COCA-COLA EUROPEAN PARTNERS: FROM THE IBERIAN PENINSULA TO EUROPE (B)[1]

On April 20th, 2015, the Social Chamber of the Spanish Supreme Court dismissed the appeal filed by Coca-Cola Iberian Partners (CCIP) against the National Court's judgment. The National Court had declared null and void the corporate layoff file presented after the merger of the 8 Iberian bottlers. The reinstatement of the employees made the integration process in progress highly complex: some jobs were no longer available due to the closure of factories, others had accepted the layoff conditions and preferred not to return, it was uncertain what would happen with those who had been relocated, etc.

The possibility of not submitting that appeal and restart negotiations with employees' representatives after the National Court's judgment did not seem feasible in the face of The Coca-Cola Company's (TCCC) announcement of a possible merger of CCIP with two other large European bottlers. There was a high risk that the Supreme Court would overturn the appeal, as it finally happened. The company, however, must move forward with the integration plans in the Iberian Peninsula quickly in order to capture synergies, scale up, reorganize structures, rationalize assets, etc. with aims to be prepared for the European integration.

After the Iberian merger, local family businesses with sales that ranged between 70 and 800 million EUR had become the first food & beverage company in the Iberian Peninsula. Although the recovery shown by macroeconomic indicators in the Iberian Peninsula was far from the real economy in which CCIP operated, in 2015, the company had a turnover of 2,920 million EUR (3.1% more than in 2014), with an EBITDA of 360 million and a net income of 191 million (up by 8.4% and 7.9% respectively compared to 2014).

They had sold 556.3 million unit crates (3,160.1 million liters) of soft drinks, juices, and water in Spain, Portugal, and Andorra, with eight soft drink factories, one juice plant, and six natural water springs. The product portfolio included 87 beverages, 18 brands, and 280 SKUs. The company hired 4,480 employees.

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COCA-COLA EUROPEAN PARTNERS

Nevertheless, this was only the beginning of many changes to come in the Iberian Peninsula. In August 2015, Coca-Cola Enterprises (CCE), Coca-Cola Iberian Partners, and Coca-Cola Erfrischungsgetränke (CCEAG) – a subsidiary of The Coca-Cola Company in Germany – reached an agreement to integrate their operations into a new company: Coca-Cola European Partners (CCEP). The operation entailed the creation of TCCC's largest independent bottler in the world in terms of net revenues (see Exhibit 1).

The merger was established in 2016. The figures of the new company gave a clear image of its magnitude: the macro-bottler would add 11,000 million EUR in turnover (pro forma revenues 2016), would have an EBITDA of approximately 1,800 million EUR, and would produce more than 2,500 million unit crates (14,195 million liters). It would employ 25,000 people in more than 50 bottling plants and would serve over 300 million consumers in 13 countries: Spain, France, Germany, the United Kingdom, Portugal, the Netherlands, Belgium, Norway, Sweden, Andorra, Iceland, Luxembourg, and Monaco (see Exhibit 2). CCIP contributed with 24% of the Company's total revenues.

The share distribution was as follows: CCE shareholders had a 48% stake, CIP shareholders, 34%, and The Coca-Cola Company, 18%[2]. The configuration of the Board of Directors and the CCEP management team can be found in Appendix 1, and a summary of selected figures of the Atlanta-based beverage giant, in Appendix 2.

In this process, it was a requirement for Spanish shareholders to adhere to the deal jointly, creating a stable shareholder base with limitations on the sale of shares and veto rights. That is why CCIP shareholders had to create a holding company in Spain called Olive HoldCo., the sole owner of all CCIP shares, aiming to be contributed to CCEP in exchange for 34% of CCEP's shares. The old legal figure of CCIP (that would be known as Coca-Cola European Partners Iberia, S.L.U.) thus became a subsidiary of the new CCEP.

At the close of the integration, Sol Daurella, appointed chair of CCEP's Board of Directors[3], stated:

"With a common history in Europe that goes back almost a century, the three companies that are now integrated under one of the most recognized brands worldwide are prepared to become the best bottler in the Coca-Cola system in the world. Our ambition is simple: to create a successful future with The Coca- Cola Company, manufacturing the drinks that millions of people love and offering them a wider range of choices than before."

In May 2016, CCEP became listed in the New York, Amsterdam, and London stock exchanges with a total market capitalization of almost 15.5 billion EUR[4]; it was later listed

[2] TCCC was the sole shareholder of the German bottler CCEAG.

[3] As per the shareholder's agreement, Daurella would hold this position until 2019, extendable until 2025 under certain circumstances.

[4] CCE was already a listed company in the New York stock market

on the Madrid stock exchange. The new company was based in the United Kingdom and headquartered in London.

Víctor Rufart was appointed Chief Integration Officer for Europe; Francesc Cosano, until then operations corporate manager in Iberia, assumed the position of general manager of CCIP. Rufart was later appointed the director of the European company too, in October 2016.

After this new integration of the three European companies, each one would continue to exist and, unlike CCIP, each would receive their orders and invoice their customers. Victor Rufart said:

> *"In Iberian integration, growth was a 'consequence': the result of economies of scale, capacity readjustment, and the extension of best practices. In Europe, growth is the starting point."*

THE FUTURE

Coca-Cola's share in the European cola drink market was around 80%, though the company was pushing for a radical strategic change: it would no longer be a "soft drink" company but a "beverage" company (water, non-carbonated drinks, sports, etc.: the so-called NARTD segment – Non Alcoholic Ready to Drink beverages). The company's potential market share in this segment was very high: the NARTD retail market in Europe was around 100 billion EUR (see Exhibit 3). In an interview published by TCCC, Sol Daurella stated:

"The non-alcoholic ready to drink beverages category is broad and dynamic, and it is growing in Western Europe. CCEP has a market share of 29% in its area of influence; we have much room for improvement. We have a four thousand people strong sales team who will make over 12 million visits to customers each year. So we consider CCEP to be a great platform for growth through our local connections. And our greater dimension will produce returns that we can reinvest in the business."

As in the Iberian integration, CCEP was a new platform for creating value through a different type of partnership with the Atlanta company: a strategic alignment with a shared vision beyond the old franchise relationship.

In his presentation to the analysts in September 2016, CCEP's CEO[5] John F. Brock stated:

"In Europe, where we contribute 24% of TCCC's operating margins, we will share best practices and, based on economies of scale, we will improve business efficiency and the operational model by creating new synergies.

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[5] Damian Gammell replaced J. F. Brock as CCEP's CEO in December 2016.