CCH – 2023 First quarter trading update
Conference call Q&A transcript – 3 May 2023

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Charlie Higgs – Redburn

Matthew Ford - Exane BNP Paribas

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Questions and Answers

Edward Mundy (Jefferies): Morning, Zoran. Morning, Ben. I have got one question, and one follow-up.

The first is on Russia. Volumes are down 30%, which represents sequential improvement versus the second half of last year, despite the quite tough comp in the first quarter. Are you able to provide a bit more colour around numerical distribution of your new local brands within Sparkling and also the respective price points versus the old Coke brands?

Then the follow-up is really around the guidance. You have got off to very strong start, pricing is sticking, portfolio is in good shape, the COGS environment arguably is a little bit more benign. I appreciate the first quarter is a small quarter, but what are the key uncertainties, as you see it, that are holding you back from becoming more optimistic on EBIT growth at this stage?

Zoran Bogdanovic: Good morning Ed. Thank you. Let me start with just a brief note on Russia, where you know very well that from August of last year, we are not producing nor selling any of The Coca-Cola Company brands, and the team locally has done few extensions within the existing brands which are performing in line with expectations. I can only say that any distribution level and overall businesses is lower where we used to be with the Coca-Cola portfolio. I remind that market there is extremely dynamic, with so many new entrants and things that are happening in the market. Unpredictability and visibility of how the whole market develops is really not easy. I think, on your question on pricing, it is slightly lower than where the previous portfolio was.

On the guidance thing, look, we are very pleased with the Q1 performance which did come even better than we expected. We are very mindful of the fact that, as you said, Ed, yes, it is the smallest quarter. We all know that. We genuinely think it is still early in the year, and given the continued macroeconomic environment, which is really not easy, we do see that in the markets that we already recognised in Q4 of last year, where we do see some signs of consumer pressure, and we called out those markets, that we really need to be mindful how the consumer will react with rollover of the last year pricing and the pricing execution that we are doing in Q1 and the beginning of Q2. It is still so much ahead of us. We are only entering into the pre-season and season, so, we are just very mindful that there is so much still to digest. Therefore, we really think that, at this point, what we are guiding for is very real and prudent. Thank you.

Edward Mundy: Thank you.

Sanjeet Aujla (Credit Suisse): Hey, Zoran. Ben, hi. A couple from me.

Zoran Bogdanovic: Good morning.

Sanjeet Aujla: Can you talk a little bit about the competitive landscape on pricing, across your major markets, there is a lot of pricing coming in? I appreciate there is a big mix component as well, but would love to get your thoughts on how competitors are responding to that.

Secondly, just on some of your emerging markets, in particular in Nigeria, Egypt where there was a lot of caution, I think, going into 23, just love to get your assessment of how volumes have evolved there, relative to your expectations, particularly given some external shocks there, particularly in Nigeria, recently. Thank you.

Zoran Bogdanovic: Thank you, Sanjeet. On the competitive part, I would say that the whole pricing competitive landscape is broadly rational. There are a number of markets where it is good to see that we are all aligned in the way pricing happens. Then, there are a few markets where we are somewhat ahead of the competition; but, also, there are a couple of markets where we have seen that competitors have been doing faster and moves of a bigger magnitude. That all fits very well into our continuous reading, who does what, and how the landscape evolves. Based on that, I am very pleased that the team has this very agile approach of adjusting the plans, based on the consumer elasticities, but very much also – back to your question – what competition does, always making sure that we are not significantly over the range, but also, that we are not under the range, not leaving money on the table.

On the Emerging, on Nigeria and Egypt, first of all, I would highlight that knowing that both countries are having quite challenging macro environment, and the whole setup, but both markets have performed in line with the expectations. That means that we have factored in that volume will be under the pressure both in Q1, and we are foreseeing that also for the next quarter or two.

We have confidence how, in Egypt, the team has been handling and really, very fast doing so many things last year when the whole devaluation as well as inflation has happened, and the market started this year quite well.

Also, in Nigeria, in spite of the fact that the whole country has dealt with the flavour of the elections, this time, banknotes, the team has done very strong job leveraging on the so well-built capabilities there, to sail through the Q1. We do see that from end of March, into April, while there is still negative volume, but we do see some positive trends happening there.

On volume front, to conclude, yes, we know that this is going to be under pressure. However, in both countries, we are very mindful that this is the time where price mix is the leading priority in the way we generate revenue.

Sanjeet Aujla: Great. If I could just sneak another one in quickly, just on the phasing of the profit growth between H1 and H2? I guess given the strong start in Q1, and the level of pricing then, is there anything you would be able to call out on how we should think about H1, H2 phasing on profit growth?

Ben Almanzar: Let me take that one. We have said that COGS headwind expectations for this year are likely to be weighted to H1, with the potential for some easing in the second half. Also, if we think about comparatives, H1 is tougher given how we delivered last year. Therefore, all of that taken in, it is sensible to think that organic EBIT growth should be weighted a bit more to the second half.

Sanjeet Aujla: Great. Thanks, Ben.

Operator: The next question is from Mitch Collett from Deutsche Bank. Please go ahead.

Mitch Collett (Deutsche Bank): Morning, Zoran. Morning, Ben. I'd like to go back to those markets where you are seeing some impact of a tough consumer. In having a look through this statement, it sounds like markets you're seeing that are Hungary, Nigeria and Egypt. Could you comment on what's driving the headwinds within those markets? Are there countries that I've missed and is it getting better or worse? And then my follow-up would be, can you perhaps comment on what you'd expect for COGS in 2024 based on current spot? I appreciate it's early, but I'm really interested to hear what you have to say. Thank you.

Zoran Bogdanović: Good morning, Mitch. I'll start with the first one and then Ben will take the second one. So, in my answer to Sanjeet, I highlighted that Egypt and Nigeria for very evident quite strong market challenges that current countries are at the moment going through, and so knowing that consumer is not as resilient as European one, that's why this is what drives that dynamic in those two markets.

In Europe, we called out before Hungary and Romania; and apart from the inflation that puts pressure on the consumer, those two markets also have one another thing. In July, Hungary introduced a taxation on a wide range of CPG products, which then triggered additional wave of pricing not only by us, by everyone in the market, and that has put additional burden on the consumer; and it's logical that this would have the effect on the consumer. And we have factored that into our plans for 2023. Also, in Romania a reminder that from January 1st, VAT went up by 10 percentage points. So that increased again, the consumer prices putting additional pressure there. So overall, we expected that there is going to be some continued softness that we do see in the market.

I would call out here another market where we do see also some signs of consumer slowdown, which is Czech and Slovakia and I'm very pleased that the team has been very flexible in adjusting our course of action based on the variety of plans that we have available. Actually, the whole new pack price architecture has been launched as we speak, which gives me huge confidence in how the country will – how our team will manage through this in the next quarter. So those are the markets that I think are worthwhile highlighting. Ben?

Ben Almanzar: All right. Mitch, from the visibility we have today, I would say that the picture is mixed for 2024. Just like this year, we have started to see some relief on key commodities, for example, aluminium and PET. But actually, further inflation in sugar and sweetener. So, when we look ahead also at 2024, that picture doesn't look very unchanged from where we can stand right now. That's sort of why for us, it's absolutely vital that we remain very focused on improving price mix, on hedging strategy and long-term supply contracts, and continuous focus on productivity as we keep on navigating this volatile environment.

Mitch Collett: And just to clarify, unchanged means sort of flattish rather than the same level of inflation again?

Ben Almanzar: Sorry, I didn't catch that, Mitch. Can you repeat?

Mitch Collett: Yeah, I guess given what you said about relief on aluminum and PET, but inflation on sugar and sweeteners, does that equate to unchanged meaning flattish, or does it mean a similar level of inflation year on year?

Ben Almanzar: Yeah, look, we're not providing guidance on 2024 because it's a little bit early, but all in all, we would hope that commodities keep on easing.

Mitch Collett: Okay, great. Thank you.

Operator: The next question is from Andrea Pistacchi from Bank of America. Please go ahead.

Andrea Pistacchi (Bank of America): Yes. Morning Zoran and Ben. Two, please. First, if I could just follow up please on the cost situation and in particular on sugar, if you're able to share, explain a bit how your contracts are for sugar, how long-term they are, and how hedged you are for 2023 and 2024, and how you are really thinking about covering further with obviously sugar at high levels at the moment.

The second question is Zoran, on the market share development, 70 basis points value share you're continuing to gain at across your footprint. Are you able to share how trends are – market share trends are developing in countries, maybe where you are seeing the softer consumer environment? I think you're gaining in Nigeria, but also in your developing markets and Egypt, how market shares are there? Thank you.

Ben Almanzar: All right. Thanks, Andrea. Let me give you a bit more colour on how our hedging picture is. For 2023, we are hedged over 70% on key commodities associated with input costs, and that is more skewed to half one than half two. So, when you think about your question of contracts, they vary by commodity and by supplier depending on a number of factors. But generally, it is safe to say that most of our contracts tend to be long term. As we look ahead to 2024, our hedging position now is comparable to where we were last year, and we'll continue to make inroads in there as the year progresses.

Andrea Pistacchi: Okay.

Zoran Bogdanović: Hi, Andrea. On market share, just to say that on a – well, it's a little bit of a mixed bag and in several of the markets we are gaining share and in some of them, I want to highlight in line with the expectation, we are slightly losing share like – I can tell you in Hungary, for example, and in Czech in Sparkling. But we anticipated that given that we've done planned price increases in Czech in Q1, we did not have yet new pack price architecture that has been rolled out now. And also, we've seen that there is kind of a pattern that at the beginning of the year, some of the competitive pressures, especially on the depth and intensity of the promotions happen, which we don't follow one-to-one.

So, I reiterate that the fact that in the short-term there is potentially some market share loss, that doesn't concern us as we stay the course to do the right things, and we look also on the share performance, not only on a quarterly basis but on a full year as well as even on a two-year basis. So, it's a dynamic play where we juggle all the elements of value share as well as the volume share, revenue per case, volume. So, everything so far quite frankly is in line with expectations, and there has been nothing that came as a surprise.

Andrea Pistacchi: Thank you.

Operator: The next question is from Simon Hales from Citi. Please go ahead.

Simon Hales: Thank you. Morning, Zoran. Morning, Ben. Morning, John. A couple for me then. Zoran, I wonder if you could just talk a little bit more about the performance in Russia of the Multon business in the period. Obviously, you are fully consolidating it, but I wonder what you are seeing in terms of underlying trends within that business a bit more colour there would be useful. And then secondly, you provided new updated translational FX guidance for this year. How should we think about transactional FX headwinds for 2023 now, please?

Zoran Bogdanović: Good morning, Simon. So let me start and then Ben. So, to build on what I said on Ed's question. So, business there is performing in line with expectations, just to say that consumer sentiment also is impacted by everything that's going on. So just to say that business is rewiring in the new model where this unit is not about pushing performance. This is about really protecting and safeguarding the business for the sake of all people there and assets. But in that context, I can say that the progress has been in line with expectations, of course, on a lower scale than before. That's where we are.

Simon Hales: All right.

Ben Almanzar: So, regarding FX. For 2023, we now expect a translational FX impact of 50 to 60 million and that change is reflecting the further devaluation we've seen in currencies like the Rouble, the Naira, and the EGP as our FX translational guidance is based on spot rates. As you rightly remark, Simon, we also expect some transactional headwinds as a consequence, and they're already captured within our organic EBIT growth expectations. So given the volatility that we're seeing in our emerging market currencies, these are under constant review and we're proactively taking the actions, pricing, other initiatives in order to protect the P&L.

Simon Hales: Got it. Thank you very much.

Operator: The next question is from Alicia Forry from Investec. Please go ahead.

Alicia Forry (Investec): Hi, good morning, Zoran and Ben, thank you for the question. I wanted to get an update on coffee, which you touched on briefly in your prepared remarks. But if you could give us a bit more colour on what market that's in now and the benefits that you are starting to see in your business now that that is maturing a bit.

And then secondly, my follow up is on the returnable glass bottle line in Austria. Great to see that coming through. Are there other non-RGB markets where this format might be introduced? And presumably this will be a positive for your margins longer term, once the upfront costs are absorbed. If you could comment on that, that would be great. Thank you.

Zoran Bogdanović: Thank you, Alicia. I could talk long on coffee given the passion I have for this, but to say that, look, this is a long-term play where we are building our capabilities. We have teams on a group level on each country where we have launched both Costa and Caffè Vergnano. Meaning that with Costa, we are in some, I think 16, 17 markets and with Vergnano on 13, 14 now with Czech and Slovakia. So, there are a number of elements that through which we are building our right to win.

First of all, this blend of portfolio to have it for the mass premium as we call it, as well as the super premium with Vergnano. Now with the dual focus of out of home and at home where out of home is even of a bigger importance, and we see a continuous improvement development on share, on our penetration to customers, continuous increase in the HoReCa out-of-home channel, constant increase of number of customers. As a reminder, we are doing this across all channels, all market channels.

So, the impact is that we are not only driving volume, but even more importantly revenue. And as we are increasing with the scale on a mid-term level, this is of expectation that this is going to be decent revenue pool, which is also going to start bringing bottom line absolute as well as the margin over the next several years. So, we see coffee as an important part. To conclude my remark, one of the three pan-Hellenic categories that we have for all the markets because it is a super relevant, very big, sizable revenue profitable pool and we believe by a very persistent way of building our capability that we are building important revenue stream for Hellenic for the future.

On the RGB Austria, let me just first say that in many of our markets, we already have returnable glass bottles, and that's the key pack for our out-of-home channel. So, with this what we are doing in Austria, we are actually just further expanding our glass bottle – returnable glass bottle footprint, and this really shows a nice example that we started with the pilot importing from Italy, seeing that pilot was positive, then investing in Austria in glass. So that as it is a very relevant tech for this market.

And yes, we could see in the future that the whole revival of refillables, we see that as a very positive thing. And yes, I could see that in the future we will be having more of these kind of investments. And I'm very thrilled to conclude to say that this is such a good example of showing investments that support our capacity increase in organic growth, which at the same time fully supports our roadmap to NetZeroby40 commitment. So, a great example of business project, which fully embeds inside the sustainability element. Thank you.

Operator: The next question is from Jared Dinges from JP Morgan. Please go ahead.

Jared Dinges (JP Morgan): Hi, guys. Can we talk about volumes a bit? Maybe in Established, especially I don't think we've touched on as much yet, but clearly very, very good quarter. Were there any benefits from easy comps there in the on-trade? Or maybe could you give us an idea of underlying growth, excluding any of those benefits? And maybe to follow up, how are you guys thinking about volumes at the Group level for the year? I think, correct me if I'm wrong, but I think you said you previously expect volumes to be down organically this year. Is that still the case? Thanks.

Zoran Bogdanović: Good morning, Jared. Yes, in Established, I'm really pleased with how this segment has performed. Some of the markets did not have easy comps like Ireland and Greece, even Italy. So actually at the backdrop of quite solid comps, the markets have performed well. However, there is also element that in this quarter we had out-of-home really operating fully, as in some markets like Switzerland, Austria last year, we still had some impact of not yet full reopening because of the COVID. So there is an element of that in there as well.

But to conclude, I'm quite encouraged with the performance of all countries in this segment. And I do continue to expect that they will perform well this year. Now, coming to the overall group volume expectation, we do still expect from today's visibility that our volumes would be down slightly for 2023 overall for the reasons I mentioned in the previous answers. But because of the primary focus on price mix, we do expect that volumes will still be slightly down for the year.

Jared Dinges: Perfect. Thank you.

Operator: The next question is from Yubo Mao from Morgan Stanley. Please go ahead.

Yubo Mao (Morgan Stanley): Morning Zoran, Ben. Thanks for taking my question. I just have one on price mix. Obviously, Q1 was remarkably strong across the board, how you did 21% at the Group level, but could you just help us understand the breakdown between price and mix, as you helpfully did for the last year?

As a follow up, in terms of the pricing, are you now in a position to mostly protect your profitability against the cost inflation you are guiding to this year, or would you need more rounds of pricing later in the year? Thank you very much.

Ben Almanzar: Thanks, Yubo. Let me start with your first question around pricing versus mix. As you rightly said, 21% in the quarter. Pricing is really the largest contributor there, accounting for about three fourths of the growth in NSR per case for Q1. As Zoran mentioned earlier, we benefitted from pricing actions that we have taken from prior year and also the pricing that we have continued to do now in 2023. With mix, I want to highlight as well, because it was a very important driver, and all the mix levers – category, package, channel, geography – were accretive in the quarter, Russia and Ukraine excluded. So, we are very, very pleased with that performance.

Zoran Bogdanovic: Yubo, to build on Ben's point, referring to your second part, with the pricing that we are doing in Q1 and Q2, and it is skewed towards the first half, from today's visibility we believe that we are on the level where we should be. In the context of the profitability, just to remind that there are a number of other things that we are doing. We are quite focused on the mix; that is an important part of the whole RGM play. Also, our always agile way of how we are managing costs, that is very important part, and every year we are having initiatives that are constantly searching for efficiency improvements, productivity improvements, and I think it goes without saying that this year is no exception.

So, when we blend that all together, that leaves us with a plan that we have, as I mentioned at the beginning, which should really get us towards the guidance that I mentioned earlier.

Yubo Mao: Thank you very much.

Charlie Higgs (Redburn): Yes. Good morning, Zoran, Ben, hope you are both well. My first one is just on your Sparkling volume performance in the quarter, just wondering if you would give a bit more colour there. I mean, the +2.9%, is pretty solid given the comp and the pricing and the sugar taxes. You said Trademark Coca-Cola was up mid-single digits. Do you have the volume performance of Coke Zero to hand, and could you maybe just talk a little bit more about the Adult Sparkling and what you are seeing there? It looks like Italy was very strong in the quarter.

Then my follow-up is just on Jack & Coke, where it looks like you launched in a few markets in April. Could you maybe just talk about how you are feeling about that brand this year, particularly given you have had a long-lasting relationship with Brown-Forman? Thanks.

Zoran Bogdanovic: Hi Charlie, good morning. So, Sparkling on a Group level – and I want to say without Russia and Ukraine, so that we talk something that makes sense – a very good performance of Sparkling on mid-single digits on Coca-Cola brand, and continuous good performance of zero-sugar variants, that is excellent, as well as the Adult Sparkling. I am very pleased to see that we continue driving, also, good growth with Fanta and

Sprite; great work with The Coca-Cola Company team. So, I have huge confidence about Sparkling category, its potentiality, the pipeline of marketing that is coming to us from the Company team, and these whole customer plans and execution. So, Sparkling continues to be the bedrock of our business and gives us huge confidence of performance, not only for this year but many years to come. So that is on Sparkling.

I think the second one was on Italy. Ah, Jack & Coke. Jack & Coke, look, we are super-pleased that we have two such amazing brands coming together in a great-tasting product as we have launched now. We have launched in Poland, Hungary and Ireland. First reactions are very positive, excitement of the team, so customers, consumer reaction, and I really expect that we will have the rollout in more markets as we go forward.

Italy, on Adults. This is now focused through Kinley, as well as our local brand there, Lurisia, which is in the premium Sparkling segment, with local flavours. The performance of the Adults over there in Sparkling is the result of the conscious plans to boost and activate this brand over multi-years, and with the relaunch of Kinley that is now coming on-stream, this is additional booster. Also, with our focus on mixability in the country, this really gives me a good confidence that this is a segment of the market where we have quite a bit of profitable revenue to go after, and I am sure we will.

Does that cover it, Charlie?

Charlie Higgs: Yeah, that is great.

Zoran Bogdanovic: Thanks.

Matthew Ford (Exane BNP Paribas): Morning Zoran, morning Ben. Just two quick ones from me, please. So, firstly, just on any early Easter impact. Several companies across the space have commented here and there this season about an early Easter benefit. I know it is something you have spoken about historically. Just wondering if there was any, kind of, benefit to the quarter there and which markets you saw that in, if you did?

Then just on the follow up, just on the away-from-home channel. If you could quantify where you are, kind of, across the business now versus pre-pandemic levels, and if there are any markets where you are, kind of, materially still behind pre-pandemic levels, where there is potential catch-up in the quarter to come? Thank you.

Zoran Bogdanovic: Thank you, Matthew. Look, Easter did not have any significant impact that we would specifically call out. There may have been some of the earlier buy in March because Easter was beginning of April, but nothing, really, that we would have to call out and that it would be so tangible.

On the away from home, yes, now across all our markets we are above the pre-pandemic levels. Excluding Russia and Ukraine, our out-of-home grew 9% organically, and particularly I love to call out the Established segment, where we grew 19%. That connects with my previous answer that still in Q1 last year we did have some parts where it was not yet fully operating, but this year we are pretty much where we should be, and, yes, we are above the pre-pandemic level.

Matthew Ford: Great, thank you.

Fintan Ryan (Goodbody): Good morning, Zoran, good morning, Ben. Just one question from me, please. I am actually, I think, following on from the Sparkling question you had earlier. With regards to your Stills portfolio, and particularly Waters, you mentioned weakness across all markets, and particularly within some of the emerging markets. What are you putting this down to? Would it be deliberate portfolio actions that you are taking in terms of prioritising Sparkling internally, or is it a category where you are seeing greater consumer price elasticity or at-risk downtrading? Should we expect to see some of these effects continue for the balance of the year within the Stills category? Thank you.

Zoran Bogdanovic: Thank you, Fintan. In short, this is about deliberate choice. First of all, we constantly call out that our top priorities are Sparkling, Energy and Coffee. And then, within Stills, together with The Coca-Cola Company we do this joint prioritisation of which categories in which countries we are focusing on, given the relevant profitable pools, etc. Now, coming specifically to Water, it is our choice that we do together, that we focus on the more premium part of this category. So we are not going to – big chunk of the category where it is all about competing on volume, where profitability is very low. So, consciously we have focused on the upper segment of that category, therefore we see enhanced Water options.

Let me also mention an example where we just launched in Switzerland Vitaminwater, which is at the very premium level; very pleased that we are doing that here in Switzerland. Also, an example that I mentioned in my remarks, that premium water, Lurisia, being now introduced in Romania, in Greece demonstrates exactly that choice, that we focus on the more premium segment of this category. And if that has, as a consequence, in the short term some overall volume impact, that is in line with expectations.

Zoran Bogdanovic - Chief Executive Officer, Coca-Cola HBC

Thank you, operator. Let me just recap the key points from our presentation call today. We have had a good start to 2023, with a strong Q1 performance. Our 2025 growth story is working. Our excellent portfolio, our strong capabilities and passionate people are key to our success. The good start gives us strength and confidence in our performance.

We look forward to seeing many of you in Rome later this month. Thank you all for your attention and all your questions. With that, I close the call and I wish you all a very good day. Thank you.

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