Transcript Earnings Call related to JDE Peet's' H1 2024 Results

Operator: Good morning, and thank you for joining JDE Peet's' half-year 2024 earnings call. My name is Caroline, and I'll be your operator for today's call. For the duration of the presentation, all participants will be in listen-only mode and the conference call will be recorded. Following the presentation, there will be an opportunity to ask questions. If you do have a question, please press star one on your telephone keypad. If you wish to withdraw your question, you may do so by pressing star two to cancel. At this time, I would like to turn the call over to our first speaker, Robin Jansen, Director of Investor Relations at JDE Peet's. Thank you.

Robin Jansen: Thank you Caroline, and good morning everyone and welcome to JDE Peet's' earnings call related to our financial performance of the first half year of 2024. With me are Luc Vandevelde, Interim CEO and Chair of the Board, and Scott Gray, CFO.

In a moment, Luc will take you through the operational and financial highlights related to our first half year business performance. After that, Scott will tell you more about the financial performance in the first half and will update you on our outlook for full-year 2024. After that, we will be happy to answer your questions.

Our press release was published at 7am CET this morning. The release as well as the slide deck related to this call, are also available for download from the investors section on our website. A full transcript of this conference call will also be made available in that same section on our website, as soon as possible after this call.

Before I hand over to Luc, I would like to direct your attention to the disclaimer regarding non-IFRS measures and forward-looking statements on Slide 3. We would kindly like to ask you to read this information carefully. And with that, I gladly hand over the call to you, Luc.

Luc Vandevelde: Thank you Robin, and welcome and thank you everyone for joining us on this earnings call today.

I'm very pleased with this strong set of results, which I believe should be a pleasant surprise for all of you.

We delivered robust, broad-based performance across topline, profitability and cash flow, despite operating in a very challenging environment that continues to be characterised by rising green coffee prices and an increasing demand for more affordable offerings from our consumers.

Our two recent transactions are now consolidated and the integration and their performance is in line with the acquisition rationale.

I am also pleased with our Sustainability program and results are on track, as is the search for my successor.

Given our strong performance in the first half, and our expectations for the remainder of the year – including the ongoing inflation and volatility in green coffee prices, along with the additional pricing that this will require - we are confident in raising our full-year outlook across top-line, profitability and cash flow, which will also enable us to bring down our net leverage to below 3x EBITDA within 12 months following the completion of the two recent transactions.

As Scott will provide a more detailed overview of our financial performance shortly, I will highlight some of the key financial metrics of the first half of the year.

Our organic sales growth was broad-based, particularly driven by our premium products. As I think best illustrated by the performance of both Peet’s and L’OR Barista, in a US market that I think you know is experiencing some softness, where both brands are positioned in the premium end of the market and doing very well.

Adjusted Gross profit which was up 9%, also broad-based, with all segments contributing positively.

Effective cost control, coupled with a level of A&P that was slightly up organically, resulted in a 17% organic increase in our adjusted EBIT which supported our strong free cash flow of 315 million euro, bringing our net leverage down to almost 3 times adjusted EBITDA.

This overall strong performance underscores the strength of our business, bolstered by our multi-channel approach, diverse high-quality product offerings, powerful brands, leading market positions, and the resilience of our organisation.

So let me on the next slide provide you with some of my main observations since I became the interim CEO on the first of April of this year.

Based on the input that I have received, the numerous conversations I have had with Senior Leadership and others, and my own assessments, I firmly believe that the company is rightly configured and has the right strategic direction even though we can improve our execution, driving short term performance whilst investing for the long-term.

We are capable of attracting and retaining high-quality management and talent. However, I think we can also improve our overall performance by fostering greater collaboration and breaking down silos within the organisation.

Our brands, research and development and manufacturing facilities are very well-invested and state of the art. But there is a need to cultivate a stronger return-on-investment mindset across all areas, including marketing and R&D.

As the leading pure-play coffee & tea company, we apply a unique business model with a multi-channel approach, a portfolio of strong brands and a very diverse product offering, satisfying all coffee and tea needs. This model is operated with a lot of local autonomy and accountability in the markets, which drives operating strength, agility and resiliency. These strong fundamentals position us very well for long-term value creation and to successfully navigate all kinds of challenges.

Nonetheless, I have also identified opportunities to better leverage our scale advantages, which could further enhance our performance. And in particular, I believe that our decentralised organisation structure has sometimes led to a lack of focus and thinly-spread resources instead of leveraging our international scale.

As I said earlier, in H1 we have also consolidated Maratá's coffee & tea business as well as Caribou's CPG business. The integration is progressing very well, with both delivering results that are in line with our expectations and in line with the acquisition rationale.

To stay relevant for our consumers and address their evolving needs and preferences, we have continued to launch a diverse range of new consumer offerings in coffee & tea, of which you can find a few examples on this slide.

We are very conscious that our future largely depends on the continuous evolution of our product portfolio and we take great responsibility in maintaining the high-quality standards that our consumers expect from us, while also adapting to their changing needs and preferences. Whereas lowering the cost of products by using lower quality coffee blends is very tempting in this high inflationary environment, we take pride in maintaining or improving our products continuously.

I'm also proud to say that we continue to lead in our sustainability journey, as evidenced by the recent accolade from Ecovadis as highlighted at the bottom of this chart. If you are wondering how we transformed from a laggard to a leader, I would attribute it to two things:

First of all, the outstanding leadership of Laurent Sagarra, our Sustainability Lead, and our commitment to measuring everything we do by its environmental impact. So when we for instance assess new product offerings like the ones I just showed you on the previous chart, we not only consider consumer relevance and financial returns but also how these new products contribute to our sustainability goals. To the same extent that return on investment should be as well.

And last but not least, I would also like to remind you that in H1, we increased our greenhouse gas emission reduction ambition, increasing our targets to be net-zero by 2050.

As far as I'm concerned, I am thoroughly enjoying my role as CEO as you can imagine, my top priority is to find the right permanent successor. The search and selection process is progressing very well and I do intend to contract my successor before the end of the year.

Secondly, after two-to-three years of significant and persistent inflation, leading to successive price increases, many of our consumers are becoming more focused on affordability. And at the same time, prices of green coffee and ocean freight unexpectedly spiked again in H1 this year, with coffee futures for Arabica and Robusta up 13% and 54% respectively versus the same period last year, leading to record-high levels for Robusta, for example. The green coffee inflation of the last quarters will hit our P&L in the coming quarters and thus inevitably necessitating additional price increases and continued cost discipline which I think are essential in protecting our gross profit so we can ensure that we can maintain the right investment levels behind our brands, products, channels, which is crucial for driving growth and shareholder value, both short-term and long-term. Therefore, we will remain laser-focused on achieving - and hopefully even exceeding - our increased outlook, which Scott will discuss in a moment. And with that, I will hand over the call to Scott, and I will be back when we start the Q&A.

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

I will now take you through the most important financial highlights of this semester and after that I will go, as usual, into a bit more detail on our sales, adjusted EBIT, the performance by segment, as well as our performance related to profit and cash, and then an update on the status of our balance sheet. I will then provide you with a quick reminder of our capital allocation priorities and will finish my part with some details about our improved outlook for full year 2024 as mentioned by Luc.

Let's now go to slide 13.

Our overall organic sales growth of 3.6%, as mentioned by Luc in his business highlights, was driven by an organic sales growth of 3.4% in In-Home and 4.2% in Away-from-Home.

In terms of profitability, our adjusted EBIT increased organically by 17.5% versus H1 23, which brings the 5-year organic CAGR for adjusted EBIT to 4.4%. We delivered underlying earnings per share of 76 euro cents.

When it comes to cash and debt, we generated 315 million euro of free cash flow, and our net leverage stood at 3.12x after closing two transactions within the semester.

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

Our organic sales growth of 3.6% was driven by 1.2% growth in volume/mix and 2.4% growth in price. The organic sales growth was broad-based across markets, brands and channels as you will see on the following slide.

The foreign exchange impact of 1.8% was mainly driven by the depreciation of the Russian ruble and the Turkish lira. The 3.9% contribution from scope reflects the consolidation of the coffee & tea business from Maratá since the start of the year, and the inclusion of Caribou’s CPG business since the end of March. As a result, our total sales increased by 5.6% to 4 billion 210 million euro on a reported basis.

Let’s now flip to slide 15 to look at our sales performance by geography, channel, brand and category.

Developed markets delivered 1.1%, while emerging markets grew by 10.8% organically. Our developed markets delivered stronger growth as the semester progressed, driven by an improvement in volume/mix.

Channel-wise, our In-Home channels grew sales organically by 3.4% while our Away-from-Home channels increased sales by 4.2% organically bringing the 5-year organic CAGR for In-Home to 6.1% and 1.3% for Away-from-Home.

Brand-wise, our global brands grew by 4.7%, while our regional and local brands together, delivered 2.8% growth organically.

And, when looking at sales performance from a category-point-of-view, sales of Single-Serve, Beans and other premium categories like premium instants, together increased by 3.2%, driven by our capsules business. The rest of the brand portfolio grew by 3.9% organically.

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

Our organic adjusted EBIT increased by 17.5%. What you see in the bridge on this slide is that our gross profit increased, driven partly by sustained or higher pricing in response to the recent significant inflation in green coffee prices in H1 24, that will impact our P&L in future months as a result of our hedging and higher landed cost of green coffee. Given the development of coffee prices and the continued persistent increase in the total landed cost of coffee, it is important to have the right cadence and consistency when putting through price increases. Our GP benefitted from good category mix in the period and we also had a one-off insurance payout related to a warehouse issue that had negatively impacted Peet’s in 2023. Our A&P spend was slightly up organically, while our other SG&A expenses rose moderately, reflecting our continued investments in our strategic growth opportunities and the ongoing inflationary pressures, particularly in areas such as freight & labour cost, which we partly offset through strong cost control and efficiency measures.

Fluctuations in foreign exchange decreased adjusted EBIT by 2.4% and the consolidation of both Maratá and Caribou increased adjusted EBIT by 4.1%, resulting in a reported adjusted EBIT growth of 19.2%.

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

Looking at the topline performance per segment, you can see that all four segments delivered positive organic sales growth, with 3 out of 4 segments delivering positive volume/mix growth. The only exception was APAC, where the main markets experienced soft market conditions in both In-Home and Away-from-Home.

When it comes to profitability, all segments delivered strong growth, except for LARMEA.

Let’s now take a closer look at each segment one by one.

In Europe, pricing remained relatively stable year-over-year while volumes were impacted by retailer disruptions during the price negotiations as customers adjusted to the unfortunate reality of continued inflation in green coffee, most notably in the February to April timeframe. However, volume/mix growth witnessed a significant rebound in the last 3 months versus the first 3 months of the semester.

Markets such as France, the Nordics and Italy, and brands including L'OR, Gevalia and Les Deux Marmottes drove organic sales growth.

The adjusted EBIT increased organically by 14.1%, to 539 million euro in H1, reflecting the interplay of the phasing of inflation and pricing, as well as a relatively low base of comparison in H1 23. Europe’s 5-year organic CAGR for adjusted EBIT was -0.9%, as we gradually restore profitability in Europe.

In LARMEA, organic sales growth was driven by 2% volume/mix and 9.8% price growth. Volume/mix was softer due to challenging market conditions in Brazil, while the strong price growth reflected the additional price increases required to offset the recent material price increase in green coffee prices. L’OR Barista continued its positive trajectory from H2 23 into H1 24 while, at the same time, we maintained greater discipline in our investments related to this rollout.

Adjusted EBIT decreased organically by 10.1% to 125 million euro in H1, which mainly reflects transactional forex impact and the carry-over effect of the brand transition in Russia in 2023, as anticipated. LARMEA’s 5-year organic CAGR for adjusted EBIT was 12.6%.

In APAC, organic sales growth of 0.8% was driven by an increase of 4.4% in price, which was largely offset by a decline of 3.7% in volume/mix, reflecting overall market softness and the carry-over impact from last year’s SKU rationalisation, as well as softness in APAC's Away-from-Home business. Sales performance was geographically mixed, with strong performances in countries such as Malaysia and China offset by softer performances in markets such as Australia and New Zealand.

The adjusted EBIT for APAC increased organically by 60% to 85 million euro, mainly reflecting i) a low base of comparison related to one-off costs from a temporary supply chain disruption in H1 23 connected to one of our main manufacturing facilities in the region, ii) the interplay between pricing and the usage of lower priced green coffee from inventories, and iii) the positive effect from last year's SKU rationalisation. APAC’s 5-year organic CAGR for adjusted EBIT was 13.9%.

At Peet’s, the In-Home and Away-from-Home businesses contributed quite evenly to its organic sales growth of 4.3%, driven by a 2.3% increase in volume/mix and a 2% increase in price. Peet's’ In-Home business continued to deliver competitive growth in a continued soft market environment for most food & beverage categories and with good momentum as the semester progressed. In Peet’s US coffee retail 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 42% 97 million euro in H1 24, reflecting strong operational performance, cost efficiencies and a 16 million euro insurance payout related to a warehouse issue that impacted Peet's' performance in H1 23. Peet’s 5-year organic CAGR for adjusted EBIT was 16%.

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

As you can see on this slide, our underlying earnings per share benefitted from stronger organic operational performance in H1 24 despite higher net financing costs - due to a temporary increase in debt related to the early re-financing of some maturities, which was partly driven by the timing of the closing of Maratá and Caribou and the higher average cost of debt - and also by higher taxes.

Overall, the underlying EPS decreased by 9 euro cents to 76 euro cents in the first half of 2024, which was mainly driven by an unfavourable non-cash, non-tax deductible impact of 113 million euro from a change in the fair value of our equity derivatives related to the share price decline since year-end. Excluding the aforementioned fair value change, the underlying effective tax rate would have been around 25% and underlying profit would have been 483 million euro, or 17.5% higher than in H1 23.

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

In the first half of 2024, our business generated 315 million euro free cash flow. This healthy cash flow performance reflects strong operational performance, while absorbing slightly higher capex behind selected investments. Our working capital normalized over the course of the semester following our reduction of stock levels predominantly in 2023, while inventory values increased in the period as a function of the significant increase of green coffee prices across the globe.

When taking a multi-year view, as we always do, and averaging the last-twelve-month periods of free cash flow of the last 3 years, our average free cash flow conversion rate equals 65%.

Looking at the net debt bridge on the right-hand side of this slide, it shows that our net debt position increased by 890 million euro, simply reflecting the transaction considerations related to Maratá and Caribou.

On the next slide, slide 20, you can see the evolution of our debt and leverage.

While, as expected, our leverage increased from year-end, the increase in our net debt is again, solely due to the two recent transactions. However, thanks to the combination of our strong free cash flow profile and EBITDA growth in the period, our leverage was already reduced steadily during the course of the semester resulting in net leverage of just above 3x, so quickly trending back towards our optimal leverage target range of around 2.5x.

And as shown on slide 21, our debt has a strong maturity profile, with an average maturity of 4.2 years. As the coming two towers have already been re-financed, we have no immediate funding needs as we focus on deleveraging. Additionally, all future maturities are well below our 3-year average free cash flow level.

Our average cost of debt remained stable at 1.16%, which is among the most attractive cost of debt in the broader consumer sector, maintaining our competitive position in this high rate environment. Furthermore, as a reminder, none of our debt contains financial covenants.

Our total liquidity remained high at 2.7 billion euro at the end of H1 24, comprising of a cash position of 1.2 billion euro and fully undrawn RCF facilities of 1.5 billion euro, which do not mature until 2028.

On the next slide, slide 22, I would like to briefly remind you of our capital allocation priorities, which remain unchanged. 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 level of around 2.5 times, we do not prioritise share repurchases.

Before moving to Q&A, I would like to briefly take you through our improved outlook for the year, on my last slide, slide 23.

Our strong financial performance in H1 24 as well as our expectations for H2, including the continued inflation and volatility in green coffee prices and the additional pricing this will require, give us confidence and further visibility to increase our outlook for 2024 across topline, profitability, cash flow and leverage as follows:

We now expect our sales to grow organically at the higher end of our medium-term range of 3 - 5%. We expect our adjusted EBIT to grow organically by around 10%.

Next to that, we now expect to deliver free cash flow of at least 850 million euro.

And, given the steady progress towards deleveraging since recently closing the Maratá and Caribou transactions, we are confident to also bring our net leverage at the end of 2024 to below 3x.

Lastly, we intend to pay a stable dividend versus last year.

So 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.

Question & Answer session

Operator: Ladies and gentlemen, we are now ready to take your questions. If you wish to ask a question, please press star one on your telephone keypad. Please remember that you are limited to one question and a follow-up per round. Let's wait for the first question.

We will take the first question from line, Jon Cox from Kepler Cheuvreux. The line is open now. Please go ahead.

Jon Cox (Kepler Cheuvreux): Yes. Good morning. Luc, maybe a question for you just in terms of what you said there broadly about the company and the search for a successor. Are you effectively given the fact that you're saying it's pretty much rightly configured, you're pretty much ruling out a major restructuring program even when a new CEO comes on board, and it will be in line with your own ideas? And I guess, as chairman, you're speaking on behalf of the board as well. If you could just maybe elaborate a little bit on that? Thank you.

Luc Vandevelde: Yes. Thank you very much for that question. As I said in my opening remarks, the search is going extremely well. We are now down to a very short list of candidates who are going to meet some more members of the board and possibly some of our shareholders. And definitely, before the end of the year, we will have someone in place. And as also said, I think that the company basically is in good shape. I mean we've got extraordinary talent. I think we can improve in working together, but there's definitely no need for changes in the organization and definitely not in the strategy. I think it's going to be a lot more about better execution but within the established strategy. And as you can imagine, I am very close to our board, who all share my point of view. As I said in the choice of staying as chairman, you can imagine that the choice of the CEO is somewhat in line with my own management style. I think that this is coming over today very well with the teams, so I don't expect any major changes after the CEO joins us.

Jon Cox (Kepler Cheuvreux): And just as a follow-up, as you've seen in some other companies, the interim CEO i.e. yourself could actually stay for a while. Do you have any desire to sort of stay in that position as well for a while or is it really, i.e. are you a candidate as well to become CEO or is it really full steam ahead looking for a separate CEO.

Luc Vandevelde: Yes, as I said, I'm really thoroughly enjoying the role of CEO, but I've learned in life not to climb the same mountain too many times. So I'll be very happy to hand over to my successor. Again, I'm lucky to be able to stay as chairman, so I can follow and hopefully help the incoming CEO in some areas where he or she may not have the level of expertise yet. I would be very happy to hand it over to the successor.

Jon Cox (Kepler Cheuvreux): Thanks, Luc.

Operator: Thank you. We will take the next question from line, Feng Zhang from Jefferies. The line is open now. Please go ahead.

Feng Zhang (Jefferies)*:* Hi. Thanks for taking my question. I have a question on the balance between investments and profitability. Are you continuing the investments in the US coffee machines, or do you say it's too costly that you decide to reduce the investments and reallocate those back to other categories or divisions that have been underperformed in terms of growth in the past? Does the A&P spending in H1 reflect the fewer investments in the US L'OR Barista? Thanks.

Luc Vandevelde: Yes. Overall, the A&P investment is about the same as last year, slightly above. And indeed, that includes a reduction of the investment in the United States behind the L'OR Barista launch. It's actually relatively easy to explain, in the sense that last year was the initial year of launch and you know in your first year you tend to overspend. This year, as I said in my remarks, we are being more efficient in marketing spending in the United States, and the results are actually better than the ones we were hoping for with a higher budget. So clearly, our spending in the US is more efficient than it was last year, and we intend to maintain that level more or less the same.

Operator: Thank you. We will take the next question from line, Bing Zhou from Redburn Atlantic. The line is open now. Please go ahead.

Bing Zhu (Redburn Atlantic)*:* Hello. Thank you for taking my question. Can you touch on the COGS inflation outlook, please? I think a few months ago, that was in the low single digits. Given the coffee inflation we've seen year to date, what is your expectation for the cost inflation considering coffee inflation and many other cost buckets now for FY 24, please?

Luc Vandevelde*:* Yes. As Scott pointed out, I think we were looking at slightly lower costs in the first half of the year, at least the first semester, and looking at quite substantial increases again in the second half of the year. As I said earlier, we’re looking at year-on-year price increases in green coffee of 13 percent for Arabica and 54 percent for Robusta. That translates into a substantial cost increase in the second half of the year, which will be compensated by-and--large with pricing going through. Actually, we are pricing up as we speak.

Scott Gray: I would say that increases the expectation for the outlook for the full year in terms of inflation and I would probably call it mid-single digits inflation driven by the factors that Luc just called out. **Bing Zhu (Redburn Atlantic)***:* Okay. Can I ask for a follow-up please, because you mentioned in the press release there is some ongoing productivity in Europe and cost efficiency in Peet's? Can you provide more colour on that and maybe quantify the cost savings that you have so far and maybe the rest of the year? **Luc Vandevelde***:* In our manufacturing units, we are continuously looking at productivity improvements and that's ongoing. Fortunately for us, every year we can count on a substantial amount of productivity which compensates for part of the inflation that we see in our raw material and packaging materials, so not just in manufacturing. I guess I could say, across the board, whether it be SG&A our selling, operations, and manufacturing. The precise number, I don't think we publish.

Scott Gray: No, and of course, as Luc said, it's ongoing, so it's not a particular restructuring program or something of that nature. And as you remember, we've over time announced several different initiatives, for example, in Europe in terms of bringing the "Away-from-Home" businesses and the "In-Home" businesses into one single business. You start to see the kind of constant efficiencies and productivity that come through on that as we look to also make sure to restore some profitability that has been gradually lost over a period of time, given all the disruptions that go on in the broader environment.

Bing Zhu (Redburn Atlantic)*:* Thank you. Very helpful.
Operator*:* As a reminder, if you would like to ask a question, please signal by pressing star one on your telephone keypad. We will take the next question from line, Robert Jan Vos from ABN AMRO - ODDO. The line is open now. Please go ahead.

Robert Jan Vos (ABN AMRO - ODDO): Yes. Hi. Good morning all. I have a couple of questions. The increase in your free cash flow guidance implicitly, I think it's more than 300 million euro and previously you said to at least achieve last year's free cash flow. Now you target for at least 850 million euro. Apart from adjusted EBIT/EBITDA, what are the main drivers for this raised expectation, or is it only the operating results? The second question. You mentioned the difference in organic sales growth in developed and emerging markets. It's quite a difference and obviously that is for a big part also pricing I assume. Can you also provide the volume/mix split between these two segments please? I was wondering in APAC you mentioned the benefit from pricing in combination with the usage of lower-priced green coffee from inventories. Why is this a factor here and not also in other divisions? Thanks.

Scott Gray*:* Let me start and then Luc can jump in and complement. I would say, first of all, on the question on the free cash flow guidance increasing by a few hundred million. What we said in terms of our guidance at the beginning of the year was greater than 2023, which I believe was 522 million euro. I'm not going to say we've improved it by 300 million euro, but we wanted to get more visibility in terms of cash flow, and we knew that cash flow would be a good number. Now we have more conviction on the level of that. I would say what drives that is the general operating performance, nothing specific. Then also as we started to get the normalization that we had on the reduction of stock levels for 23, and we started to see the normalization of working capital which happened during the course of H1. That's what we had said would happen. Exactly when that happened, it's hard to call out. So I would say, generally, it's driven by stronger operational performance. Then the third question in terms of APAC, where we talk about one of the drivers. It's not the primary driver, but we call out one of the things in terms of driving it is working off the lower-priced coffee stocks. You see that across the markets actually, I think we call it out there, but it's across the markets. The timing of the price increases as we try to have persistent price increases, and we don't want to be adjusting prices down when we know we have to go back up. We try to provide the right cadence and consistency there for the price increases. So like in some other areas, they do get a bit of a tailwind on the GP there as well. But the drivers for APAC were driven by a number of things, including the better margins from the SKU rationalization that we did last year. We also had a warehouse issue last year where we had a lot of one-off costs in APAC, and we got, as we mentioned, in full-year results, in H2, that were more normalized. Now we're lapping that, and there was just the general low comp that was there last year. It's a number of factors driving the APAC profitability, but that is one of them. I believe you had maybe a third or fourth question on the volume/mix of emerging markets and developed markets. First of all, in developed markets, you're saying it looked a little bit less. Of course, when you look at developed markets, you have to think that of course Europe plays a big role there, and we called out what the volume/mix for Europe is. The other markets where you would be in developed markets which you would have for example, Peet's, so most of that is Peet's in the US. Then you have some markets like Australia and New Zealand, for example, where we called out that were a little bit softer. With that in those markets, we progressively got better on volume/mix as the semester evolved. I think it's very notable, for example in Europe, and we mentioned that in terms of the first few months of the year versus the latter few months of the year. So I would say in emerging markets, it was more price. In developed markets, it was more balanced in terms of the drivers behind that 1.1 percent that we called out.

Luc Vandevelde*:* And the good mix, particularly excellent performance in volume, of our capsules business, in Europe.

Robert Jan Vos (ABN AMRO - ODDO): Okay, that is very clear. If I may, I have one additional question about LARMEA. You mentioned the brand transition in Russia. I think that started in the second half of last year. We were preparing for a tough comparison in H1, which turned out to be pretty okay. Is that still a factor in the second half of the year?

Luc Vandevelde: No, I think that's over. The transition is over. We have indeed obviously had a bit of a hit, but things are normalized by now.

Scott Gray*:* Absolutely. Yes, that's the carryover effect from the second half, so it's annualized now.

Robert Jan Vos (ABN AMRO - ODDO*):* Okay, very clear. Thank you.

Operator: Thank you. As a reminder, if you would like to ask a question, you can signal by pressing star one on your telephone keypad. We will take the next question from line, Patrick Folan, from Barclays. The line is open now. Please go ahead.

Patrick Folan (Barclays): Hey. Good morning Luc. On the volume impacts from retailer discussions, is there any potential for further impact of pricing negotiations impacting the volumes in the second half? Is that something that's captured by the new organic sales growth guidance? Thanks.

Luc Vandevelde: Yes, one never knows. The negotiations are actually ongoing right now. We seem to be getting better reception this time around than we did on previous occasions. Actually the first quarter of this year was hit by some retailer retaliation, as we call it, but that levelled out quite nicely in the second quarter. So I think that things are going quite well. We shouldn't expect any major volume impact in the second half of the year, especially not, although we are, of course, looking at comparables with last year's second half, which was pretty good. The volume progression probably is going to be slightly less in the second half than in the first half, but I think that at least from a pricing perspective, things are going quite well.

Patrick Folan (Barclays): I'm sorry, but just to be clear on that, the guidance includes that kind of flexibility for those discussions?

Luc Vandevelde*:* Yes, absolutely.

Patrick Folan (Barclays): Okay. Thank you.

Operator*:* Thank you. As there are no further questions, I would like to return the call to the speaker.

Robin Jansen: Thank you, Caroline. 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 are happy to answer your questions. And again, thank you very much, and enjoy the rest of your day.

Operator*:* This is now concluding JDE Peet's earnings call. Thank you for your attention, and you may now disconnect your line.

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