Transcript Earnings Call related to JDE Peet's' Full Year Results 2024

Operator: Good morning, and thank you for joining JDE Peet's Full Year 2024 Earnings Call. My name is Sharon, and I will be your operator for the call. For the duration of the call, all participants will be in listen-only mode and the conference call is being recorded. Following the presentation, there will be an opportunity to ask questions. If you do have a question, please press star one one on your telephone keypad. If you wish to withdraw your question, you may do so by pressing star one one again to cancel. .At this time, I would like to turn the call over to your first speaker, Robin Jansen, Director, Investor Relations for JDE Peet's. Please go ahead.

Robin Jansen: Good morning everyone and welcome to JDE Peet's earnings call related to our performance of 2024. With me are Rafa Oliveira, CEO, and Scott Gray, CFO. After my introduction, Rafa will take you through the operational and financial highlights related to our business performance in 2024.

After that, Scott will provide more details on the financial performance. Rafa will then share his observations and insights from his first 100 days in the role, followed by a discussion on our outlook and capital allocation priorities for 2025. After that, we will be happy to answer your questions.

Our press release was published at 7 am CET this morning. Both the release and the slide deck for this call are available for download in the Investors section of our website. A full transcript of this conference call will be made available there as soon as possible after this call.

Before handing over to Rafa, I'd like to draw your attention to the disclaimer on slide 3 regarding non-IFRS measures and forward-looking statements. Please take a moment to review this information carefully.

With that, I am pleased to hand over the call to you, Rafa.

Rafa Oliveira: Thank you Robin, and welcome everyone.

I am very honoured to speak with you today as the new CEO of JDE Peet's and share our 2024 highlights, which has been a strong year. After Scott reviews our 2024 financial performance,

I'll share my insights, opportunities and key priorities we have identified to create and unlock value in the short and long term.

Before Scott dives into the financial details, let me quickly walk you through the key highlights of 2024 on slide 5.

As you saw in this morning's press release, we delivered strong, broad-based results, outperforming our increased outlook across topline, profit and free cash flow. On an organic basis, our sales increased by 5.3% and our adjusted EBIT grew by 10.4%. Our free cash flow is back above the 1 billion euro mark, highlighting our strong cash-generating capabilities in a challenging environment.

This is definitely a great feat given the additional green coffee inflation we had to deal with again in 2024. The total level of inflation we faced in 2024 was about 350 million euros. We were able to offset this with efficiencies, productivities and price increases across products and markets.

This allowed us to protect our gross profit, enabling necessary investments for growth and profitability.

Despite the short term volume pressure we sometimes face during retailer negotiations, our market shares held up pretty well, especially in faster-growing categories such as aluminium capsules, beans, and pure instants. And where market shares were impacted in recent months, either during retailer negotiations or because other industry players lagged with their price increases, we've seen a rebound in recent reads.

2024 also marked the consolidation of Maratá and Caribou which we acquired in the first quarter of 2024. Their integration went well, and their contributions are aligned with the business plans.

Our strong financial performance and capital allocation allowed us to restore a more conservative balance sheet by year-end. We reduced our net leverage to 2.7x, bringing it back to the same level as at the end of 2023, before the acquisitions mentioned before.

I firmly believe that we exit 2024 from a position of strength, with stronger foundations and good momentum. We therefore propose to increase the dividend by 4.3% and plan to initiate a share buyback cycle of up to 1 billion euro, which I will discuss later in this call.

I want to quickly mention some innovations that started last year. Driven by consumer relevance, they will lie at the heart of our strategy, enabling us to deliver on consumer preferences while elevating the value of every cup.

We launched a string of new products to address evolving and expanding consumer needs and preferences, while we are staying true to our commitment to quality, sustainability, and adaptability.

We introduced, in 17 markets, the world's first fully recyclable at-home paper refill pack for soluble coffee, with at least another 5 markets to follow in 2025. These paper-based refills for brands such as Jacobs, L’OR, Kenco, and Douwe Egberts, reduce packaging materials by a stunning 97% compared to traditional jars and significantly cut CO2 emissions. Consumer acceptance is exceeding our expectations with, for instance in the UK, 20% higher volumes than regular refills. Results are really promising.

To expand coffee consumption occasions in Asia, OldTown is launching a Hot & Cold range in premium instant mixes for consumers that prefer a cold cup rather than a hot at certain occasions during the day. This new range includes unique flavours including Classic and Hazelnut, which by the way is OldTown’s bestselling flavour.

We also expanded into exciting new spaces. Peet’s, for instance, became the first major brand in the US to launch an Ultra Coffee Concentrate for at-home barista, combining convenience and exceptional taste in one bottle. The product has quickly been gaining traction and is exceeding expectations.

With L’OR Espresso, we partnered with Ferrari to introduce the strikingly bold "Passione Rossa", including capsules, whole beans and a L’OR Barista espresso brewer.

This unique offering is being rolled out across more than 25 countries, providing an unique opportunity to activate the L’OR brand. It contributed to 40 basis point market share increase the L’OR brand achieved in aluminum capsules. Those are just a few examples that show the capacity this company has to innovate. As I mentioned, this is a key pilar for a FMCG and you should expect an increasing contribution from consumer-led innovations in the future.

Sustainability also plays an important role in our day-to-day activities. I am impressed by our progress and ongoing projects driving innovation, reducing costs, enhancing trust, and securing the future of coffee and tea. Here, JDE Peet’s is a leader and we are on track to reach our long-term targets and commitments.

We are proud that our sustainability achievements earned us a spot in the prestigious Dow Jones Best-in-Class World Index.

Building on this momentum, we will keep investing while ensuring our sustainability performance and programmes are more closely connected to our brands, consumers and customer relevance. There is room to leverage more here.

I wanted to start with these highlights as they give a good guidance of the strengths of our results and what we can leverage further for the years to come. Scott will now take us through the full-year financials in more detail. After that, I will share my initial observations and key priorities for 2025. Over to you Scott.

Scott Gray: Thank you Rafa, and good morning to all of you. We delivered very well against our full-year outlook, which we increased at the time of the publication of our half-year results.

Organically, our sales increased by 5.3%, our adjusted gross profit increased by 6.1% and our adjusted EBIT by 10.4%, reflecting a strong delivery and a healthy improvement of the P&L. When including the net effect of forex and the consolidation of Maratá and Caribou, our sales increased by 7.9% to 8.8 billion, our adjusted EBIT increased to 1.3 billion, while our Free Cash Flow exceeded 1 billion euros . This is the strongest set of results we have delivered since the IPO.

I will now walk you through the drivers of our results starting with sales. Our organic sales growth was driven by pricing of 4.5% as we continue to pass through the necessary pricing to offset incremental inflation, and a solid volume/mix of 0.7% which was driven by LARMEA and Peet's. All categories contributed to the organic growth with, for instance, double-digit growth in Beans, high single-digit growth in Capsules and Instants, and mid-single-digit growth in Roast & Ground. Organic sales growth was also broad-based across geographies, brands and channels as you will see in a minute on the next slide.

The negative foreign exchange impact of 2.1% was mainly driven by the depreciation of the Brazilian real, the Turkish lira, and various other emerging market currencies. The 4.7% contribution from scope reflects this year's first time consolidation of Maratá and Caribou.

Let's now flip to slide 11 to have look at our sales performance by brand, channel, and geography.

Our global brands, Jacobs, L'OR and Peet's, together grew by 3.9% while our regional and local jewels such as Kenco, Douwe Egberts, Marcilla and Pilão together delivered 6.1% growth organically.

Channel-wise, our In-Home channels grew sales organically by 5.6% while our Away-from-Home business, excluding the coffee stores, grew by 3.1%, and the coffee stores increased sales by 5.7%, organically.

From a geographical perspective, developed markets in aggregate delivered 1.1%, while emerging markets grew by 18.3%, organically.

Let's now go to slide 12 to look in more detail at our EBIT performance.

Our organic adjusted EBIT increased by 10.4%. What you can see in this bridge is that during the year, we continued to focus on protecting our absolute gross profit. We increased prices to offset higher green coffee prices but we also drove productivities to offset inflation and SG&A.

Our A&P spend was slightly down organically, reflecting a relatively high comparable base due to the launch of L'OR Barista in the US in 2023, which required less investments in its second year. In Europe, APAC and Peet's, the level of A&P spend was actually stable or up.

On the next slide, slide 13, you see an overview of the organic sales and adjusted EBIT performance by segment.

Looking at the performances by segment, you can see that all four segments contributed to both topline and profitability.

In Europe, pricing was slightly up, while volumes in various European markets such as Germany and the Netherlands were impacted during the price negotiations with retailers that took place in the first as well as in the second half of 2024. Markets such as France, the UK, Ireland and in the Nordics, and brands including L'OR, Douwe Egberts and Kenco drove organic sales growth.

The adjusted EBIT increased organically by 4.3% reflecting an increase in gross profit and a stable level of A&P.

In LARMEA, organic sales growth was driven by 3.3% volume/mix and 17.9% price growth. Most markets delivered positive vol/mix while Brazil experienced soft market conditions. The strong price growth reflected the required additional price increases to offset the additional increase in green coffee prices. Organic sales growth was driven by brands such as Pilão in Brazil and Jacobs in Eastern Europe and South Africa.

Adjusted EBIT increased organically by 25.3%, which mainly reflects an increase in gross profit, lower A&P requirements following the initial roll-out of L'OR Barista in the U.S., and improved efficiency, as well as a low base of comparison.

At Peet's, the In-Home and Away-from-Home businesses contributed quite evenly to its organic sales growth of 5.7%, driven by a 2.1% increase in volume/mix and a 1.8% increase in price. Peet's' In-Home business continued to deliver competitive growth across its Peet's, Stumptown and Intelligentsia brands. In Peet's US coffee stores, same-stores-sales and ticket size were up. In China, Peet's continued to deliver strong double-digit organic sales growth.

Adjusted EBIT increased organically by close to 24%, driven by strong operational performance, cost efficiencies and a favourable 16 million euro insurance payout in H1 24, partially offset by a step-up in A&P investments.

In APAC, organic sales growth of 1.5% was driven by an increase of 3.8% in price, which was partially offset by a decline of 2.3% in volume/mix as solid In-Home performance was partially offset by soft performance in APAC's Away-from-Home business. Sales performance was geographically mixed, with solid performances in countries such as China, Australia and the Philippines partially offset by softer performances in countries such as New Zealand and Malaysia. Brand-wise, organic sales growth was driven by brands such as Moccona, Maxwell House and Campos.

The adjusted EBIT for APAC increased organically by 2.3%, with a stable level of A&P spend.

Let's now take a look at our net profit development in absolute terms and per share on the next slide, slide 14.

As you can see on this slide, our underlying earnings per share benefitted from strong organic operational performance in 2024, which was partly offset by higher taxes and higher net financing costs due to the temporary increase in gross debt related to the early-refinancing of selected maturities, driven by the timing of the closing of the M&A transactions. In addition, the underlying profit was impacted by a non-cash change in the fair value of our equity derivatives related to the share price decline during the year. As a result, the underlying EPS of 1.50 euro, was 1 eurocent lower than last year.

Excluding the mark-to-market of equity derivatives, the underlying effective tax rate would have been around 25% and underlying earnings per share would have been 11.7% higher than in 2023.

Let me now share a bit more detail on our free cash flow and net debt developments on slide 15.

Our strong free cash flow generation of over 1 billion in 2024 reflects strong operational performance, and thus higher EBITDA, while absorbing slightly higher capex.

Movements in working capital had a net positive contribution to cash as the increase in inventory values as a result of green coffee inflation was more than offset by the positive effect of inflation on our payables. Overall, our free cash flow conversion was 67% in 2024.

The net debt bridge on the right-hand side shows that our net debt position increased by 439 million euro, which reflects the transaction considerations related to Maratá and Caribou. On the next slide, slide 16, you can see the evolution of our debt and leverage.

As you can see in this historical chart, we have had a strong track record in terms of reducing leverage following capital allocation decisions. While our leverage temporarily increased due to the two acquisitions in 2024, our strong free cash flow generation enabled us to quickly trend back towards our optimal leverage with a net leverage of 2.73x as of year-end.

And, as shown on slide 17, our debt continues to have a strong maturity profile, with an average maturity of 4.4 years with all future maturities well below our 3-year average free cash flow level. After redeeming our January bond we have no further maturities in 2025.

Our average cost of debt is 1.32%, which remains one of the most attractive cost of debt in the broader consumer sector.

Our total liquidity remained high at 2.7 billion euro at the end of 2024, comprising of a cash position of 1.2 billion euro and fully undrawn Revolving Credit Facilities of 1.5 billion euro, which

do not mature until 2028. That concludes my part and I will now turn it back over to Rafa.

Rafa Oliveira: Thank you Scott. As this is your last earnings call for JDE Peet's, I want to thank you again for your contributions over the past 5 years. You played a key role in our transition to a public company in 2020, leading critical initiatives in risk management, financial reporting, capital structure and financial foundations. You also co-piloted the organisation through unprecedented coffee inflation, the COVID pandemic, and various macroeconomic and geopolitical challenges.

In the second half of 2024, you also assumed the role of interim CEO prior to my arrival, providing crucial leadership continuity. Since I started, you've been a great partner, friend and advisor. Thank you for everything and I wish you all the best for your future endeavours.

I am also very pleased that today, we can share the name and starting date of Scott's successor. I am excited that Yang Xu will join us in May. Yang, who was born in China and holds French nationality, has lived and worked in the US and various European countries such France, Switzerland and the Netherlands. She joins JDE Peet's from Swiss-based Straumann Group where she is the CFO. Prior to Straumann Group, Yang was Senior Vice President, Head of Corporate Development and Global Treasurer, and a member of the company's Executive Committee at Kraft Heinz. Yang brings more than 20 years of experience in finance, strategy, operational and commercial functions. We are very fortunate to have Yang joining JDE Peet's at a critical transformation phase of our company. Scott and I will continue to work closely together to secure a smooth transition and proper handover.

Let me now move to the next topic of the agenda and share some of my insights since I started in November, just over 100 days ago.

Since my start, I have visited many of our operations across the globe. I visited commercial offices, factories and R&D centres across the US, Germany, France, UK, the Netherlands, Brazil, Australia, Singapore and Malaysia. During these visits, I always had very engaging townhalls, smaller group meetings, and over a hundred one-on-ones. I wanted to get a pulse of where the organization is.

These inspiring and insightful experiences have first and foremost deepened my respect for the extraordinary passion, expertise, and dedication of the JDE Peet's people. Moreover, it further fuelled my belief that the coffee category is super attractive and offers a wide range of opportunities for long-term profitable growth and superior cash flow generation. I obviously did my research and had already high expectations of what I could find. But frankly, when you don't just consume coffee every day, as most of us consumers do, but you start diving into the possibilities of the category, the excitement grows exponentially.

Coffee is a daily joy for millions and consumers have a very strong emotional power of connection. I guess we all recognise that people tend to say “Let’s have a coffee together” when they just want to link up with somebody. Even if you don’t drink coffee, people use coffee as the reason to connect. This emotional connection opens up a lot of possibilities to interact with consumers. We are doing that at JDE Peet’s, but can do a lot more.

With an average price per serving of around 7 eurocents for a cup of In-Home coffee, it is a super affordable product and one of the cheapest “good-for-you” drinks at home, after tap water. For many, coffee is strongly embedded in the daily routines, offering an affordable luxury with emotional resonance. As a result, the coffee category has shown resilient growth of around 2% in volume and 5% in value since 2015, and Euromonitor projects continued growth, driven by increasing per capita consumption and rising value per cup. I’m confident I came to the right place.

But consumption per capita still has massive variations per country. Some countries in Asia, with a lot of people on it, are growing fast, but only consume 0.1% cup per capita of some of Europeans. Now imagine the possibilities.

What is also interesting about coffee, is that it has one of the lowest carbon footprints among beverages and provides a livelihood for more than a 100 million people worldwide. The resilience of the category and the growth opportunities it offers, gives me tremendous confidence in the future of the coffee category.

But what about JDE Peet’s, specifically? During my onboarding, I was struck by the deep industry knowledge, functional expertise and passion for our brands across the entire organisation. The power and importance of our brands in the coffee category cannot be overstated. We have a number 1 or 2 position in CPG in 27 countries. And Marketing plays a pivotal role in amplifying our brands’ reach and resonance.

But as the landscape evolves, technology—particularly digital and social media—must be a cornerstone of our marketing efforts, enhancing engagement and strengthening connections with our consumers. Despite having super strong and solid brands, I feel here we are behind. There is a big opportunity for us to leverage our brands on the digital world. Expect to see a lot more from us in this space.

Looking back at all the challenges the company had to face over the decades, be it massive green coffee inflation, supply chain disruptions or other macro or geopolitical challenges, our supply chain organisation has always been able to successfully deal with these challenges, avoiding meaningful disruptions and always ensuring that our consumers could continue to enjoy our products. This is, undeniably, another strength of JDE Peet’s, which we will fight to keep and enhance.

At the same time, I also feel that in some parts of the organisation, the disruptor & innovation mindset, that led to past successes, seemed to have lost some traction in recent years. It is also key to our future success that we reinvigorate this disruptor and innovation mindset, re-energise the organisation, and increase agility, while using technology as an enabler.

With the right mindset, we can build on the unrivalled broad range of products. We sell through our unique portfolio of global, regional and local brands. I strongly believe there are significant revenue and cost synergies that can be unlocked by replicating successful propositions under a specific brand in one market, to other markets with similar brand fundamentals. This can be achieved, for instance, by developing a blueprint that can be re-applied in other markets, while adjusting the 'last mile' to account for specific local consumer preferences.

During my market visits, I saw first-hand, some great cases and how much opportunities we have across many markets. When I was in France, which is one of the largest and most pivotal markets for JDE Peet's, the strength of the L'OR brand clearly stood out. About 10 years ago, it was a local French brand. Today, L'OR is an aspirational brand, bringing luxury within reach, generating over a billion euros in sales across more than 50 markets, with significant growth potential for further expansion. We will replicate L'OR France successful 360 growth model in other countries, taking the learnings from one country to the next.

On the other side of the pond, in the US, I visited Peet's who has built a unique and rich heritage that started in the 60's when Alfred Peet's started to teach Americans what a good cup of coffee tastes like. It is quite rare to find a billion dollar brand that is still perceived as craft and disruptive for consumers.

Today, it remains a fantastic and fast-growing billion-dollar brand with a unique portfolio of high-end premium products, strong innovation, and a very successful marketing strategy that offers tremendous opportunities for further expansion. I couldn't be more excited with where we can take Peet's across the US and beyond.

Another point of strength is our ability to offer a wide range of products through all channels, ranging from modern retail to club stores, various Away-from-home channels, and online. This allows us to offer our consumers their preferred type of coffee wherever they are.

However, I believe we haven't clearly defined clearly the role of coffee stores.

Coffee stores can be a fantastic source of brand building. But, I do not believe we are currently doing this in the most optimal and profitable way. We generate approximately 400 million euro sales but with a profitability that is well below the company's average. We have not been great store operators.

We are therefore re-evaluating how to grow this channel optimally to build and support our brands, while improving profitability. This is another good opportunity.

We've also made good progress over the years in diversifying our geographical footprint by expanding in markets outside Europe. We have strong businesses in countries like Thailand, Malaysia, Australia, China, Brazil, the US and the Middle East.

However, in some of these markets, local entities haven't been integrated, leaving attractive value creation opportunities on the table. Take for instance China, where we currently operate through four different entities that do not work in an integrated way. Or the US, where we have Peet's, Stumptown, Intelligentsia and the L'OR Barista initiative, all currently operating in a siloed way and not leveraging value creating opportunities. In these markets, we will simplify the operating model to drive focus, agility and efficiency. One more opportunity.

The last observation I would like to mention is the loss of focus and prioritization. When you fight too many battles and lose focus on too many opportunities, your resource allocation is not optimal. I therefore do believe that there is meaningful room to sharpen resource allocation to prioritise the most promising opportunities and to make the organisation more efficient and agile by examining our cost structure.

With all of the above in mind, we've initiated a thorough, but fast-paced, company-wide 'Health Check' on 15 topics to assess short and long-term value creation opportunities that will drive topline and profitability.

With 4 weeks already running, we are already identifying the best growth opportunities where we will dedicate a disproportionate amount of resources. The popularly known: Big Bets.

What I've just shared is just a high-level overview of my observations over the last few months. We'll share more concrete details about the opportunities to create and unlock value at our Capital Markets Day on the first of July, here in Amsterdam. I hope to see most of you there.

And while we are on the topic of financial communication, I would also like to call out that we believe we have to do a much better job in communicating with financial markets going forward. With more clarity and transparency.

Reflecting on my onboarding period, I'm even more convinced that we operate in a very attractive category with significant potential for long-term profitable growth. JDE Peet's is uniquely positioned as the largest pure-play coffee company in the world to drive and disrupt the category and create value for all its shareholders.

This will result in continued strong free cash flow generation over time, which will be used to boost shareholder returns while avoiding some of the poor capital allocation decisions that were made in the past.

Taking all of this into account, we've identified five key priorities for our team in 2025.

First, we'll stay laser-focussed on protecting our performance across topline, gross profit, EBIT and free cash flow.

Being disciplined on pricing is crucial to mitigate the huge increase in green coffee prices we have to deal with again this year. The good thing is that, historically, coffee consumption always enjoys a low level of elasticity and we have no reason to believe that this will materially change going forward, for the reasons I explained earlier in this call.

Actually, the majority of the short-term volume softness we sometimes experience, most notably in Europe, is related to the period during which we negotiate necessary price increases with retailers, to compensate for green coffee inflation. I.e. this volume softness is not consumption-driven.

The second priority is to find additional efficiencies to fund brand investments. We are identifying cost savings in areas like SG&A or manufacturing that we will subsequently use to invest in our brands to drive growth and profitability.

Third, we'll be much more selective and rigorous on our capital and resource allocation to drive brand investments. We need to prioritise more, and put more money behind fewer projects than we were doing until now, with a bigger focus on organic growth.

Fourth, we are reinvigorating this mindset focused on organic growth, we need to simultaneously increase agility, remove bureaucracy, and drive an ownership culture across the organisation.

And lastly, we'll put more emphasis on shareholder value creation, by being super-disciplined on capital allocation, and putting significantly more weight on growing returns to shareholders.

We are already working on each of these five priorities and, as I said earlier, we will provide more details and updates on our progress at our CMD, and throughout the year.

Let's now take a look at our outlook for 2025, starting with green coffee price developments, as these are a very important factor in how our financial performance this year will take shape.

As you can see at the left-hand side, green coffee prices have reached unchartered territory, both for Arabica as well as for Robusta. Compared to a year ago, green coffee prices have, on average, more than doubled and there are no signs that they will trend down any time soon.

While demand for green coffee has been rather stable in recent years, various factors including atypical weather patterns in coffee-growing countries, multiple supply chain disruptions and other macro or geopolitical developments have led to historical high volatility.

While there is a general believe that, over the medium-term, supply is likely to match demand, there is no consensus about how green coffee prices will evolve in the short term.

Against this backdrop, we continue to be disciplined and vigilant in pricing to protect absolute gross profit. As mentioned earlier, we see no signs that price elasticity is going up and we know consumers do not lower in-home coffee consumption when prices go up. Having said that, we expect to see some short-term volume pressure during price negotiations with our retail

partners, most notably in Europe. However, based on the attractiveness of the category and our products, the strength of our brands and the strong relationships we have with our retail partners, we are confident that any volume impact will be short-lived.

With this in mind, let's now have a look at our outlook for 2025.

As I mentioned at the beginning of this call, our strong performance in 2024 has created a solid entry point for 2025. With ongoing green coffee inflation, we are developing a robust pipeline of productivity and efficiency measures to absorb as much of the inflation headwind as possible. Only the part that we can't offset, will be passed on to our valued retail partners through additional price increases. As you know, these pricing discussions typically occur in these first months of the year. I am pleased to report that we have successfully concluded price negotiations covering over 80% of our total sales and by the end of the week this percentage is expected to be above 90%.

This reflects the strong, long-standing relationships which we have built with our retail partners. But also our shared understanding of the attractiveness of the category that drives traffic and offers significant value creation opportunities for both. We are therefore confident that ongoing discussions will be concluded constructively in the coming period.

As a result, we expect to deliver high single-digit organic sales growth in 2025. Our adjusted EBIT is expected to decline organically by a low single-digit percentage as we aim to keep gross profit stable and continue to selectively invest behind our brands and growth opportunities.

Given the high comparable base in H1 – as well as the phasing of green coffee inflation, productivity gains and price increases – we expect adjusted EBIT generation to be second-half weighted. We also aim to deliver strong free cash flow of around 1 billion euros, which will also be second-half weighted.

This free cash flow ambition, which we see as sustainable for the years to come, leads me to our capital allocation priorities on the next slide.

Looking ahead, we'll emphasize creating and unlocking value, focusing on absolute gross profit growth, free cash flow generation, and returns to shareholders. We'll prioritize organic growth, maintain a strong investment-grade profile by targeting an optimal leverage of around 2.5x, and preserving a conservative balance sheet.

When it comes to inorganic growth, it is clear to me that some of the acquisitions that were made in the past have not delivered according to plan. So going forward, we will be super-selective and rigorous when assessing potential M&A opportunities, both on their strategic and financial merits. Over the longer term, we continue to see ourselves as a consolidator given our leading position in the industry.

To start delivering in 2025 on our commitment to focus on increasing returns to shareholders, and given our confidence in the long term sustainability of our cash flows, we will increase our dividend.

Lastly, when looking at current valuation levels, I am convinced that, at the moment, there is no better investment opportunity than buying back our own shares. As we don’t plan to proactively seek M&A opportunities in 2025, there’s room for share buybacks while we are landing around our optimal leverage range by year-end.

On the next two slides, I’ll provide more detail about our dividend proposal and share buyback intentions.

So first, regarding the dividend, the Board will propose to the AGM in June to increase the 2024 dividend by 4.3% to 73 euro cents per share in cash.

Second, we have developed an analytical framework that informs us what the most optimal allocation of our capital is. We made a thorough analysis and, considering our confidence in JDE Peet’s mid- and long-term value creation potential and free cash flow generation, we are convinced that initiating a share buyback is the best decision for our shareholders.

We therefore intend to initiate a multi-year share buyback cycle of up to 1 billion euro over the period 2025 to 2028. Specifically this year, we plan to formally launch the first tranche of our share buyback programme of up to 250 million euros.

Wrapping it all up, I would like to reiterate that 2024 was a year of strong performance which positions us well for 2025. This will be a year in which green coffee prices are expected to remain high but the category will sustain its resilience and we know what our priorities are to drive growth and create value to all stakeholders.

Based on everything I’ve learned over the last couple of months, I am even more confident on the longer term growth and value creation opportunities that lie ahead to drive shareholder returns. We will talk much more about that at our Capital Markets Day on the first of July.

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

Questions and Answers

Operator: Thank you. Ladies and gentlemen, we are now ready to take your questions. If you wish to ask a question, please press star one one on your telephone keypad. Press star one one on your telephone keypad to ask a question. Please remember that you are limited to one

question and one follow-up per round. Thank you we'll now go to our first question. And your first question comes from the line of Jon Cox from Kepler Cheuvreux. Please go ahead.

Jon Cox (Kepler Cheuvreux): Good morning guys. Rafa, welcome, and good luck in your role. And good luck, Scott, as well in your future endeavours. A very interesting sort of discussion there about where maybe the company has gone wrong and what it's going to do right. I wonder if I can just keep pushing a little bit. I know you want to leave a lot of it until the Capital Markets Day. You haven't really talked much about Europe specifically. Part of the problem maybe is that you have a lot of sort of low-end commoditized brands in Europe. And as a result, the situation won't fundamentally change until there's some sort of change in that portfolio.

You've ruled out M&A at least for this year, but I'm just wondering on the divestment side. And as part of that, you sort of alluded to the fact that you don't do coffee shops very well. Is that slated for disposal? Or is it under some sort of strategic review? Just what you think about all of the brands you have in Europe and all of these different countries and th commoditized nature of a lot of those brands.

Rafa Oliveira: Jon, Rafa here. Thank you very much for the question. Look, to start on your question on the stores that you mentioned, to just clarify, I mentioned quickly on the remarks, we have done, we are doing actually what we call a health check review of 15 areas or 15 workstreams within the company to see where the best opportunities for investments are. And one of them is our store network. As I mentioned also in the remarks, I mean we think we haven't been great store operators, although stores can be a fantastic way of building brands. So we are reviewing that. We will share more on the Capital Markets Day or if there is news before that.

But to see how we can best take advantage of this network in order to improve profitability but also, I mean improve profitability overall, but also building the brands that we have. This network of stores is not really significant in Europe specifically, as you mentioned. I mean we have a larger network in the U.S., in China, in Malaysia and a few scattered around. So this is definitely up for review.

In terms of the local brands that you mentioned, look, we are very proud of the portfolio of brands we have. I mean, today, you can see, and we called out on the presentation, we have L'OR, Jacobs and Peet's as 3 very strong kind of either global or very solid growth potential to be global brands. But then we are very happy with our local jewels, as we call, I mean Douwe Egberts being one in the Netherlands, Marcilla in Spain, just to mention the ones in Europe specifically, as you called out. And frankly, they play a very strong role.

What we are assessing is how do we take advantage of the similarities of those brands because sometimes those brands are, although they are named different, the fundamentals of the local brand can be quite similar. So we're going to take advantage of the scale of developing innovations, developing brand activations and scale this up in different markets, although we might come the last mile, i.e., the brand name by being different. There's a lot of similarities on the back of that. Scott, I don't know if there's anything...

Scott Gray: Yes, maybe I would just complement that. I mean that's leveraging the scale on the portfolio and the local brands. And I think, Jon, you also made a slight reference to Europe and some of the more higher commoditized categories. And I would just add to that, that one thing is with, you're right that some of this, particularly in roast and ground, has a larger percentage of commodity in terms of the total COGS. And as we have to take more price on this, of course, then the price corridors, if you will, start to narrow with some of the other technologies. And so we'll continue to be disciplined there.

And I would also say these brands, it's important to have all the technologies play in the different categories because consumers also move around and they have some heritage in these particular categories. So we try to have a rounded portfolio, and that's our model. And these brands have, what you say, higher commodity inputs, also have a certain level of fixed cost absorption. Of course, we're always reviewing the footprint on that as well, and they come with a strong cash flow contribution. So I think we have a pretty good track record in terms of managing these, even if in the short term, you can have a little bit of volatility as you go through these periods of high inflation.

Jon Cox (Kepler Cheuvreux): Okay. Just then as a follow-up and still in Europe, there's quite a big report in the Financieel Dagblad out of Amsterdam that you've been delisted from, it looks like, 7 or 8 retailers under that Everest umbrella, the retail association. You've mentioned that you're pretty confident anything will be temporary in terms of volume weakness, but that just seems a bit bigger than normal given it is Albert Heijn, it is Casino it is the German retailers and stuff. I just wonder if you have any comment on that at all. Thank you.

Rafa Oliveira: Yes, Jon, thanks for that. Look, it's part of our normal negotiations, okay. I mean the reality is: significant price increases are inevitable, I mean, to offset the green coffee that we've seen has doubled over the last 12 months. So we mentioned this, but globally, by and large, they are all negotiations are in line with our expectations. I mean the dynamics we see basically follow the pattern, right? Most of the retailers understand that coffee is a pass-through model. But some retailers in Europe and, specifically, as you mentioned, Netherlands and Germany, right now, the negotiations are taking longer than we hoped for, which will also lead to less products on the shelf, right? I mean we mentioned we have already closed or concluded the negotiations on 80% of our sales. And by the end of this week, we expect to be

at 90%. Just remembering that France, by law, the negotiations close by the end of February. So that will be by the end of this week. So we expect to be at 90% there.

Now some private label prices already went up. And the reality, we remain committed to creating value for the category, for all the stakeholders, especially like making sure we keep the affordability product and range for the consumers, for our customers and, again, protecting the value for our shareholders. So we need to continue to pass on this price, the unprecedented price because that's the way for us to continue to invest in our brands, on innovations and on sustainability that we mentioned we are so proud of what we have done so far.

So yes, it has been in some ways challenging in specific countries, but we don't think that's normal. And just remembering like long-term elasticity of consumption, it's quite low. So we don't expect the consumption to be recovering and stable. What you will see is some disruption on volumes in the short term due to those negotiations. But again, we strongly believe this will be recovered through time.

Jon Cox (Kepler Cheuvreux): Ok, thank you and good luck again.

Rafa Oliveira: Thank you Jon.

Operator: Thank you. Your next question comes from the line of Michiel Declercq from KBC Securities. Please go ahead.

Michiel Declercq (KBC Securities): Thanks for taking my questions and welcome, Rafa, of course. My question would be a bit on the capital allocation strategy. I noticed a bit of shift here from the M&A towards the dividend increase and the buybacks, of course, and the nice EUR 1 billion target or up to EUR 1 billion target that you have for 2028. I was just wondering, how committed are you towards this target? You mentioned no M&A activity planned for 2025, but let's assume there is some M&A between '26, '28. How would you prioritize the EUR 1 billion target versus the M&A opportunities? That would be a bit my question. And as a small follow-up, on this year's programme, today, you're still a bit above the optimal leverage. Should we expect then the EUR 250 million to kick in maybe a bit later during the year? That would be my follow-up.

Rafa Oliveira: Okay. No, Michiel, thank you for the question. So look, as we stated there, we are quite confident that the best investment we can make right now is investing in our own shares. So we are committed to do this programme. I mean the intention is to go up to EUR 1 billion. We are committing to EUR 250 million in 2025. And we did a pretty analytical analysis on our cash generation and leverage levels. And we are confident that with this amount and the cash flow that we expect, the free cash flow we expect, we're still going to be able to land closer to our leverage targets.

So I mean that, no M&A, yes, indeed, it's not going to be a priority in the short term. We we're always going to analyse what things come our way if there are opportunistic ideas, but I would say we’ll be a lot more rigorous on making sure it aligns with our strategy and the financial return that we can get from it. So I don't anticipate anything for this year.

Maybe in the future, again, we still see our role as potential consolidators of the industry as the largest pure player, but it doesn't mean that there's anything in the pipeline. It will depend on really the right opportunities to come along. So the priority will really be the cash generation and the capital allocation that we just outlined with the share buyback, paying the dividends and reducing our leverage.

Michiel Declercq (KBC Securities): That’s clear. Thank you.

Rafa Oliveira: Thank you for your question.

Operator: Your next question comes from the line of Patrick Folan from Barclays.

Patrick Folan (Barclays): Good morning Robin, Rafa and Scott. And good luck, Scott, on your future endeavours. And good to see you up and running, Rafa. Just a couple of questions from me. Maybe, Rafa, first for you. I know you touched on your initial observations as CEO. Can you maybe elaborate what you think needs your utmost attention right now over the next 12 months? And just following up on the previous question, when you say you want to sharpen your resource allocation, does that mean we will see a bigger focus on bigger country exposure and bigger brands?

And then you touched on coffee growth rates since 2015, which was obviously quite strong. Do you have any house view on what JDEP thinks the volume growth outlook could be over the medium term from a global perspective? And maybe just my final question, on pricing, if we think by region, are there any pricing nuances we should be thinking of for this year? Thank you.

Rafa Oliveira: Patrick, good to hear from you. I'll try to tackle, probably come back to you to clarify each of them. I think there are a few questions here. I mean I think the attention - you already - we mentioned on the priorities. I think we are right now doing this through analysis of 15 workstream health checks. But the reality, the priority right now is the pricing discipline that we need to have, again, to protect our profitability and be able to, again, have products available for consumers. We continue to invest on our brands and on sustainability and generate return for all stakeholders, including - especially available for consumers, including our customers, our shareholders and all our partners. So I would say that's clearly the priority.

But then as I outlined there on the 5 things that we are focusing on, I mean, there is definitely an opportunity here to be sharper on the cost, on efficiency, but more, again, with the view to

invest back in our brands and how we're going to unlock this prioritization to fuel growth. So that will be the main one.

In terms of resource allocation, what you asked, I mean I think we clarified most of it. Indeed, the intention is not to do M&A right now and invest on our own shares or the prioritization of organic growth. I don't know if I missed something.

Scott Gray: And then he had a question particularly on the bigger brands and bigger countries within our resource allocation.

Rafa Oliveira: Yes. Look, the reality is I think we do play this dual model here where we have, as I mentioned, 3 big brands that are global or going global, L'OR, Jacobs and Peet's. But then we have very strong local brands. I mentioned a couple. I mentioned Douwe Egberts, but we have Moccona in Australia and growing other places in Asia. So there's Pilão in Brazil. There are many local brands that have a very strong local position.

So we are going to analyse this deeper, how do we take advantage of this portfolio of a few big global brands with very strong local brands. And as I mentioned in the first question from Jon, there are a lot of similarities on some of those local brands. Although they look different and the name is different, there are a lot of similarities despite being different countries. So we're going to work a lot on this, on how to unlock efficiencies out of it. And we will share a lot more details on the Capital Markets Day, which we intend to have a presentation on our brands and how we're going to unlock growth from that.

Your question on growth outlook for the midterm, I mean, again, I'll refer back to the Capital Markets Day, where we want to be much sharper on the algorithm and what should be, what you could expect in terms of growth on the long term, we need to see it in a way. We don't expect that in the long term to have as much volatility of green coffee prices as you've seen recently. So like it should be a lot more stable going forward.

But again, what's important to understand is, in our business, is that despite the green coffee price volatility that you see, our gross profit, absolute gross profit and cash flow generation has been quite stable and can be quite stable and growing. And that's the important thing, like our category is a pass-through category where you have volatility on the green coffee, but you can have a lot of stability on the cash generation. And our goal will be to continue to grow that cash generation sustainably.

I don't know if there was...

Scott Gray: And I would just maybe add to that, to your point, is we don't count on our future outlook of a dramatic reversion of coffee prices. We will adapt accordingly in the same way that it's important that we take price increases for the future of the category. However, it's about

stability as well. So you have this period of volatility and you need to manage through that, but you don't need to count on a big reversion of coffee prices. It's important just to manage it also during the period of stability, and we can have stable gross profit and cash flow, to Rafa's point. So back over to Rafa.

Rafa Oliveira: Thank you, Patrick.

Patrick Folan (Barclays): And just, sorry, just going back on the pricing question I asked just by region, are there any nuances we should think of between LARMEA and Europe? And then just thinking of the pricing windows, I know you touched on the windows within France, but anything else we should be thinking of?

Rafa Oliveira: No, the reality is most of the world works on an ongoing price negotiation, right? I mean outside Europe, most of LARMEA, most of APAC and the Americas, it's pretty much all ongoing. So green coffee prices are pretty much the same for everybody. It's a commodity globally, and this is ongoing. So those prices are being passed through as the nature of our category everywhere.

Europe does have a bit of a different dynamic. And as I said, most of the negotiations happen sometimes on a 3-months basis, sometimes on a 6-months basis. But again, we are confident, and we had, we did have, as we mentioned, some tougher negotiations or discussions specifically in Europe. But we are confident this will come through. And again, most of these negotiations should be concluded in the next few weeks.

Patrick Folan: Thank you Rafa, thank you Scott

Operator: Thank you. Your next question comes from the line of Feng Zhang from Jefferies.

Feng Zhang (Jefferies): Thanks for taking my question and nice to meet you Rafa. So I just have a question about your comments on reinvesting in brands. What are the key areas of coffee category that you think have been under-invested in the past and need to catch up? And then on the, is there any early example of the cost efficiencies between the local brands? And then I understand it's still early days, but that will be very helpful.

And then are you trying to say that you're trying to make some local brands become international brands? And what is the potential impact? Is there a risk in the second half of this year that when this converting happens, you're going to lose temporarily some sales on that? And then, sorry, the other one is just about the cost inflation. And then you're saying the low single-digit guidance on profit, what kind of assumptions you put in the 2025 COGS? Thank you.

Rafa Oliveira: Feng, thanks for the question. I'm not sure I understood the second part, but I'll try to answer the first in terms of investment on the brands. And then I understood you had a second part of the question and the third was in cost inflation, but I didn't get the second.

But let me talk a little bit about the brands first. I mean, as I mentioned before, I think we are very proud of the brands we have, okay, the heritage of those brands. And I'll tell you just my observation coming here in this company a few months ago, I think the fundamentals of our brands are very strong, okay, very strong, very clear position. What I think we have to evolve is to be closer to the future consumer. So what's the future of marketing, where we can invest a lot more in digitalization, for example, and being present in social media. I think this part, we are behind.

So if anything, you could expect to see a shift on the way we do marketing from the more traditional marketing of 10, 20 years ago to a more dynamic, evolving marketing with a lot more digital focus, more connected to consumers, to communities of coffee and how we generate bespoke demand and connecting to individual consumers. So that's a shift that we will likely do on our marketing.

As you probably saw a couple of months ago, we have appointed a new Chief Marketing Officer. He is actually preparing a whole plan of how to, again, be more present with our brands, take advantage of the full potential of our brands. And we will share a lot more details with that on the Capital Markets Day, which is a very exciting topic, obviously, for FMCG. So again, strong fundamentals of our brand, but I don't think we are living that to the full potential.

Do you want to take the cost inflation?

Scott Gray: Well, I think there was a question on the outlook in terms of, or in the second half in terms of moving from local to international brands. But just to complement Rafa, I mean it's really about leveraging scale. And I think as we said, it's about the nuances there are in the last mile of these brands because there's a lot of similarities. But of course, they have a lot of local representation and identity locally. So it's not about moving from local to international brands. It's about leveraging the opportunities on our bigger brands, but making sure that at the same time that we get efficiencies in terms of the similarities between our local brands.

And then on your cost inflation, maybe if you could just reiterate the specifics of your question on the cost inflation?

Feng Zhang (Jefferies): Sorry. Yes, the cost inflation, the guidance about the profits in 2025, down low single digits, just assumption for coffee inflation on COGS base.

Scott Gray: Yes, sure. I mean, as we said, we have since, year-over-year, I mean, we're talking about doubling of coffee prices. And since the beginning of this year, because, of course,

we had quite a bit of inflation in the latter part of '24, and if you look at this year, it's around 30% and 20% for Arabica and Robusta, respectively, right? And things can move around a bit.

In terms of cost inflation, in some countries, we have good visibility. It depends upon the pricing nuances of the country in terms of how we protect ourselves. But of course, we still have a large portion that is still open. So we do have material inflation. And our inflation, I mean, for the full year, I would say, is expected to be greater than EUR 1 billion for the full year. And that's what we can give clarity on now.

And again, we're going to continue to be super disciplined on this and take the pricing that we need to protect our gross profit. And we price what we need to price for. And of course, we don't price for more, and there's quite a lot of transparency in terms of coffee inflation with looking at the market. Hopefully, that answers your question.

Feng Zhang (Jefferies): Thank you very much.

Operator: We are now approaching the end of the call. We will now take our final question for today, and the final question comes from the line of Tom Sykes from Deutsche Bank.

Tom Sykes (Deutsche Bank): Thank you for letting me ask the questions. So just trying to square what you're saying about the free cash flow weighted to the second half with the EBIT weighted to the second half because I would have thought you would get a working capital benefit from the coffee price going up, and you did EUR 700 million of free cash flow in H2. So if the free cash flow is weighted towards H2 is not the implication that the EBIT is really bad in H1 because you should be getting a working capital benefit, I would have thought, in H1 '25. And are there any, therefore, changes in payment terms that you're offering people to offset the price increases that you're pushing through, which is pushing out the working capital benefit, please?

And then just on the, I guess, the interplay between your hedging strategy and your COGS and whether you are advantaged or disadvantaged in that because your hedging strategy tends to be shorter, I think, than some of your major peers. So when coffee prices are going up, you're always the first to raise them and, obviously, you get the benefit on the way down. But if there is a longer-term increase in coffee prices, is that not structurally disadvantaging you that you're always the first to sort of move your prices up by more and you get that negative elasticity? And if maybe to offset that, you have to generate more productivity gains, where are those, how big is the COGS productivity because we've seen peers come out with some very big numbers, please?

Scott Gray: Yes, maybe let me, I'll start on this, and then Rafa can also complement. First of all, on your question of the cash flow seasonality, there's nothing dramatic in terms of the cash flow seasonality, right? We were just looking at what we have on our base assumptions tied to

the rest of the financial year, and we saw that H2 was a bit stronger than H1, but it's not a dramatic phasing. And also in terms of the coffee inflation, you're right that you have some benefit from coffee inflation that comes through. And that also gives us a bit of a natural hedge as well on the timing of the EBIT that you're aware about. But on coffee, it's also about the specifics of terms of when you purchase the coffee, et cetera. So we have some of the coffee inflation that we already have in '24 despite the higher inventory. And if coffee prices continue to increase as we purchase coffee, then we continue to have a little bit of benefit there. But again, it's about the timing, the purchasing of the coffee.

In terms of the payable terms, no notable changes in payable terms, not going longer. In fact, DPO, so days payable outstanding has actually declined a bit, but it's more about the inflation, specifically on the coffee. So hopefully, that answers your question in terms of the cash flow seasonality.

And in terms of the hedging strategy, I think the key is we try to match our hedging strategy in line with the way that we manage pricing. It's by category, it's by market, and we have it corresponding to give us the time to react as we adjust our pricing in line with the pass-through model. I think the key is that we stay very disciplined on this. We're very consistent on it. And that way, we don't have big swings in terms of hedging moves because our role is not to speculate on coffee prices. As you know, it's a very volatile category, hard to predict, but it gives us time to react and protect as we go through the period, passing through the right amount of price.

Tom Sykes (Deutsche Bank): And anything to add on COGS productivity at all?

Scott Gray: I mean on the COGS productivity, I mean as Rafa talked about and some of the things that we want to look at, we're going to continue to work on our productivity programme. And at the same time, I think we have a strong delivery and having productivities complements the pricing that we put through, and we're going to continue to see what opportunities we can unlock there. And we're also always consistently looking at our footprint to make sure that our footprint matches the current balance of what we have across the various categories and geographies. So we'll continue to do that. Do you want to add to that, Rafa?

Rafa Oliveira: No, I think again, Tom, we're going to bring more details on the Capital Markets Day in terms of what we believe is the sustainable productivity range that we can achieve. The company already has a programme of doing that. We are reviewing how much further we can push it. And again, if we have more specific news before that, we will definitely share. As I commented, it's going to be our commitment to be a lot more transparent and open in the conversations with the capital, with the financial markets and investors. So we will share as we see it. But definitely, for the Capital Markets Day, we'll bring more details.

Tom Sykes (Deutsche Bank): Thank you very much and all the best Scott.

Operator: Thank you very much. I would now like to hand the call back to the speakers.

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

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

[END OF TRANSCRIPT]