

# Consumer Goods & Retail

Industry outlook and deep dive on  
Coca-Cola Philippines acquisition

Date: 21<sup>st</sup> Feb 2024



THE  
PERSPECTIVE










# Agenda

**Consumer Market Overview**

**Coca-Cola Beverages Philippines**

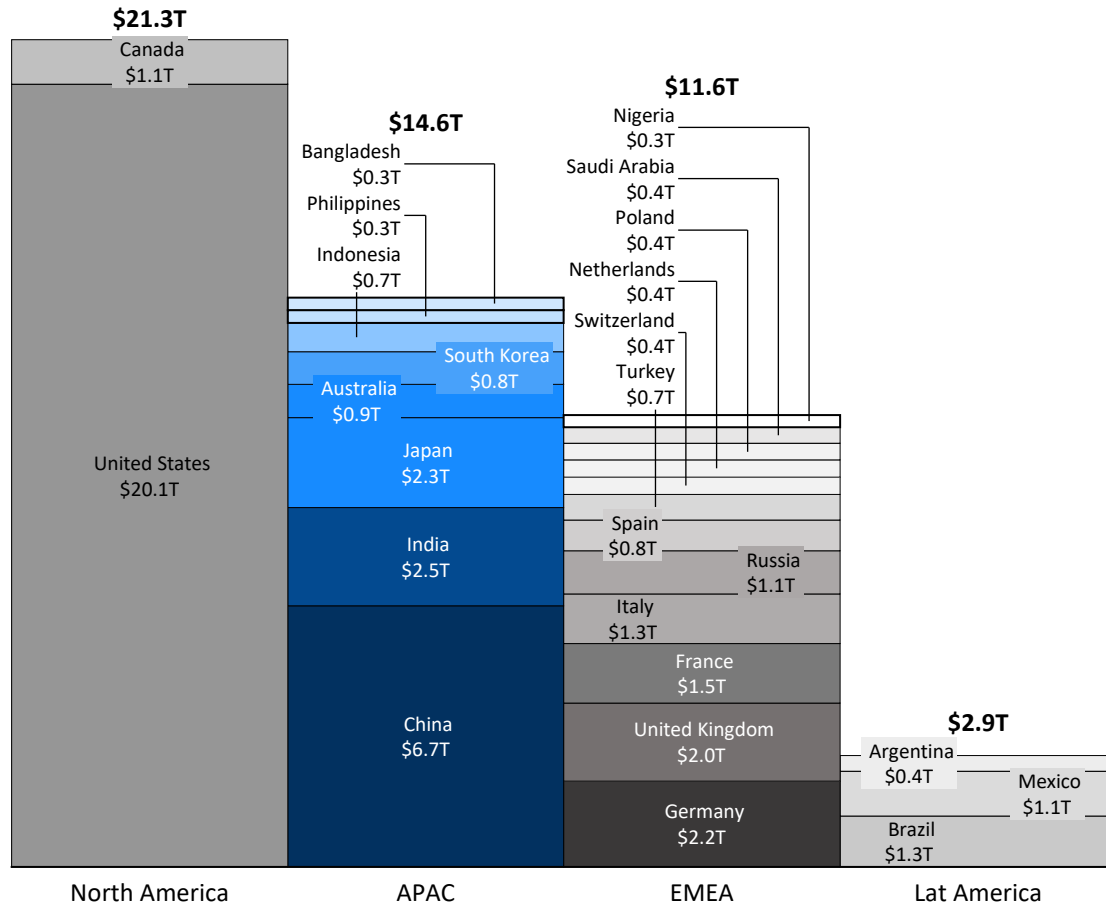
# The consumer goods and retail market is broadly categorised as consumer non-durables and durables

## Consumer goods and retail market definition

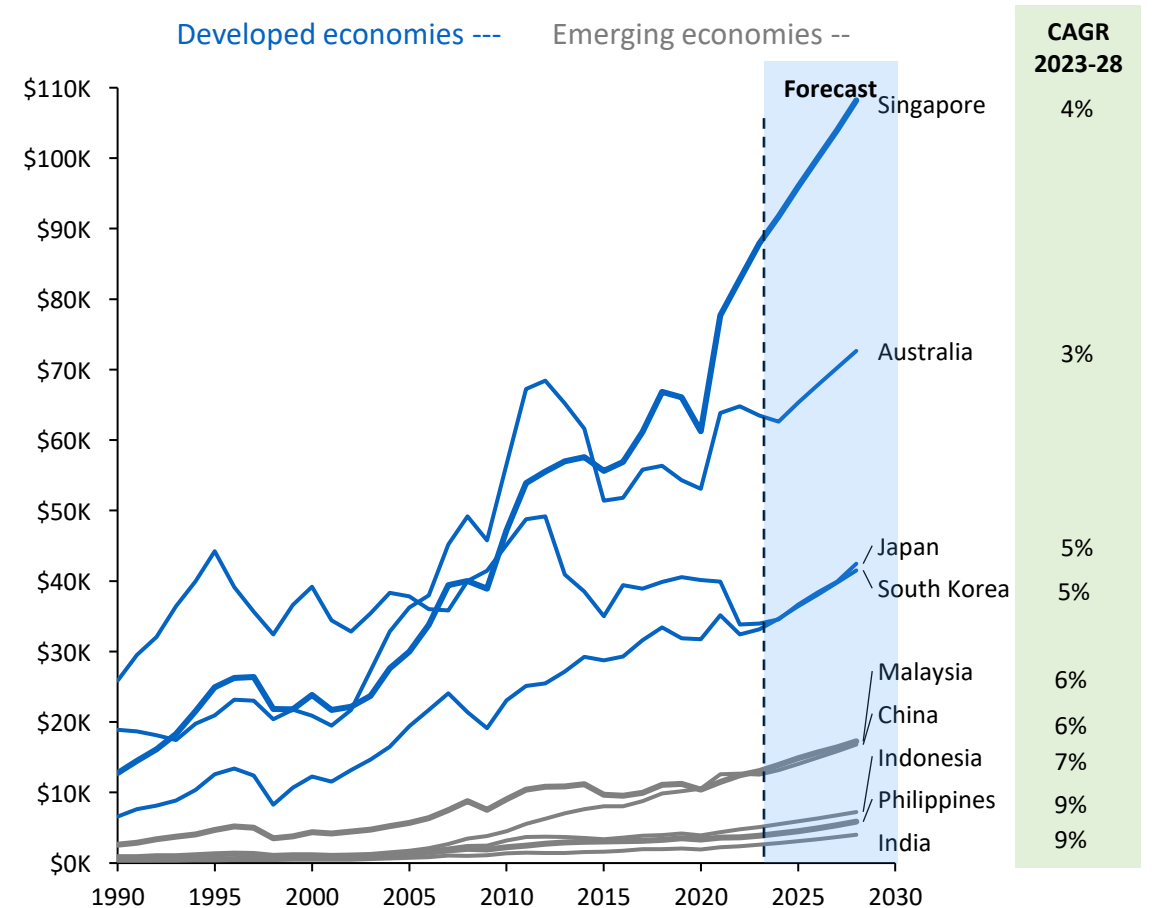
	Consumer non-durables	Consumer durables
Definition	Goods that are consumed quickly and have a <b>short shelf life</b> , usually under 3 years	Goods that are used over a <b>prolonged period</b> and have a longer lifespan
Examples	Food, beverages, cosmetics, clothing	Home appliances, electronics, automobiles
Purchase frequency	<b>Frequent</b> , part of routine consumption	<b>Infrequent</b> , often considered investments
Price stability	<b>Fluctuates</b> due to factors such as supply and demand, seasonality	(Relatively) <b>stable</b> over time; typically higher ticket items
Price elasticity	<b>Elastic demand</b> , consumers are more sensitive to prices changes	<b>Inelastic demand</b> ; consumers are less responsive to price changes due to long-term nature of purchase decision
Brands	    	   

The APAC region is the second largest consumer market with its emerging market's GDP per capita growing between 6-9% and developed economies growing between 3-5%

Consumer markets by region<sup>1</sup>



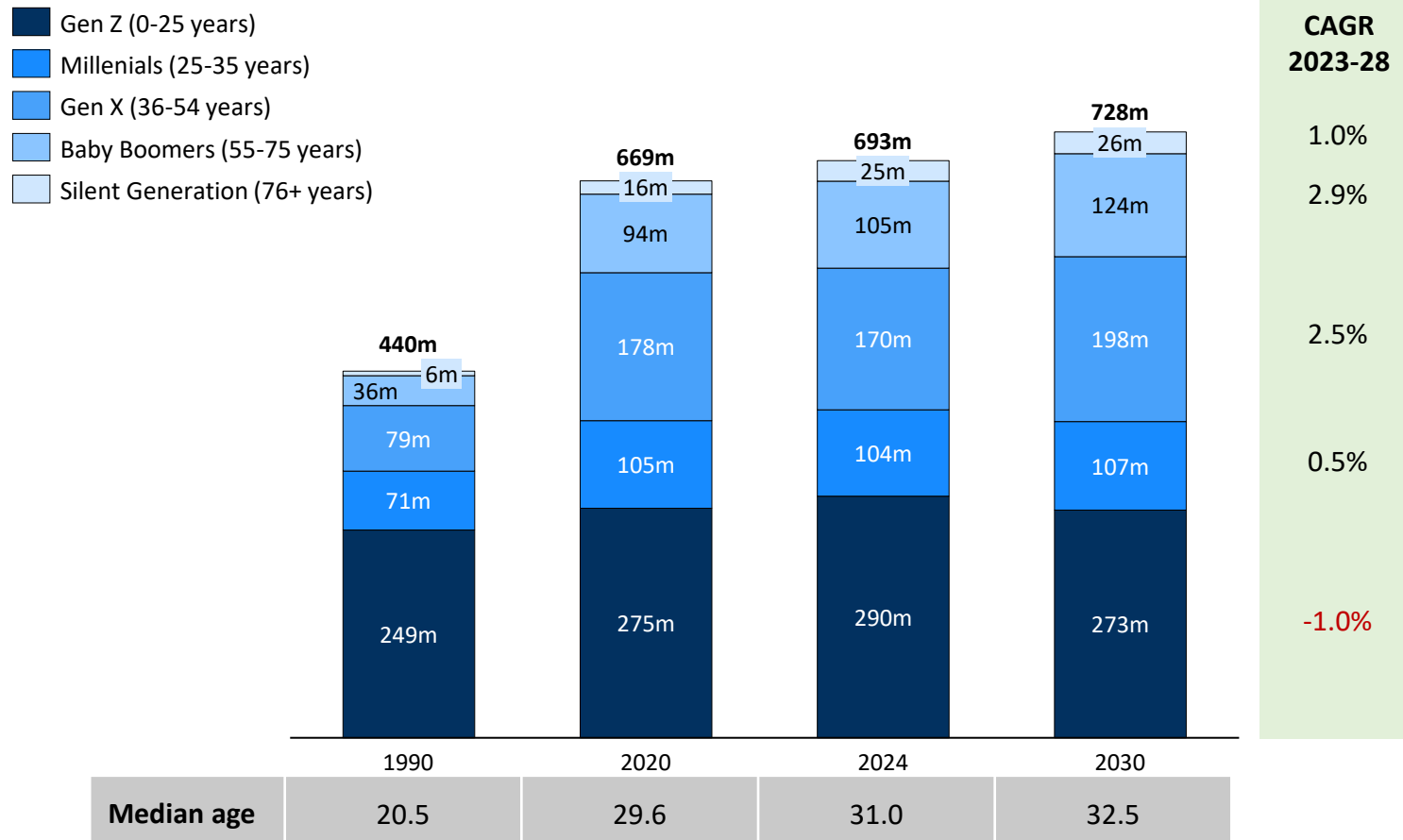
GDP per capita in select APAC economies, 1990-2030



1. Based on Household Final Consumption Expenditure (HFCE) in nominal terms  
Source: Perspective research & analysis, World Bank, IMF

# Gen Z, the largest age segment in South-East Asia, value individuality, authenticity, and identity more than other generations

## Demographic growth in South-East Asia<sup>1</sup>



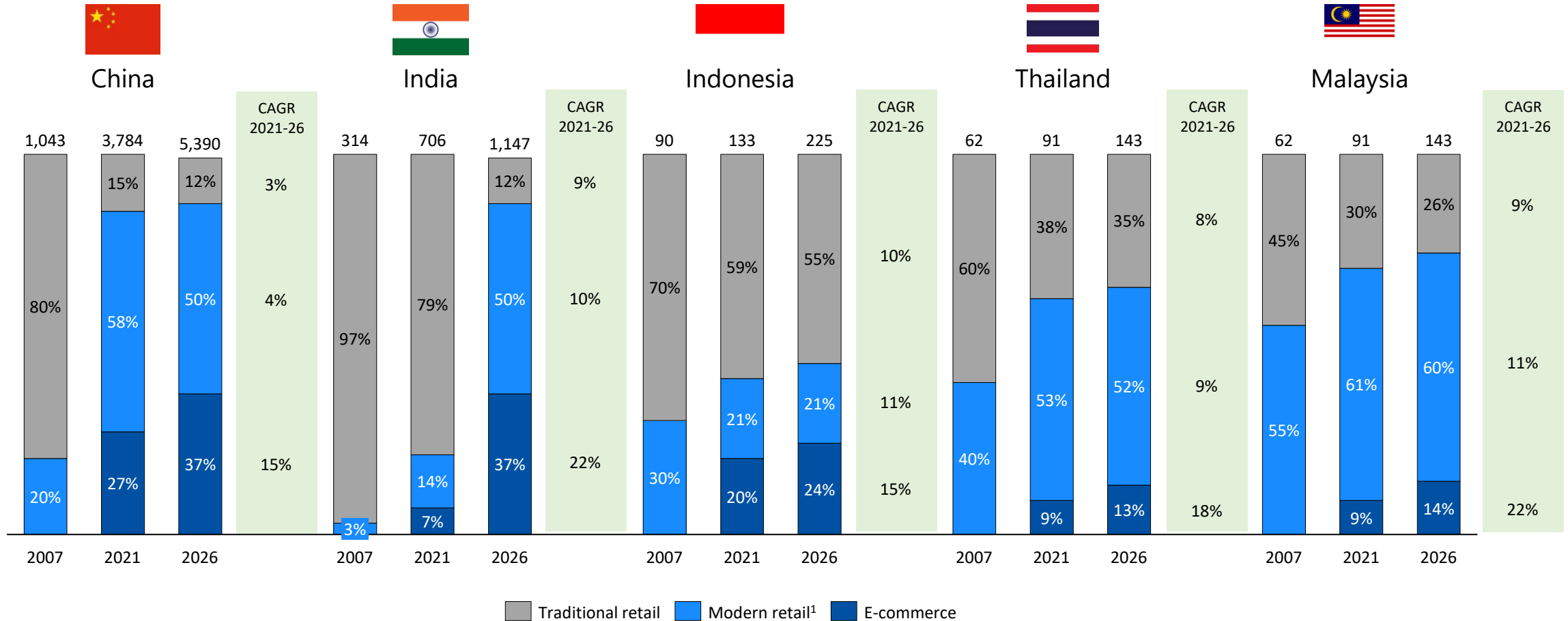
## Customer preferences by generation

	Rank 1	Rank 2	Rank 3
Gen Z	Individuality/ live on own terms	Work hard today to enjoy tomorrow	Daily companionship
Millennials	Work hard today to enjoy tomorrow	Daily companionship	Individuality/ live on own terms
Gen X	Work hard today to enjoy tomorrow	Daily companionship	
Baby boomers	Daily companionship	Work hard today to enjoy tomorrow	
Silent generation	Work hard today to enjoy tomorrow	Daily companionship	

1. Includes 10 ASEAN countries and Timor-Leste  
 Source: Perspective research & analysis, IMF, Singapore EDB

# E-commerce and modern retail channels have dominated the Asian retail markets since Covid; e-commerce projected to experience fastest CAGR growth between 15-22% in the near term

## Retail channel growth in Asia



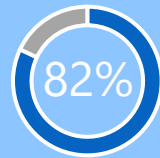
1. Modern retail refers to organised chains of stores with standardised processes and IT systems compared to traditional retail which are essentially mom & pop stores **Source:** Perspective research & analysis, Roland Berger report

# Supply side trends in the retail sector include escalating material expenses and supply chain disruptions, while demand side is characterised by increased environ'tal & health awareness

## Rising material costs and supply chain disruption

### Rising material costs

- Retail businesses in Asia witnessed raw material cost inflation in 2023 due to strong post COVID recovery and tight labor markets
- As inflation eases, consumers begin to switch to affordable private-label brands or more premium brands



Executives mentioned that inflation had a major impact on their business

### Supply chain disruption

- Supply chain disruptions that started with COVID, have exacerbated due to recent geopolitical tensions and wars in the Middle-East and Europe
- These developments led to supply chain regionalisation. In Asia, emerging countries like Vietnam and India have benefitted from foreign investments due to nearshoring and reshoring initiatives

## Health & environmental awareness among consumers

### Focus on environmental sustainability

- Over 50% of global consumers believe that sustainability is one of the top four purchase criteria when shopping and **12% are willing to pay more for sustainable products**<sup>1</sup>
- The focus on sustainability is not necessarily only an intellectual priority, it is personal. **58% of Asian consumers are personally affected by environmental problems** such as water pollution, air pollution and extreme weather events

### Health awareness among consumers

- Due to rising awareness of health-conscious foods and penetration through retail channels, **the global organic food market is expected to grow** from c.\$300b in 2023 to \$c.500b in 2027 at CAGR 14%
- Government regulations have also aided the transition to healthier retail choices. Singapore, for instance, has mandated F&B outlets to include nutrition labels for freshly prepared drinks high in sugar and fat content

# Key consumer and agri deals in APAC: Coca-Cola Philippines business acquired by CCEP and AEV, investment in Halcyon Agri in Singapore, and L'Oréal's acquisition of Aesop in Australia

## Coca-Cola Beverages Philippines

**Year acquired:** 2024

**HQ:** Manila, Philippines

**Acquirer:** Coca-Cola EuroPacific Partners (CCEP) and Aboitiz Ventures (AEV); 60:40 ownership

**Transaction value:** \$1.80b



**Business overview:** Coca-Cola Beverages Philippines is the exclusive bottler and distributor of Coca-Cola products in the Philippines

**Rationale for acquisition:**

- CCEP acquired the bottling business to expand their presence in the Australia, Pacific and Indonesia (API) region
- AEV's plan to invest is a part of its portfolio diversification strategy to enter the branded consumer goods segment. AEV is a leading conglomerate in the Philippines

## Halcyon Agri

**Year acquired:** 2023

**HQ:** Singapore

**Acquirer:** China Hainan Rubber

**Transaction value:** \$180.9m (36% stake in Halcyon Agri)



**Business overview:** Halcyon Agri is a listed company distributing natural rubber, latex, and specialised rubber in medical and tire industries

**Rationale for acquisition:**

- The state-owned company, China Hainan Rubber, will benefit from overall operating efficiency improvement and economies of scale from their distribution network in Malaysia and Thailand

## Aesop

**Year acquired:** 2023

**HQ:** Melbourne, Australia

**Acquirer:** L'Oréal

**Transaction value:** \$2.53b



**Business overview:** Aesop is a luxury cosmetics & haircare brand renowned for their high-quality products and minimalistic aesthetic

**Rationale for acquisition:**

- The acquisition was targeted towards expanding into the luxury market and increasing reach in China and travel retail
- The acquisition will also strengthen L'Oréal's leadership in the natural cosmetics market

*Deep dive in subsequent slides*



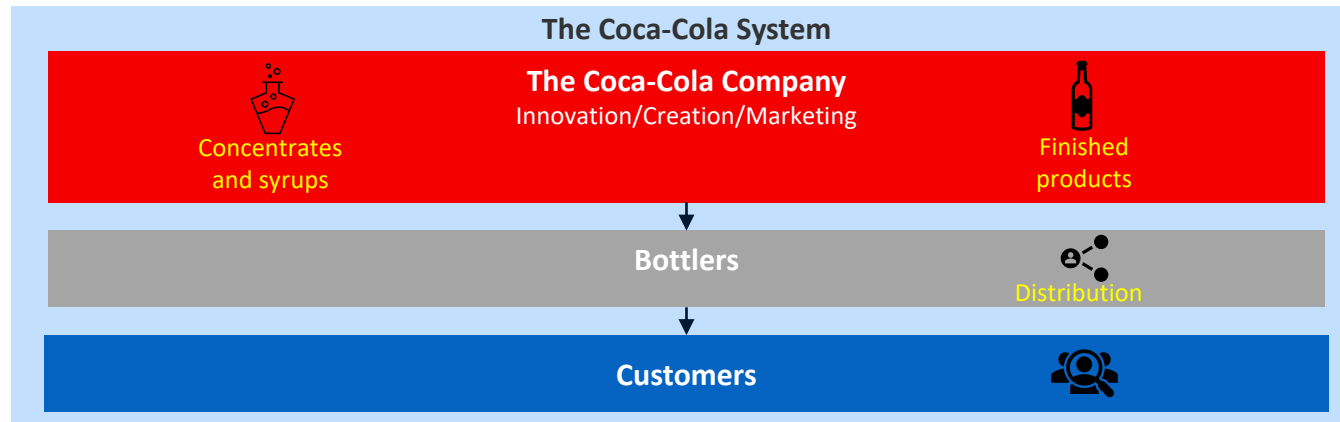
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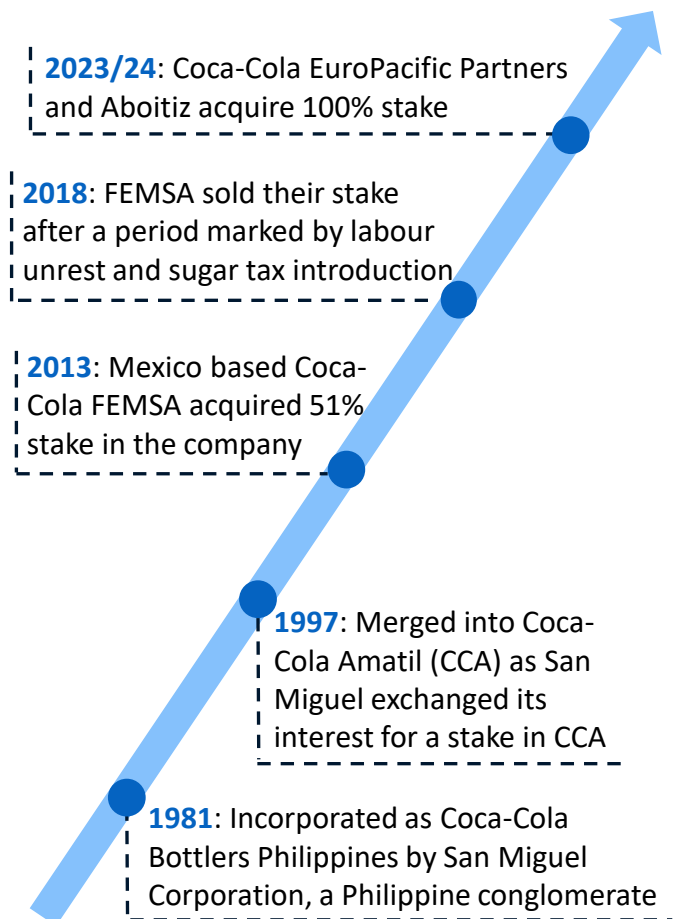
# Coca-Cola operates through regional bottling partners for local distribution enabling its presence in 37 markets across the APAC region

## Coca-Cola Business Overview



Source: Perspective research & analysis, Scribd, Coca-Cola website & Annual Report

## Coca-Cola Philippines Timeline



# Philippines is an attractive and growing NARTD market due to strong macro-economic conditions and e-commerce penetration. However, sugar tax erases profits for operators

## Growing demographics and affluence

### Demographic dividend

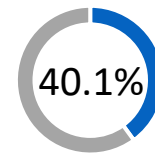
- **2<sup>nd</sup> largest most populous country in South-East Asia** after Indonesia with c.120m population growing at c.1.5%
- Historically a Spanish colony, Philippines has cultural similarities with Mexican owned Coca-Cola FEMSA

### Rising affluence

- c.6% GDP CAGR and **household consumption expenditure** on food and non-alcoholic items **growing at 4% CAGR**
- Philippines is an ASEAN member state with a combined GDP of \$3.7Tr in 2023
- Philippines is backed by a strong services sector that boosts its economy and connects it with the rest of the world

## E-commerce penetration

- **Highest e-commerce growth** along with Thailand in ASEAN. Revenue from online retail is expected to reach **market volume of \$29.5b at CAGR 13% between 2023-27**
- High-frequency, low-value transactions through merchant payments and person-to-person fund transfers boosted the adoption of digital payments in the country



Share of digital payments in the retail sector

## Regulation in the consumer market

### Sugar tax

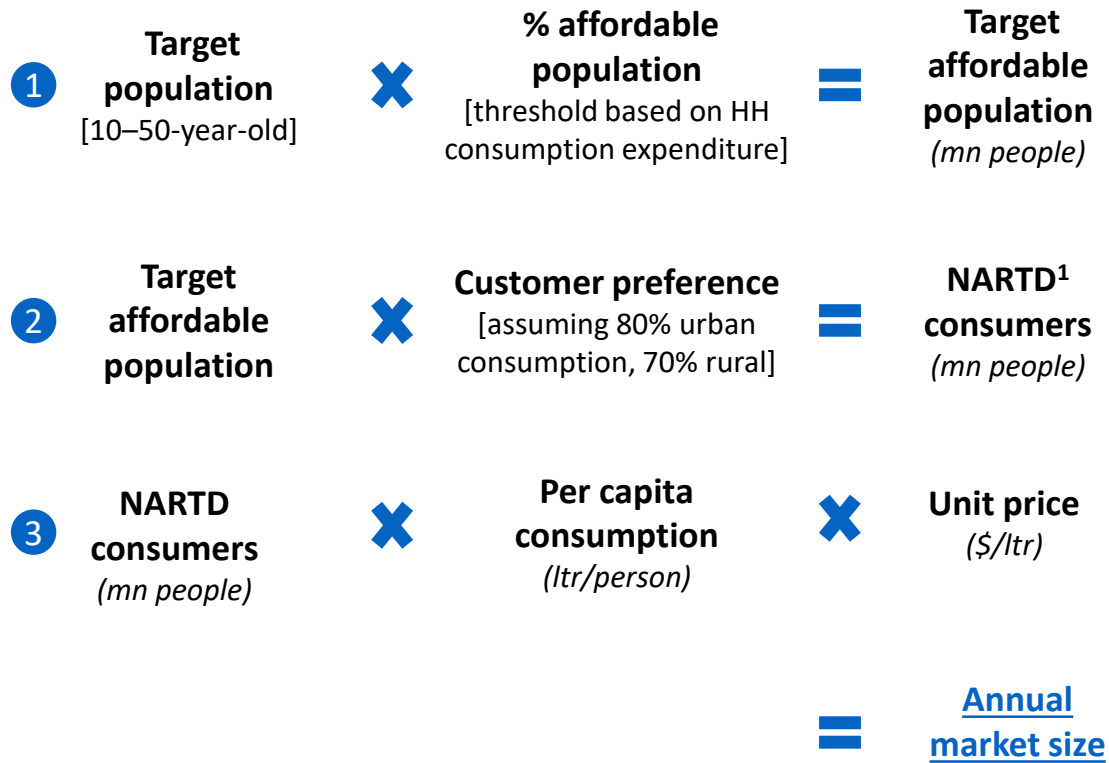
- Philippines imposed a tax on sweetened beverages in 2018 to help with the rising rate of obesity which negatively impacted the Non-Alcoholic Ready To Drink (NARTD) beverages market
- One month after implementation of the tax, prices of **taxable sweetened beverages had increased by 20.6% and sales in sari-sari (convenience) stores had declined 8.7%**

### Retail Trade Liberalisation Act

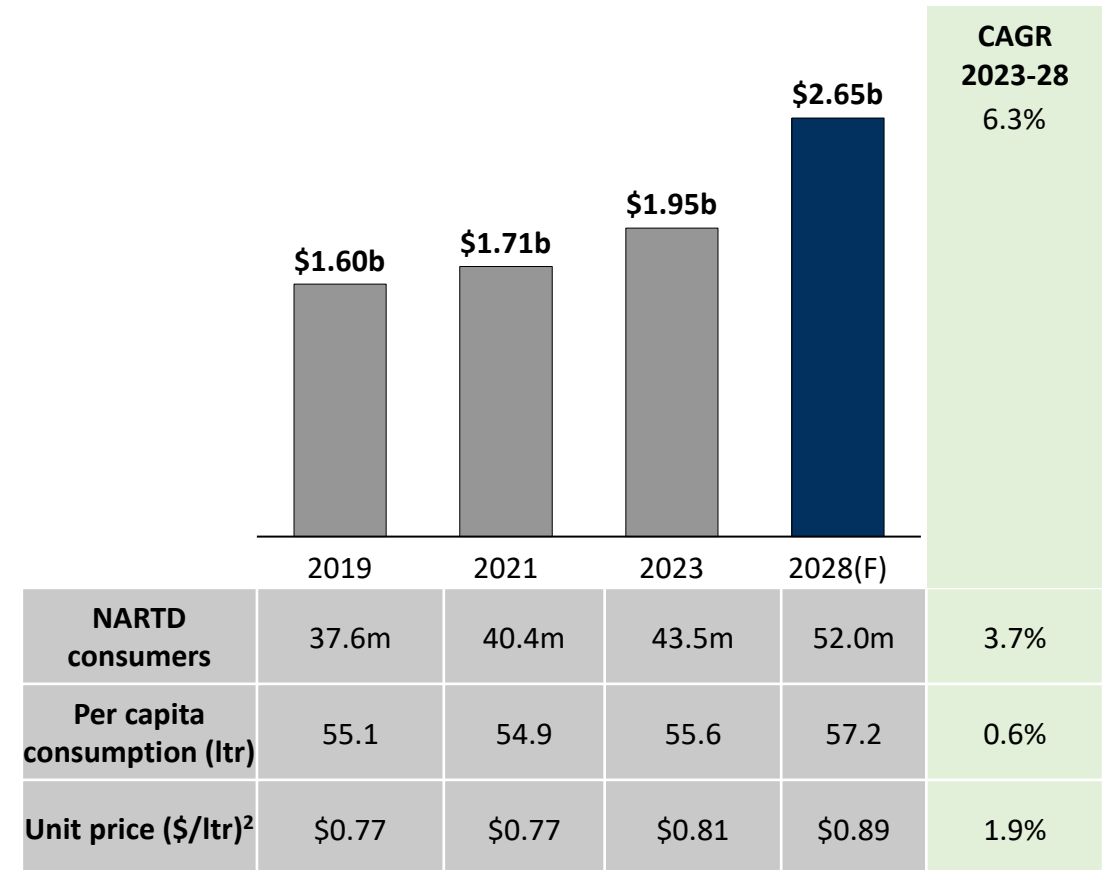
- The Philippines has been aggressively pushing for foreign investments allowing investors 100% ownership of assets
- The opening up of the markets would bring more business into the country while also stimulating local demand

The market size for NARTD beverages in the Philippines is valued at c.\$2b in 2023 growing to c.\$2.6b in 2028 at CAGR 6%

Market size methodology and assumptions



Market size of NARTD beverages in the Philippines



1. Non-Alcoholic Ready To Drink (NARTD) beverages 2. Average exchange rate between 2019-23 used for unit price calculation; 1 USD = 52 pesos Source: Perspective research & analysis, Philippine Statistics Authority, Statista Research

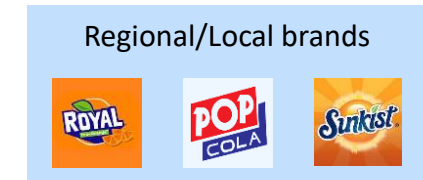
# Pepsi stands as Coca-Cola’s core competitor in the Philippines, with smaller local players and substitutes also vying for consumer wallet share

## Competitive landscape

		Coca-Cola	Pepsi
Product mix	Carbonated beverages	19 brands <i>(42% revenue from carbonated beverages)</i>  	15 brands  
	Non-carbonated beverages <sup>1</sup>	 	 
Operational reach	Manufacturing plants	19	12
	Coolers	100K	-
	Customers	c.100mn	-
Price <sup>2</sup>		₱34.00	₱35.00
Est. beverage revenue <sup>3</sup>		c. \$440mn	c. \$150mn

## Commentary

- Coca-Cola also competes against regional and local beverage companies such as San Miguel and Cosmos



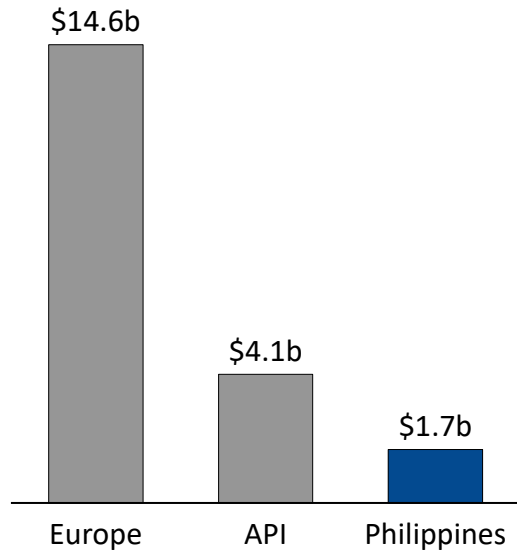
- Traditional alternatives such as Buko and Calamansi juice are popular substitutes for consumers

*“In the Philippines, we are the only beverage company competing across categories, and we face significant competition in each category. In addition, the distribution and marketing practices in the Philippines differ from our historical practices. We may have to adapt our marketing and distribution strategies to compete effectively”*  
 - Coca Cola FEMSA annual report

1. Non-carbonated products include flavoured, energy, caffeine and hydration beverages 2. Price of 320mn can 3. Revenue estimated for Philippines operations only Source: Perspective research & analysis, Lazada, Nikkei Asia, company websites and annual reports

The business is positioned for modest growth due to favourable market conditions and strong governance by the new owners, however it faces regulatory challenges and low unit revenues

Current top-line performance



<b>Volume (mUC)</b>	2,631	669	650
<b>Revenue/Case</b>	\$5.6	\$5.9	\$2.6

Coca-Cola Philippines Outlook

**Market**

- (+) Strong macro-environment due to large population and growing affluence in the economy
- (+) A healthy market size of \$2.6Bn growing over 6% CAGR in the next five years; with 40% penetration, it has the potential to become a \$1Bn business
- (+) Stable regulatory environment favourable to foreign investors providing CCEP a conducive atmosphere to conduct business
- (-) The implementation of sugar tax poses a challenge to the operator’s profitability as evidenced by FEMSA’s withdrawal from Philippines when the law was announced in 2018

**Competition**

- (+) Coca-Cola has an edge in terms of production with 19 plants over its main competitor Pepsi which operates 12 plants
- (+) Coca-Cola holds a superior top-line position over Pepsi, with roughly three times the revenue size, partly attributed to its wider product mix

**Asset**

- (+) The principal owners, CCEP and Aboitiz Ventures, combine operational excellence in running bottling business with local geography knowledge/distribution network making a strong case for quality management
- (+) CCEP is likely to focus on the growth of Philippines as they operate the highest number of plants (19), Australia coming the closest second at 13 facilities
- (-) Revenue per case in Philippines is about 50% lower compared to Europe and API due to relatively lower per capita income