opportunities, with pace, but not at any cost, as it must go hand in hand with quality of delivery, that we believe is the guarantee for long-term success and for compounding shareholder value creation.

Our 2021 results do reflect the strategic pivot of an accelerated quality growth, and in all modesty, I believe we are truly standing out, not only on what was achieved but as well on how they have been delivered. And before turning to the key highlights of the year, I would like to recognise all the JDE Peet's teams around the world, as well as our broad ecosystem partners, who have been at the centre of this strong performance and who demonstrated exceptional agility in a year of global supply chain disruptions, and surge of inflation that came on top of continued pandemic challenges.

Now, turning to the highlights on 2021. I would say that in 2021, as we reinvested within our portfolio, and reinforced operational discipline, we delivered on all the promises that the coffee and tea category offer.

Our organic sales grew by 6.1% with a growth rate almost doubling in H2 versus H1 at 7.9%. We will share in a few moments that the revenue growth has been broad-based, overall well-balanced between volume-mix and pricing, and over-indexed on the refreshed strategic priorities.

As guided earlier in the year, we invested more than €110 million above prior year, to support our long-term goals with the majority being on marketing spend that increased by 27% or €87 million versus 2020. We fully self-funded the reset of investments, with a renewed discipline on gross profit, that was up by 5.4% organically, despite the supply chain disruptions and despite inflation, that started to hit our P&L in 2021.

At the time we were exiting the first quarter of 2021, we took the view that inflation would likely strengthen and here to stay. We therefore anticipated mitigation actions on our cost base, but were as well preparing ourselves for multiple waves of price increases around our markets globally, for 2021, and for 2022. And for the full second year [half] of 2021, we posted 4.3% net price increase already. And the external market data suggests that we have been leading on these price increases in the majority of our geographies, on both timing and the level of pricing.

And as we were reinvesting behind our brands and leading on pricing, we were very satisfied with our market share that did hold nicely, and even increased in three categories out of five, with the two others broadly stable.

In 2021 we maintained our financial discipline with free cash flow above the historical level and over €1.3 billion in the year, which positioned us very well towards our optimal leverage level, as we reach below the 2.7 times level at the end of December.

So, overall, the resulting higher operating profits for the year and structurally lower net finance expenses increased our earnings per share by 13.7% despite higher tax charges.

Last but not least, we stepped up our commitment to an inclusive growth model with tracking, tangible progress and higher ambitions going forward on sustainability that I will share in a moment.

So, let's now zoom on our organic growth starting with slide six here. So, here I would like to put our 2021 performance into perspective of the historical growth level. So, besides the acceleration in the second part of the year, there is clear evidence that we are elevating our revenue growth to a new level.

In-home coffee and tea consumption which is the centre of gravity of our business, is being recast as the new coffee shop. This explains why our revenue growth there remains very strong at +5% despite a high base of more than 9% in 2020.

In parallel, we do benefit from gradual recovery of the away-from-home channels that grew by 11.5% organically in 2021, and still offers opportunities for further upside.

Now, let's go to the page here on the screen and take a closer look at the main drivers of our growth, across geographies, channels, brands and categories.

During our Capital Markets Day in March, we spent a fair amount of time explaining why and where we needed to reset our investments. Back then, we disclosed the intention to spend an additional €100 million in 2021, behind our strategic growth priorities. I think ultimately, we invested more than €110 million with double-digit growth increase in areas like working media, performance marketing or coffee machine placements. We invested as well further on sustainability, and accelerating growth capabilities such as digital commerce or emerging markets. And looking at the left-hand side of the chart, it is clear that this investment and our efforts are paying off. All our refreshed strategic priorities are posting double-digit or high single-digit growth rates, which benchmarks us very competitively in each respective area.

Geographically, US grew 11%, China by 19% and overall we posted double-digit growth level in the emerging markets. From a channel perspective, besides the away from home recovery I talked about earlier, ecommerce delivered close to 30% growth, and we are accelerating the brand building of Peet's in China, with more than doubling the number of coffee stores in 2021, reaching 70 stores at the end of December.

Brands benefited greatly from the step up in investments as all three brand tiers contributed to JDE Peet's overall growth performance, with a stronger level from the aspirational global brands, L'OR, Peet's or Illy, but, as well, just shy of double-digit for our combined iconic local jewel brands such as Pilao in Brazil, Jacques Vabre in France or OldTown in South East Asia.

Finally, from a category perspective, our priorities area Single Serve, Beans and Premium Instant, jointly grew by 7% organically with a higher level than that for both aluminium capsules and beans.

I think this very strong set of results, across the various lenses of our portfolio reinforces two strong beliefs. First, our portfolio responds very well to investments and we should continue to invest at sufficient and consistent level, behind these rightly defined strategic priorities. And secondly, by doing so, we are structurally elevating the organic revenue growth rate of JDE Peet's to a new level.

On the next slide, we want to disclose in full transparency our market share performance per category, in light of our intentional pricing dynamic. We all hear about unprecedented levels of inflation across the input costs from raw materials, packaging, logistics, energy and labour cost.

JDE Peet's is not immune from that, and as a pure player on coffee and tea we are specifically exposed to the price of green beans that is registering one of the highest commodity inflation globally with more than 100% increase for Arabica, for instance, over the last 12 months.

With such a combined level of inflation, there is no other way than pricing, but the two positive sides of the equation for us, and I would say as well for the retailers are, one, every study confirms that in-home coffee is at the bottom of the elasticity curve in the consumer goods universe. And second, history told us that the volatility of green beans, up or down, is being reflected on shelf with a few quarters lead time.

So, we started our intentionality on pricing already in 2021, and according to available market data, ahead of branded players, in the majority of our markets, with 4.3% in H2, which is on average, with a lower level in Q3, and a higher level than that in Q4 as we are exiting the year.

And in 2021, we have not noticed disruptions on our market share performance, as you can read on the right-hand side of the chart. We have gained share in three categories out of five, and pretty much hold our share on the two other ones. In total we even gained volume market share on the entire year of 2021. So, of course, we will continue to monitor it closely, as we are entering a greater and more holistic level of inflation in 2022. But the second part of 2021 gives me confidence that our portfolio of brands have strengths which are very important at time of inflation.

Before I hand over the call to Scott, I would like to update you on the progress we've made across our sustainability agenda.

At the beginning of the call I referred to the belief of quality delivery as a prerequisite for sustained shareholder value creation, I think alongside consumer experience, excellence in execution, or financial discipline, quality entails as well, fostering an inclusive ecosystem and a high standard on ESG, and they all go hand in hand.

And next to the achievements we've shared with you when we announced our results in H1, I would like to call out that since July of 2021, all the palm oil we buy is now RSPO-certified, compared to only 31% in 2020, and we are well on our way to have 100% of coffee and tea responsibly sourced by 2025.

In addition, we have managed to have 40% of recycled material within our total packaging. And both RSPO-certified and the level of recycled materials, are commitments we made historically targeting 2025, so we really leapfrogged to achieve those in 2021. We also joined the UN Global Compact during the second part of the year.

The most recent event I'm particularly proud of is the approval of our climate strategy, or our greenhouse gas emission target, that had been submitted and approved by SBti, which is a science-based reference in this field. This means that we have now formalised a few weeks ago, our commitments to reduce the absolute greenhouse gas emissions for scope one and two, by 25%, and for scope three by 12.5% by 2030, from our 2020 base year.

To be transparent, in my view, I think we were late, and lagging behind most of the blue-chip CPG companies in committing to greenhouse gas reductions, we have now course-corrected that. Some might question why a 2030 target, why not 2050, as often seen. Actually, delivering on our 2030 ambition should position us very well on the trajectory to reaching net zero greenhouse gas emissions across our entire value chain by 2050. But I think it was very important as well, I believe, that we make ourselves accountable for the short to mid-term reductions, rather than a hypothetical long-term one that would more become a legacy commitment left to future generations of leaders for the company.

And of course with commitment comes transparency and delivery. And I am very pleased to share that already in 2021, we are on our way down, and the detailed measure we have now in place, confirms that we reduced our greenhouse gas emissions across scope 1, scope 2 and scope 3 combined, by 5.3%, despite an increased volume sourced, processed and sold this year. This absolute level of reduction is likely benchmarking us very well for 2021, but we see it as a journey, and we will continue with determination to make every cup of coffee and tea, not only with higher absolute margin, but as well, more sustainable year over year. With that, I will hand over the call to Scott, and I will be back to discuss the outlook before we go to Q&A.

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

Let's go to slide 11 to take you through the most important financial highlights of 2021, and after that, as usual, into a bit more detail on our sales, EBIT, the performance of each segment, as well as our performance related to profit, cash and our financial position. After that, I will finish with a quick reminder of our capital allocation priorities and share the board's dividend proposal with you. As mentioned earlier by Fabien, our overall organic sales growth of 6.1% was driven by organic sales growth of 5% in in-home and 11.5% in away-from-home. In terms of profitability, our adjusted EBIT grew organically by 1.5% compared to last year, and our underlying earnings per share, increased by 13.7%. When it comes to cash and debt, we generated close to €1.4 billion of free cash flow, which enabled us to decrease our leverage to below 2.7 times. Let's now move to the following slide to take a closer look at sales.

Our organic sales growth of 6.1% was driven by 3.5% growth from volume and mix, and 2.5% from price. While we had the same level of volume and mix as we had in H1, we had a greater contribution from pricing, with 4.3% pricing in H2, accelerating our top line growth. FX movements negatively impacted sales by 1%, mainly as a result of the appreciation of the euro against the US dollar, Brazilian Real, the Turkish Lira and the Russian Ruble; and this together with a minor change in scope, resulted in reported sales growth of 5.3% to €7 billion on a reported basis.

Let's now move to slide 13, to provide you with a bit more detail about our adjusted EBIT performance. The 1.5% organic growth of the adjusted EBIT that I referred to earlier was driven by a 5.4% organic increase in gross profit, of which we reinvested a meaningful part back into A&P to support our brands and other SG&A to build capabilities to fuel growth, particularly behind our strategic priorities. Fluctuations in FX decreased adjusted EBIT by 0.4% while changes in scope and other small non-organic items, added 1% of growth to the reported adjusted EBIT growth of 2%.

Now, on the next slide, you see an overview of the organic sales and adjusted EBIT performance by segment. CPG Europe continued to benefit from elevated in-home consumption and continued focus on premium offerings. As it delivered 2.6% organic sales growth, despite the challenging year on year comparisons, and the gradual easing of lockdown measures in many markets. Sales performance was broad-based across countries with particularly strong contributions coming from markets like France, Germany, Poland and Denmark, and continued momentum in premium categories, like beans, capsules and other single serve offerings like Tassimo T-Discs. And despite a strong double digit increase in investments in A&P as well as in other growth opportunities, the organic adjusted EBIT was only slightly down, resulting in a two-year CAGR of 6.8%.

CPG LARMEA delivered particularly strong and geographically broad-based organic top line growth of 17% as the segment increased prices while continuing to deliver healthy volume and mix growth. From a category perspective, growth was mainly driven by roast and ground, and premium instant offerings. Organic adjusted EBIT decreased organically by 4.7% driven by higher A&P spend, higher cost of goods sold, and the timing of implementation of price increases to pass through inflation. Due to the catch up in pricing, the EBIT improved in H2; on a two-year CAGR, the organic adjusted EBIT growth was 7.7%.

Robin Jansen: We will pick it up from the comments that Scott was providing on CPG APAC and once again, apologies for the inconvenience.

Scott Gray: Alright, thanks Robin. Apologies. So, in regards to CPG APAC and I’ll make sure to recap there, various markets entered into new lockdowns in the course of 2021, which in many cases were stricter than the initial restrictions in 2020 that we saw, thereby further impacting the away from home businesses and the macroeconomic environment overall. As a result, organic sales performance and various markets in Southeast Asia were in decline, but China on the other hand, continued to deliver strong double-digit performance. The adjusted EBIT decreased organically by 31.2% as a result of lower operational leverage and significantly higher A&P spend and other investments in growth in the region. On a two-year CAGR, the organic adjusted EBIT declined by 4.5%.

Now, at Peet’s, the total segment delivered sales growth of 12.3%, driven by both volume and mix, and pricing. The CPG business continued to deliver solid, single digit, organic sales growth, despite a tough year over year comparison, resulting in a two-year CAGR of nearly 20%. On the away-from-home side, Peet’s coffee stores experienced a strong pick up in same store sales growth as the US started to reopen over the course of the year, while the other away-from-home channels were still impacted by relatively low returns to offices. Adjusted EBIT increased organically by 20.8%, largely driven by operational leverage, the recovery in away from home, and disciplined cost management, which was partly offset by incremental investments to increase household penetration in CPG. Based on a two-year CAGR, the organic adjusted EBIT growth was 18.9%.

And, as mentioned before, in most of our out-of-home markets, lockdown measures started to be gradually eased over the course of 2021, most notably in the second half of the year, despite some reversal of easings towards the end of the year. As a result, sales in the out of home segment, accelerated from a by and large stable level of organic sales growth in the first half of the year, to 27% growth in the second half of the year. Due to these improving activity levels in various out-of-home channels, and the various structural cost measures we took since the outbreak, the out-of-home segment was able to significantly improve its profitability in 2021.

Let’s now take a look at our underlying profit in absolute terms, and per share, on the next slide, which is slide 15. Our underlying earnings per share increased by 13.7% or 22 cents, to €1.79. As you can see on this slide, the majority of the increase was driven by operational improvements, which can be split between the increase in organic adjusted EBIT and the impact of our refinancing and deleveraging efforts, throughout 2021. Next to these operational improvements, our underlying profit also benefited from the change in the net impact from fair value changes of derivatives and FX results, partly offset by a somewhat higher underlying tax rate, of 25%, which we estimate to be at a similar level in full year 2022.

Let me now share a bit more detail on our free cash flow and net debt developments. As you can see on this slide, in 2021, our business delivered a total free cash flow of close to €1.4 billion, an increase versus last year, which brings our average cash conversion, which is our free cash flow after CAPEX, as a percentage of EBITDA, over the last three years, to 73%. As you can see on the right-hand side of the chart, our strong free cash flow enabled us to reduce our net debt by €835 million, as we always maintained discipline across all the lines, while investing in the business and adhering to our capital allocation priorities.

Now, on the next slide, which is slide 17, you see an update of our net debt evolution and how our consistently strong free cash flow generation has enabled us to reduce our net debt by more than €2.2 billion since the end of 2019. We continued our steady path of leverage reduction in 2021, bringing net leverage down to 2.67 times, a further reduction of over a half a turn, during the course of the year, which positions us well on our path to an optimal leverage level of around 2.5 times.

Next to that, as you can see on slide 18, we have substantially strengthened our financial position and capital structure in 2021, through the initial refinancing, back in March, and the subsequent euro and dollar bond issuances we did over the course of the remainder of the year, at very compelling terms, as you can see on this slide, as we took advantage of the historically low interest rate environment. As a result, our average cost of debt has halved, to 1.2%, our weighted average maturity was extended by about four years to six years, and our total liquidity basically doubled to €2.1 billion at the end of 2021. As of the end of the year, we had no bank loans outstanding.

Before handing back to Fabien, I'd like to briefly remind you of our capital allocation priorities and share the board's dividend proposal with you. Therefore, moving to slide 19: 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 in 2021, you will see that they are very consistent with our capital allocation priorities, which we first shared with you during our capital markets day, back in March.

On the next slide, lastly: Based on our capital allocation priorities, our dividend policy, and our financial performance in 2021, the board will propose to the AGM in May, to pay a dividend related to full year 2021 of 70 euro cents per share in cash, to be paid, similar to last year's dividend, in two instalments of 35 euro cents each, in July 2022, and January 2023.

Let me now hand back to Fabien to the outlook before we open the call for Q&A.

Fabien Simon: Thanks Scott, and let's now turn to slide 22, to remind you on our medium to long-term targets and share our thinking around the outlook for the full year 2022.

We have made solid progress in 2021 and have really strengthened the company in many areas, in a year in which the world was again faced with a very challenging environment, and although we do not expect that uncertainty and volatility around us will go away any time soon, we remain confident and committed to our long-term algorithm of 3-5% organic sales growth, mid-single digit organic adjusted EBIT growth, free cash flow conversion of around 70% and stable dividend flows, which we expect to sustainably grow over time, as Scott just alluded to.

Now, when it comes to 2022, it goes without saying that we believe the biggest element we will face this year is the unprecedented level of inflation across many input costs, and the related volatility and uncertainty that comes with it.

Within this context, we expect to deliver double-digit organic sales growth, as we will be disciplined to price for inflation. And we will aim for a stable level of absolute gross profit, compared to last year. We will also continue to increase our investments where we see fit in our strategic growth opportunities while keeping a tight focus on other cost items. And we aim to deliver free cash flow of at least €1 billion in 2022.

I would like to conclude today's presentation with the following messages here. I think we have made good progress on our new strategic priorities and the performance in 2021 was very strong and broad-based. Beyond the financial delivery I am very pleased by the way it was achieved, which makes it standing out in my view and a pivot to recent years' performance.

We closed 2021 being a stronger and nimbler company with a structurally higher growth profile, with greater operational discipline and with a solidified capital structure. We realise how fortunate we are to operate in a very attractive and resilient category, coffee and tea, with a powerful and unique portfolio of brands, which gives me confidence that JDE Peet's can successfully navigate this year of inflation in 2022.

With that, I will now turn it over to the operator to start the Q&A.

Questions and Answers

Operator: Thank you, and ladies and gentlemen, we are now ready to take your questions. So, if you wish to ask a question, please press zero one on your telephone keypad. That's zero one on your telephone keypad to ask a question. And please remember that you're limited to one question and a follow up per round.

Our first question comes from the line of David Hayes from SocGen, please go ahead.

David Hayes (SocGen): Thank you, good morning all. Two questions from me, the first one on the gross profit and the margin, and the second one on A&P. So, on the gross profit and the margin, just taking the maths on the outlook, 10% plus top line growth, flat-ish target for gross profit absolute, which I guess on the maths looks like a 450 to 500 basis points gross margin reduction, I just want to check that's the right interpretation of the numbers, and that that logic is sensible.

And then the second question on the A&P uplift, because you obviously spent that money that you talked about spending, and A&P went up as a percentage of sales; is that likely to be repeated in '22? Or is the A&P level now at a level that you think is to be sustained going forward as a percentage of sales? Thanks so much.

Fabien Simon: Thank you David, let me start and Scott can build on. Maybe I can start with the A&P side, and Scott can talk about more on gross profit margin. You know, we are very clear that we have almost two agendas for this year.

One, we will navigate and we will overcome the headwind of inflation, but, at the same time, we want to ensure we keep course on focusing on our long-term growth opportunities, because we know it's what creates value over time, and this year, our portfolio has been proving having the ability to respond extremely well to these investments.

So, of course we will be responsible and we will continue to invest when we see good incremental return, I mean we don't want to spend just for the sake of spending the level of investment.

I think we are very, very pleased with 2021, if I look at the exit rate of the year, of the second part of the year, we have now already spent more on the second part of 2021 than we had even back then, on the second half of 2019.

So, we have really reset that level of investment; it was not fully the case in H1, but now we are really on the run-rate for H2. In particular, on the working media side, and in particular on the appliance side, which is a very important component when you are a coffee player with continued increase on single-serve.

Then to your question on how much would be the increase for next year, I think at this stage it's a bit difficult to answer. As I've said, we will be responsible, but when we see opportunities we will continue to do that. But, definitely the biggest part of the reset is done by now. I think that's probably the best indication I could give at this stage.

Scott Gray: I'll take the other second question which was the first question, in terms of evolution of margin and related to the gross profit outlook that we gave. I mean obviously we focus away a bit on margin percentage, especially during times of inflation and also just a function of the category, as you know, and as we've talked about in the past.

So, in terms of our 2022 outlook, what we've said is double-digit organic sales growth, so you were saying there I believe a minimal 10%, and so agreed there. And then also stable absolute gross profit, so not guiding to a particular margin percentage, really what we're doing is the way that we operate the business.

And that's to make sure that we protect and drive our absolute gross profit, which we will continue to do, and that was the spirit of the outlook that we gave, so nothing specific in terms of basis points on the margin. So, hopefully that answers your first question.

David Hayes: Thank you.

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

Tom Sykes (Deutsche Bank): Yeah, good morning everybody. Firstly, just I wonder if you could expand on any elasticity assumptions and the double-digit growth, and maybe just further to that, whether you're seeing different variances in elasticity across categories, so beans, roast and ground, single serve, instant.

And then just on the operational leverage in the out of home business; is that sort of fully up to where it should be now? Or is there more operational leverage that can come? And indeed, what did that business really look like now versus pre-pandemic, and what will it look like when it's at a more stable run rate please?

Fabien Simon: Yeah, good morning Tom. So let me start with the elasticity question. So I mean we know historically, as I have been alluding to earlier, coffee is really at the bottom of the elasticity curve, and we have seen, in the second part of 2021, an increased level of pricing across most of the geographies, not all of them, but most of them.

And so far, we have seen consumers being very resilient to this inflation, which has always been our belief. And we see that actually across all the categories, and we do not see really a category more or less inelastic than some others, which of course is reassuring.

On your second point, on out of home, we have been very pleased with our recovery. It has been exactly on where we have been anticipating it about 18 months ago. If you recall, we said that we believe it would take two to three years, with even very likely, at the end maybe only a 90-95% recovery curve, pre-pandemic level.

And that's why we have very quickly worked on adjusting our cost structure. I mean we let go a few hundreds of our teams. And I think we are very pleased with quite significant improvement on the profitability line.

I think the job is not over. I think we do still have opportunity that will be benefiting from the full year effect of all the actions we have been taking, but as well continuing to benefit from the recovery of the away-from-home. And if I look at the full year of 2021, we were at about 75% of pre-pandemic level. In Q4, at the exit rate, around 80-85%, which leaves still room in my view for opportunity for next year, in particular.

Tom Sykes: Okay, many thanks indeed.

Operator: And the next question comes from the line of Jon Cox, from Kepler Cheuvreux, please go ahead.

Jon Cox: Yeah, good morning guys, I have a question really back to what David was saying, on the gross profit and your guidance for absolute gross profit, you said clearly that you think that consumers can take the double-digit sales increases that you will need. I think in my model you will probably need something like 18/19% pricing. I'm just wondering – to do a full offset – I'm just wondering, why aren't you doing that, rather than, you know, you seem to be indicating maybe 10 or 11 or 12, or something like that, if you believe that consumers, you know, will accept some of those prices?

And I'm just wondering if you're holding a little bit back, you're worried about, you know, maybe pricing activities in the market, or you're thinking about acting strategically. I'm just wondering what your thought process, you know, behind that is.

And then just a sort of second question, as a follow up, just on the free cash flow, a fantastic print, 1.3 billion, but I think there's 500 million inflows from the payables. How long can you sort of do that, and what are your thoughts on payables for this year, given some of the trade financing and things like that, you use? Thank you.

Fabien Simon: Good morning, Jon, let me take the first one, and Scott can take the one on cash flow.

So, I think your question was more on our thought process on the outlook and the calibration of it. You've been quoting some numbers, but I think besides the fact that the magnitude of inflation for next year keeps evolving, so it's very difficult to quote precisely what it's going to be in 2022, I trust that you will appreciate that being a pure player on coffee and tea, everyone is watching us, is listening to what we say, and it is very commercial sensitive information whenever we will have to talk about the absolute level of inflation or pricing or hedging. So, we will have to be very, very careful of what we can say.

But, let me more come back to the thought process of the outlook and I hope – I trust I will answer most of the questions you were having.

What we like is to give guidance on what we have a high degree of certainty, because we want to be known to deliver on our commitments, which I think we have been well proving that in 2021. And we are in a year where there is still a combination of a very high level of inflation, quite a lot of uncertainty, there is quite a lot of volatility attached to it, and we are only at the beginning of the year, so we need to ensure we are going to get some variables a bit more fixed on the outlook.

And we decided instead to be very transparent actually, on the way we are navigating the company, the framework we use internally and how we are aligning and mobilising the entire organisation, which is, one, we will overcome the tailwind of inflation, which requires being very disciplined on pricing, and at the same time, we will continue to focus on the long-term on growth, and that's why we have been more talking about increasing the investments.

I think that should give a pretty good framework on where we see the year. I can talk a bit later, I'm sure we'll have a question on why am I confident we can really navigate well 2022 as far as inflation is concerned, which is very, very important to us that we are protecting our absolute gross profit.

I mean I am obsessed by margin, and I know that is the only way we can sustain and increase investments for growth on the long-term. We have an amazing portfolio of brands that will be a waste to cut investments on the short term, just to manage inflation. I think it will be even not be responsible from our side to do so, but of course we'll do that with reason.

And we think having been given guidance on double digit organic sales growth highlights very strongly our confidence in pricing to that level, but as well our ability to manage inflation, but as well good framework guidelines with gross profit, but as well with free cash flow at the same time.

Scott Gray: And Jon, on your second question in regards to the free cash flow performance in 2021 and regards to working capital and specifically on payables. Yeah, so we're very pleased with our, you know, once again, strong free cash flow performance, I mean delivering over 1.3 billion of free cash flow.

I think that's a testament to what we talked about in terms of the underlying fundamentals of the business and stability of the business to be able to consistently deliver over 1 billion of free cash flow, which we expect to continue.

And when we look at the drivers of that, I mean, yes, once again, working capital was a strong contributor, as it has been consistently the case over the last few years, and this is really about continuous improvement.

So, we did have an improvement in DPO. And this primarily came from mix, and also higher spend, for example, you know, spent more on strategic investments, A&P for example. And we did not have any change in coffee terms in this underlying performance on DPO. So, we did improve our DPO overall. At the same time, we also improved our DSO, so we reduced our DSO, and we did have some small headwind in terms of DIO that increased a little bit. And that was very intentional, also driven by higher prices on inventory, in terms of inventory costs, but also being a bit conservative in terms of managing during this period of challenging supply chain disruptions.

And then just one other thing to note, and we will disclose at another point, but I can tell you that supply chain financing did not increase in 2021, actually it is at a lower level than it was, versus 2020, in 2021. So, hopefully that answers your question there.

Jon Cox: And then just on the 1.3, just talking about 1 billion, are you just being a bit conservative then, or what is the thought process on the lower, you know, substantially lower free cash flow this year?

Scott Gray: Yeah, there, I mean we said 1 billion plus, so we'll be over 1 billion, and you know that we always strive to deliver very good cash conversion, and that will continue to be the case.

Jon Cox: Okay, great, thanks very much guys.

Scott Gray: Sure.

Operator: And the next question comes from the line of John Ennis from Goldman Sachs, please go ahead.

John Ennis (Goldman Sachs): Hello everyone, can I ask about the European market share performance, please? I guess when we look at the Nielsen data that we have access to, that the market share picture looks less positive than the data you have highlighted, at least at the group level, can you help with explaining these differences, is it a case that say Europe, in Europe sorry, your share performance is maybe more negative, but that’s being offset by other regions, or is it something else altogether? Would love to just hear what the differences are from your perspective. Thank you.

Fabien Simon: Yeah, good morning John, let me take this one. Before answering specifically on Europe, I want to give a couple of precisions on market share, because I know it gets a lot of attention, and we look at it too, but we don’t look at market share on a month-by-month basis. In particular, on the category where, at the moment where you see inflation, what matters to us is really I would say the evolution of our market share, not only one period which could be affected by different level of promotions for instance, so that’s an important one.

The second point I would highlight is, most are looking at European market share because there is not much available data on total company. That’s why we wanted to be very transparent, once again, on our total market share, because JDE Peet’s is not only Europe. Of course, Europe is an important component to us.

And the last thing, before answering your question is, because we are expanding our business into new channels for instance, I’m thinking about ecommerce in particular, what is happening is the coverage of Nielsen is becoming at a much lower level than what it was historically. Historically, Nielsen was covering about 85% of our business. If I look now, we more talk around 70%. So, we should be a bit mindful to not sometimes over-read purely on market share, and even less only a subset of the market share.

But to be very transparent to your questions, in Europe we have been having areas at a country level where we have been gaining shares, some where we have not. We have had categories where we have been gaining shares, and I’m thinking of aluminium capsules in markets like France, for instance, some where it was less the case. And most of the cases where we have not been gaining shares is because we’ve made the intentional choice to not participate in what we would call value-destruction promotions.

Net-net, we have had, although it’s very small, but a very tiny market share erosion to be fully transparent in Europe, which was more than compensated with market share gains in Europe, in Latin America, in Eastern Europe, in Africa, for instance.

But what is encouraging is if we look at the market shares, as we exit the year 2021, even in Europe, they are more on the upside. So, this is the answer to your question, John.

John Ennis: That’s very helpful, thank you very much.

Operator: And the next question comes from the line of Robert Vos from ABN Amro. Please go ahead.

Robert Jan Vos (ABN Amro): Yes, hi, good morning. I have two questions. Regarding your guidance of double-digit organic sales growth, it is obviously a rather broad concept, so my question would be, also to get a bit of sense of pricing needed, do you expect growth to be closer to the 10% than the 20%? That's my first question.

My second one, also related to guidance. Your target for a stable absolute level of gross profit, that's very clear. However, I assume that below the gross profit line, there is cost inflation as well. So, my question would be whether or not you think you will be able to match the 2021 EBIT of 1.3 billion in 2022, particularly because you have not provided the EBIT guidance for the year 2022. Thank you.

Fabien Simon: Robert, the line was really not great, but I think I picked up you had a question, the first one being on growth, is it more around 10 or 20%, quoting you, and the second one was on the stability of absolute gross profit, how do we manage inflation beside the coffee, I guess, or other lines?

Robin Jansen: And whether you can sustain EBIT at the absolute level.

Fabien Simon: Okay, so, let's start on the first one. I believe I have probably already answered the first question, is our growth going to be 10 or 20%, in fact it's really information which is really too sensitive, especially at the time we are still in the middle of some negotiations.

But maybe what I can give maybe is a positive tone to it, as one of the few reasons I'm pretty confident is, we have not left all the inflation impact and related price increases to happen in 2022. We have started already anticipating price increases in 2021, we talked about a bit more than 4% in H2, but we have really exited the year of 2021 at a higher level, almost close already to high single digit price inflation, because we could really anticipate that in geographies like Latin America or Eastern Europe or North America. But we know we still have quite a lot to do, especially in Europe. But we can't really talk more in detail on your questions.

And I think on the stability of the gross profit, similarly – sorry it was on the EBIT, we have talked really about gross profit, which we believe we will work on all our levers, being operational leverage, mix efficiencies, but as well of course, inflation which will be the biggest game.

But we will not I'd say manage the bottom line by cutting our investments for long-term growth. Having said that, we will do that, of course in a very, very reasonable way. We are doing a lot of work, as we speak, to analyse in detail the efficiency of all the investments we have been putting in 2021, because we want to make every euro count, before even spending more. And some other lines on the SG&A, it is where we have been proving to be extremely disciplined, this year, and will continue to do so. And I really can't really go much beyond this to your question.

Robert Jan Vos : Alright, that's very clear, thank you.

Operator: The next question comes from the line of Martin Deboo from Jefferies, please go ahead.

Martin Deboo (Jefferies): Yeah, morning everybody, Martin Deboo at Jefferies. Fabien, I just want to push you a bit harder on the second part of Robert's question we've just had, you know, you traditionally guide to organic EBIT growth. That is how you've historically focused, and your medium-term guidance is framed around that, but that's off the table this year and you're just steering to a gross profit guidance.

And you said quite rightly, it's a year of uncertainty, but actually to my eyes, the biggest uncertainty for you this year is the interplay between coffee inflation, pricing and volume elasticity. But you're actually saying you've got pretty good visibility of all that, and you're locking in gross profit guidance at flat.

So, slightly paradoxically, what you're suggesting is the biggest uncertainty is what's happening to your SG&A line because you don't feel able to guide to organic EBIT growth. So, I guess my question is, just what is the uncertainty on the SG&A line that means you're having to take EBIT guidance off the table this year?

Fabien Simon: Yes, thank you Martin, appreciate for you trying to clarify the question which was raised earlier. And I would really reiterate the key point I made, which is we really want to give guidance on where we have a high degree of certainty or high level of confidence, and really top priority is managing gross profit pricing.

And for the rest, as I've said, we have two agendas; we have managing the inflation, but at the same time, continuing to seed long-term growth, and growth requires investments. We have been showing it this year, we have been proving it very successfully.

So either on continuing to seed more coffee appliances, which is becoming critical to sustain long-term growth on single serve. Is it going to be on continuing to be successful in China? I think in China our numbers are standing out, if you would benchmark them. Similarly, in the US, we are only at 6% household penetration on the fantastic brand which is Peet's, that requires investment, but we are as well expanding our store footprint in China. We historically had the ambition to open 150 stores. You know how much we have been accelerating by having already at almost half of that, this year.

We know all these growth areas are accretive on our top line, are accretive on our margin over time, so we don't want to fall short of this investment, which we know is the best thing to do for the company over the long-term.

That's why we have been guiding on the key parameters for 2021 [2022], being the absolute gross profit, continuing to increase investment, that we will calibrate during the year depending on how things would settle, given all the uncertainty that we are facing.

But we'll do that in a very responsible way, for 2022, and for the future growth and value creation of the company.

Martin Deboo: Okay, thanks Fabien, thank you.

Operator: And we have time for one more question from the line of Celine Pannuti, from JP Morgan. Please go ahead.

Celine Pannuti (JP Morgan): Yes, thank you very much for taking my question. Probably, I'll start with Europe, CPG Europe, I think it was about flat in H2, could you give the split between volume, volume mix and pricing here?

And I presume the related question is on capsules. Your market share at the global level was negative; is that the case as well in Europe, and what have been, you know, if you could talk about, you know, the competitive launches that we've seen, for instance on the Nescafe brand, how do you think that could impact your price positioning in the European market?

And maybe just lastly to rebound on what you just said, so you increased investments by 110 million in '21 to grow to all the points you just mentioned, the appliances, China, US. So, maybe you don't want to give a number, but we should expect that another step up is on the table, sorry, for '22. Thank you.

Fabien Simon: Yes, good morning, Celine, so you have a couple of questions. So in Europe, so volume mix, shares, aluminium capsules, and overall A&P, to ensure I answer all of them. So I think we have actually been very pleased with our performance in Europe in H2. And of course we are still at the time of the year where it is not that easy to benchmark versus previous years given all the effect of the pandemic, and the impact between in-home and away-from-home. But in H2 in Europe, we have already started to price, and we have been using what is the most common way to increase price, which is to reduce our promotional intensity. And when you do that, of course, you have a bit of a lower volume effect as well as if you take on the short-term basis, some small market share erosions and we have had, but very tiny, as I've been sharing. It was mostly around, I would say, end Q3, beginning Q4. But if I look at the market share of Europe, as we exited the year, they were on the upside, compared to the quarter before.

And on the other question, on market share, on aluminium capsules, I think it's where we feel very comfortable and confident on our consumer propositions. If I look at our market share between H2 and H1, for instance, on aluminium capsules, it increased by 0.2 basis points – sorry, 20 basis points, to be fully transparent, which means that we know we are still doing very well. We have really, if you look, despite some of the competitive set you have been quoting earlier, we have been protecting our market share above the 41-42% level, which makes us the market leader in the space. And we have been growing overall in, I will not quote it exactly that level, but I can guarantee, we grew on a high single digit level, on our aluminium capsules in 2022 [2021].

To your question on A&P, as I've said a bit earlier, the reset of investments is behind us. It was very important that we were catching up, and I'm very pleased to see that in H2 we are already at a higher level than what we were before the pandemic, so it gives me a lot of reassurance. I don't want to quote a number, but if there would be any increase, it will be of course extremely reasonable, and without comparison to the 110 million increase we have been doing overall on growth, of which about 90 was purely for A&P.

Celine Pannuti: Thank you.

Closing Remarks

Operator: Thank you very much and I would now like to return the call to Fabien. Please go ahead.

Fabien Simon: Yeah, thank you very much Nazanin. So I don't have particular prepared remarks to conclude today's earnings call, other than reiterating that we are operating in one of the most attractive categories in the food and beverage space. And we are very fortunate with that, and we know that JDE Peet's has all what it takes to be successful in the long run, including in years of disruptions. I mean we proved that in 2021, and we really intend to prove that as well in 2022.

So, thank you again for joining us, and Scott, Robin and I are looking forward to speaking with you in the next days ahead. Stay well, stay safe, and have a great rest of the day. Thank you.

Scott Gray: Thank you.

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

[END OF TRANSCRIPT]