# CCH – Annual General Meeting – CFO presentation
# 20June 2017

**Michalis Imellos, CFO – Coca-Cola HBC**

Good morning. Thank you for joining our Annual General Meeting.

Following my brief presentation, we will open the floor to questions.

Before we get started, I would like to remind everyone that this presentation contains various forward looking statements. These should be considered in conjunction with the cautionary statements on the screen.

**Full-year highlights**

I will start by giving an overview of 2016 and I will then discuss Q1 trading and our outlook for the year.

We are very pleased with our progress in 2016 which follows the significant margin expansion in 2015. This year we've again delivered strong growth in profitability and the business is performing in line with the trajectory we laid out at our investor day in June last year.

Starting with the top line, volume growth was marginal in the year. We saw good growth in a number of markets, while the weakness in Russia and a couple of our Established markets offset those gains.

Our revenue growth management initiatives – a key area of focus for the company – delivered very well, with 2.9% currency-neutral net sales revenue per case growth, making this the sixth consecutive year of improvement.

The leverage from revenue growth and cost management initiatives helped us improve our operational profitability, leading to a 100 basis-point decline in operating expenses as percentage of revenue.

This in turn, supported 90 basis points of EBIT margin expansion to 8.3% while spending more on marketing. Our margins are now 190 basis points higher than our 2014 lows, a very impressive trajectory.

Comparable earnings per share was 97 Euro cents, a 12% increase on the prior year.
Furthermore, better profitability has supported strong free cash flow generation.
The business has delivered well on our plans to return to sustainable growth and higher margins.

**Financial performance overview**

Let me take you through our performance in a bit more detail.

Currency-neutral net sales revenue grew by 3.0% in the full year. On a reported basis, net sales revenue declined by 2.0%, affected by significant currency headwinds from our Emerging markets segment.

Volume growth was marginal at Group level with good improvement in the Developing and Emerging segments.

Currency-neutral net sales revenue per unit case improved substantially, as a result of category and package mix improvements across all three segments, as well as our pricing actions, mainly in Emerging markets, which offset currency headwinds.

Gross profit margin fell by 10 basis points as a benign input cost environment and price increases were offset by negative transactional foreign currency impact.

Operating expenses as a percentage of revenue improved by 100 basis-points, a stellar performance driven by the combined effect of top-line operating leverage and our optimisation initiatives supported by restructuring.

Part of the savings were invested in increased marketing during the course of the year. Comparable operating profit increased in the full year by 9% versus the prior year and comparable operating profit margin expanded by 90 basis points. Operating leverage and benign input costs more than offset the adverse currency impact that reached €101 million in the year.

Comparable EPS reached 97 Euro cents, 12% higher than prior year.

Our working capital balance remained in the triple-digit negative territory and the working capital days improved further compared to the prior year.

We generated strong free cash flow of 431 million Euros in the full year, up 19 million year-on-year.

**Substantial improvement of FX-neutral net sales revenue per case growth**

Turning to the revenue performance in more detail:

As I mentioned earlier, FX-neutral net sales revenue per case improved substantially versus the prior year. Our successful commercial strategy and execution improved category and package mix in all segments and pricing, which we used to offset adverse foreign currency movements, helped in the Emerging segment.

In our Established markets, FX-neutral net sales revenue per case increased by 0.3%. Good category and package mix was partially offset by deflationary pressures and adverse channel mix.

In Developing markets, improved category and package mix more than offset deflationary pressure and negative channel mix, leading to a 0.6% increase in FX-neutral net sales revenue per case.

The Emerging markets saw a 7.1% improvement in FX-neutral net sales revenue per case mostly as a result of price rises which as I mentioned we used to offset FX headwinds. Category and package mix also contributed to the improvement, offsetting adverse channel mix

**Input costs benign overall**

Turning to input costs

FX-neutral input cost per case was broadly stable in the full year.

EU and Russian sugar prices, which we had contracted at favourable levels at the end of 2015 were offset by increased PET resin prices, closely correlated to rising oil prices in the year.

**Profit and margin growth**

Overall, revenue leverage, cost control and benign input costs more than offset the impact of adverse foreign exchange movements. We recorded comparable operating profit of 517 million Euros in the year, 44 million higher than in the prior year.

Let me provide you with some more colour on the key drivers on a segmental basis:
In Established markets we benefited from mix improvements, cost optimisation initiatives and input cost tailwinds (mainly from EU sugar). These were only partially offset by adverse impact from deflationary pressures in several of our markets.

In Developing markets, the leverage afforded to us by volume and mix improvements was offset by a strong currency headwind arising from the weak Polish Zloty, as well as adverse input costs.

As you know, the Emerging markets segment attracts the vast majority of the €101 million of adverse FX impact. We were able to offset this with price increases throughout the year, as well as volume growth, ultimately lifting comparable EBIT margin by 20 basis points.

**First quarter highlights**

We've also had a good start to 2017, with volume growth, coupled with substantial improvement in price and mix trends, resulting in revenue growth of 5.2% on a currency-neutral basis.

Volume increased by 0.7% compared to 0.1% in the prior-year quarter. It is important to note that Easter fell in Q2 this year, thereby impacting our Q1 volume. Excluding this impact, we see improving trends in the majority of our countries.

In addition, our ongoing focus on revenue growth management has made a significant contribution to our overall performance. Package and category mix improvements, combined with the price increases, delivered a 4.5% improvement in revenue per case on an FX-neutral basis.

The adverse impact of currencies has moderated in the quarter as expected and represented a headwind of only 0.7% to our topline, resulting in 4.5% net sales revenue growth compared to the prior-year period.

**Looking ahead**

In closing, we are very pleased with our performance in 2016. We delivered a second year of strong growth in profitability and the trajectory of the business remains in line with the plans we outlined at our Investor Day last June.

Looking at 2017 we expect:
Volume to continue to grow in the Developing and Emerging segments and to stabilise in the Established segment.

Continuation of the substantial FX-neutral net sales revenue per case growth. Currency depreciation and the associated inflation will remain a key feature in some of our markets, and we see inflation picking up in our more developed markets. Our initiatives to improve mix will continue.

At current commodity price levels, input costs are expected to be a high single-digit headwind in the year mainly driven by resin and higher oil prices.
Taking into account our hedged positions and current spot rates, the adverse impact on EBIT from foreign currency in the full year is expected to abate compared to the levels seen in 2016.

Our actions in cost management and the effect of top-line operating leverage are expected to result in further reduction in operating expenses as a percentage of net sales revenue, supporting EBIT margin growth.

**Q&A**

With that, I will take your questions.