

Remain Confident in CCE&DPS Outperformance in '10

CCE Remains a top pick with 33% 12 month upside

- CCE outlined plans for continued robust growth in Europe in 2010; note that CCE delivered 5.5% vol growth in 2009 in Europe but our \$1.82 2010 estimate only counts on 2.5% volume growth for Europe in 2010, 5% growth would add \$0.10 to our 2010 EPS forecast; in addition to continued solid growth for the 3 cola strategy, CCE will be expanding Dr. Pepper/Schweppes distribution to Holland, Ocean Spray in the UK, continued expansion of Monster
- Reiterated rational US pricing environment that we've heard from Pepsi, PBG and DPS. We continue to hear investor doubts that pricing will remain rational with industry volume down and Pepsi buying its bottlers
- Jan/Feb trends seems to be largely in-line with Q4 trends but might have improved modestly on the back of the Olympics push (in CCE's Canada territory but also US activation).
- John Brock spoke about the likelihood that warehouse delivery of certain categories (e.g. CSDs) to certain channels (perhaps some large format retailers) is something that needs to be figured out (e.g. separate distribution from selling/merchandising). As we've written we believe that Pepsi would also ultimately like to figure this out. The challenge for both systems is getting the non-CCE and non-PBG/PAS Coke and Pepsi bottlers to agree to this (eg., 25% of Pepsi volume still not owned by Pepsi and 20% still outside of CCE). Investors shouldn't assume that just because Pepsi is buying its bottlers that it will be first to try this (e.g. Coke could reach agreement with its next largest bottlers to get 90% of the system to agree to such a move if compensated).
- We also encourage investors to read our recent CCE note talking about potential scenarios for Coke Femsa to play a role in the US, with potential acquisition of CCE North America down the road with CCE using the proceeds to expand its Europe footprint. (see note [The Many Parts to CCE Investment Thesis](#) from 1/31/10)

DPS also remains top pick with 19% 12 month upside

- DPS stock reacted well to comments from management that they felt better about the business today than they did on their Q3 earnings call in early Nov, when they said Q4 volume was sluggish. Since then our 4 channel scanner data has showed improved trends and significant market share gains in Nov, Dec and January. We expect DPS to report a solid Q4 next Thursday and we remain comfortably above 2010 consensus at \$2.30 (vs consensus of \$2.24).
- We also expect DPS to begin its share repo program once proceeds from Pespico (\$900M) are received (we expect Pepsi deal to close by end of Feb). With prospects of a credit rating upgrade we believe DPS will be able to accelerate its share repo plans.





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