CCH – Annual General Meeting – CEO presentation

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Good morning and welcome to our Annual General Meeting.

Our recent results demonstrate how far our business has come in building both operational agility and lasting margin resilience. I am proud of the speed, flexibility and care with which our people have responded to the coronavirus pandemic and the results we have achieved.

2. Forward looking statement

Before I go through the presentation, I would like to remind everyone that it contains various forward-looking statements. These should be considered in conjunction with the cautionary statements currently on the screen.

3. Operational agility – resilient performance

While 2020 brought unprecedented challenges, the actions we took were fully in line with the strategic growth pillars we presented at our Capital Markets Day in June 2019. What made the difference in 2020 was rigorous prioritisation behind what was truly most critical in such a year.

For us that meant focus on a few key areas. First delivering on our commitments to society as well as protecting our employees, supporting customers and communities, then ensuring operational agility so that we could reprioritise and adapt the business to the new environment, and finally delivering financial performance and value share gains.

We prioritised to invest optimised funds behind our highest potential growth markets. We had the flexibility to shift production quickly, providing the right packs and categories to meet the changing needs and new buying patterns of our consumer base. We saw an opportunity in at-home occasions, which were growing as consumers replicated their out-of-home experiences at home. Sparkling was prioritised as the most important growth driver for our business, and we have seen the relative strength of the category this year. At the same time, we have seen significant growth in ecommerce and have further accelerated investment behind that. The strength of our Revenue Growth Management and Route to Market capabilities proved, also in these challenging circumstances, as invaluable in steering our business.

Finally, we were determined to protect the health of our business by focusing on the three metrics that matter most in a crisis - cash, profit and value market share. We achieved strong results on all three. In 2020, we gained 40 basis points of value share in non-alcoholic ready to drink and 30 basis points of value share in Sparkling, with market share gains in the majority of our markets.

In light of our business' strength and confidence in future opportunities, the Board proposes a dividend of €0.64, a 3.2% increase compared to last year.

4. Financial performance - revenues

Now, let's see the financial performance in greater detail.

2020 like-for-like volume declines were contained at 4.6% with Q3 up 1% and Q4 down 0.7%.

Price/mix also saw a stabilisation of trends in the second half, with the benefit of improved trends in package mix, continued strong category mix, as well as pricing taken at the start of the year in several markets.

Like-for-like currency-neutral revenue declined by 8.5% compared to the 15.1% decline in the first half, despite the resurgence of the virus in many of our territories.

The negative impact of foreign exchange translation on revenues was 320 basis points, driven mostly by unfavourable movements of the Russian Rouble, which resulted in a reported revenue like-for-like decline of 11.7%.

5. Years of efficiency improvements bring lasting margin resilience

We have taken advantage of every opportunity to control our cost base and this has allowed strong performance on profitability in a challenging year. Our EBIT margin on a like-for-like basis closed at 10.6%, just 20bps down from the all-time high marks of 2019 and 2007. We are all proud of this performance. It proves that Coca-Cola HBC is a much less operationally geared business compared to a decade ago. This flexibility in our cost base allows us additional confidence in the return on our future investments.

What you can see on the slide is our revenue growth compared to the EBIT margin evolution since the all-time-high EBIT margin of 10.8% shortly prior to the onset of the global financial crisis in 2008. While in the early part of this period, weaker top-line performance had a profound impact of 440 bps decline on margins, the significant actions we took in the first five years of the crisis to reduce our fixed cost base, have brought us to the point we evidence today: another serious crisis affecting the top-line performance has resulted in just 20bps of margin loss from the fully recovered margin level of 10.8% in 2019.

These restructuring actions of the past years included optimization and automation of the production and logistics infrastructure, extensive outsourcing on the distribution front, common systems and processes across the footprint, process centralization and creation of shared services platforms, and continuous digital transformation and big data analytics utilization. And we never stop to look for efficiencies and opportunities to further streamline. At the same time, we are fast to identify and execute cost savings initiatives when the times call for them, such as the €120m of savings delivered in 2020.

6. Cost control supports margins

Like-for-like gross profit margin was up 20 bps year-on-year.

Careful management of commodity costs, combined with the favourable early hedging of the majority of our transactional FX exposure and a low oil price backdrop have allowed us to benefit from lower input costs, especially on PET resin, while preserving our cost of goods sold from FX volatility. As a result of this, like for like currency-neutral input cost per case was down by 5.0%.

We had a €66 million headwind to our EBIT from currency depreciation, in line with expectations. This FX impact is mainly associated with the weakening of the Russian Rouble.

Moving to OPEX: as mentioned earlier, we acted immediately to make significant cuts to discretionary expenditure, finding €120 million of cost savings in 2020 versus our original plans. We reduced marketing, seasonal labour, consultancy and contracted services, travel, meetings and events, and put in place a general recruitment freeze. This quick action has helped us to control OPEX, which declined by 10.4% like for like, compared to the prior year period. This resulted in just 40 basis points increase in OPEX as a percentage of net sales revenue, which closed the year at 27.3%: a strong performance considering the de-leverage from the revenue decline of 11.8%. And, despite the unprecedented circumstances, very close to our 26% to 27% guided range of our original target set back in 2016 at our Capital Markets Day.

7. Profitability protected; Strong Cash Flow

Like-for-like EBIT declined by 13.5% and like-for-like EBIT margin of 10.6% declined by only 20 bps compared to prior year. The reported margin reached the 11.0% level, boosted by the accounting change of deconsolidation of our Russian Juice business and the accretive impact of the Bambi acquisition.

Financing costs increased by €3.0 million compared to the prior-year period, due to the change in the accounting treatment of Multon in addition to lower deposit rates, partially offset by lower interest rates on our bonds.

Our comparable effective tax rate increased in 2020 due to one offs that we do not expect to repeat. That said, given anticipated changes in country mix, we expect that our effective tax rate will be in the range of 25% to 27% going forward. We generated €497 million of free cash flow, an improvement of €54.4 million compared to 2019. The primary contributor has been working capital improvements, which reflect both excellent operational management of receivables in a very risky year, as well as significant phasing benefits. Towards the end of the year several of our larger customers chose to pay invoices not yet due early, rather than hold cash, and this has pulled forward some collections into Q4 that would have otherwise materialised in Q1 2021.

Capex of €464.5 million was lower by €19.1 million compared to 2019. During the year we prioritised our capital allocation towards the markets with the highest potential, allowing us to continue to support and invest in the business for the long term. The strong working capital performance allowed us to limit capex deferrals and bring forward €40m of capex spend. As a result, Capex as a percentage of revenue closed at 7.6%, at the upper end of our 6.5-7.5% target range.

8. Emerging segment more resilient

Turning now to the margin drivers on a segmental basis.

In our Established markets, comparable EBIT declined by 18.4% with comparable EBIT margin down by 60 basis points. The main driver of this was negative operating leverage given the revenue declines in the segment.

In our Developing markets comparable EBIT declined by 30.3% and comparable EBIT margin was down by 210 basis points to 8.7%. The larger margin decline in the Developing segment compared with the Established segment is due to the larger decline in price/mix seen in this segment for the reasons described earlier. Price/mix decline has approximately a three times more adverse impact on margins compared to that from volume declines.

The Emerging markets' comparable EBIT increased by 1.4% and comparable EBIT margin expanded by 170 basis points to 13.0%. The net impact of the Bambi acquisition, the deconsolidation of our Russian juice business and changes in the accounting of other joint ventures account for 100 basis points of this growth, so like-for-like EBIT margin in the Emerging segment improved by 70 basis points to 12.0%. This was the result of strong top line leverage from Russia and Nigeria, as well as benefits from input costs and FX hedging.

9. Strong Balance Sheet

Let me also provide you with an update on our balance sheet, which strengthened further, despite the difficult circumstances of the year.

Our net cash position at the year-end was €1.3 billion. In addition to this we have over €800m of our Commercial Paper facility unutilised, as well as the untapped €800m Revolving Credit Facility in place. Our next bond maturity is not until November 2024. In short, a very strong balance sheet position.

This provides us with considerable firepower to continue to invest in the business, both organically behind the many opportunities we see in our markets, as well as inorganically as the opportunity arises.

It also allows our Board to recommend an increased dividend in 2020, to 64 eurocents a share. We are pleased to be able to continue growing dividends, even following such a challenging year.

10. Additional in-house recycled PET capacity

One of the most important issues for our stakeholders is packaging. As we work towards delivering our World Without Waste sustainable packaging goals, competitively priced, quality recycled PET feedstock continues to be in short supply. We are committed to proactively addressing this challenge so that we can deliver on our rPET targets. One of the ways that we are doing this is by investing in inhouse capacity to produce recycled PET bottle preforms from hot-washed PET flakes. Hot-washed PET flakes are produced from washed and shredded post-consumer PET bottles, which are more widely available and at a lower price than food-grade rPET pellets. This inhouse capacity will also help us to reduce energy consumption for 100% rPET preforms by 40%. Our first investment has been in Poland, and we have plans to add this capacity in Italy this year.

Another challenge in the creation of a truly circular economy is inadequate collection infrastructure. We support well-designed, industry-led collection schemes and for many of our markets Deposit Return Schemes have been shown to allow high collection rates, allowing better availability of recycled PET feedstock.

11. 2021 outlook

The economic outlook remains uncertain. We are constantly monitoring the situation and will continue to prioritise our investment behind the highest potential markets, channels and brands to maximize evolving opportunities.
While we recognise the uncertainties, we are encouraged by our resilient performance and value share gains in 2020.

We expect to see a strong FX-neutral revenue recovery in 2021. This recovery is based on our expectations of a gradual volume recovery as well as price/mix recovery. Price/mix will also be inflated by pricing taken to offset the Polish sugar tax.

We expect to be able to have another year in which we achieve strong cost control, which we will be able to adjust depending on the trading environment and which will allow us to manage our profitability. We plan to increase investment in marketing to support our top-line recovery and expect high single digit inflation in input costs as well as that the negative impact of foreign currency on EBIT will be higher in 2021 than in 2020.

With all that in mind, we believe that we will be able to achieve a small expansion in our like-for-like EBIT margin versus 2020.

Looking further ahead, beverages continue to be a high potential industry and we see many growth opportunities leveraging our evolving portfolio. We are also blessed by the markets we operate in with the great growth potential of our Emerging segment and the resilience of the Established segment providing a good balance. This is why we do believe that once the recovery is underway the business can return to the growth algorithm we set out at our Capital Markets Day in 2019, which was for FX-neutral revenue growth of 5-6% with 20-40 basis points of EBIT margin expansion per year on average.

12. First quarter 2021

Let me now give you an update on our performance so far in 2021.

Q1 like-for-like revenues grew by 6.1%. The strong execution driving this result is led by improvement in our route-to-market through greater use of digital tools, and our increasing ability to segment our customer base into finer detail. We are also seeing results from our focus on gaining share in the highest value at-home occasions. This performance puts us on track to achieve the outlook we set at the start of the year for a strong recovery in FX-neutral revenues accompanied by a small increase in EBIT margins.

Volumes grew by 4.7% on a like-for-like basis. This performance benefited from 3 additional selling days but was also delivered against a base which included two and a half non-COVID impacted months. We have seen positive volume expansion every month in the quarter and reassuringly, Q1 volumes exceeded those of 2019 as well as 2020. We have also seen the best improvement in price/mix this quarter since 2019.

Costa Coffee is a prime example of disciplined innovation. As of today, we are live in 16 markets. In 2021 we will scale in these markets and start to bring more focus to the significant opportunity in the out-of-home channel. Our plan is to have Costa Coffee in all 28 of our markets by 2023.

In conclusion, while alert to the risks of continued lockdowns in our markets, we are also encouraged by the strong business results in 2020 and we will continue to adapt to win in 2021 and beyond.

We look forward to speaking to you again next year to continue to share our progress.