

CCH – 2021 First quarter trading update

Conference call script – 12 May 2021

CORPORATE PARTICIPANTS

Zoran Bogdanovic – Coca-Cola HBC AG - CEO

Ben Almanzar - Coca-Cola HBC AG – CFO

Joanna Kennedy - Coca-Cola HBC AG - IR Director

Operator

Thank you for standing by ladies and gentlemen, and welcome to Coca-Cola HBC's conference call for the 2021 first quarter trading update. We have with us Mr. Zoran Bogdanovic, Chief Executive Officer, Mr. Ben Almanzar, Chief Financial Officer, and Ms Joanna Kennedy, Investor Relations Director. At this time all participants are in listen only mode. There will be a presentation followed by a question and answer session, if you wish to ask a question, please press star one on your telephone keypad at any time and wait until your name is announced. I must also advise that this conference is being recorded today Wednesday, May 12, 2021. I now pass the floor to one of your speakers, Ms Joanna Kennedy. Please go ahead. Thank you.

Joanna Kennedy - Coca-Cola HBC AG - IR Director

Good morning everyone. Welcome to our first quarter trading update call.

Today, I am joined by our CEO, Zoran Bogdanovic and our CFO, Ben Almanzar.

Although we have added a webcast facility to our call for ease of access, there will be no slide presentation today as per our usual practice for trading updates. We will start with some opening remarks from Zoran and then open the floor to your questions. As always, kindly ask your questions one at a time, waiting for us to answer one question before then moving on to another. The operator will keep your line open, until we have answered all your questions, and we have about an hour for the call today which should leave sufficient time to facilitate a good discussion.

Finally, I must also remind everyone that this conference call contains various forward-looking statements. These should be considered in conjunction with the cautionary statements in our trading update press release, which we have published this morning.

And with that I will hand the call over to Zoran.

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Zoran Bogdanovic – Coca-Cola HBC AG – CEO

Thank you, Joanna. Good morning everyone. I sincerely hope that you and your loved ones are safe and well.

In Q1 we stayed focused on our strategic growth pillars:

- 1) Leveraging our 24/7 portfolio with targeted prioritisation
- 2) Winning in the marketplace by focusing on our core capabilities and close partnership with our customers
- 3) Continuing to focus on efficiency and the careful prioritisation of investments
- 4) Developing our people, particularly by accelerating critical capabilities; and
- 5) Earning our license to operate by making progress on our Mission 25 sustainability commitments, and by setting new targets for 2030

These pillars are positioning the company for sustained success, but crucially have also guided us in the rigorous prioritisation needed to perform through the crisis and to prepare for the recovery we are starting to see.

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.

Sparkling performance

The power of our portfolio of Sparkling and Energy brands has been a key source of growth and profitability, and we have deliberately focused our resources behind these categories. Q1 Sparkling volumes grew by 9.6% and Energy by 55.8.

Within Sparkling, growth has been broad-based across brands but led by Trademark Coke. We are also seeing the strongest performance from our areas of strategic focus – low- and no-sugar which grew by 22.6% and Adult Sparkling which grew by 28.5% in the quarter.

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Channel performance

The second key driver this quarter has been the continued growth in the at-home channel and the speed with which we have been able to take advantage of the opportunities in at-home occasions. We have capitalised on the ways in which consumers are replicating the out-of-home experience at-home, for example with Adult Sparkling products as an aperitif after work, or while socializing at home. Overall we are driving mid-single digit volume growth as well as price/mix expansion in the at-home channel.

The out-of-home channel remained under pressure due to COVID, with closures throughout the quarter in the majority of our markets. Trading improved towards the end of the quarter, with out-of-home channel volumes stable in March after 20-30% declines for the previous two months, as reopening in a few markets supported the channel. That said, we remain convinced, as we were back in February when we set our guidance, that the path to recovery and reopening will be uncertain and will vary by market through the rest of 21.

What does not change is our support of our out-of-home customers. We have been by their side throughout the crisis, providing them with consumer insights, targeted programmes and practical support, and we are already working with them to ensure we capture growth opportunities together as markets reopen.

Digital commerce trends have accelerated due to COVID and we are investing in four key areas:

The first is our own business to business sales platform where we are seeing a growing demand from our customers to order online from us. COVID has accelerated this change, but we believe that many of the customers who tried ordering online for the first time during the pandemic, will continue to do so once COVID is behind us. We have plans to increase the percentage of our sales through this platform.

The second is looking at other opportunities to digitise our route-to-market, and add value to our customers, with the use of more comprehensive e-market places. These market places can ultimately create ecosystem benefits.

The third is partnering with our existing omnichannel customers to increase our digital shelf space and visibility on their own e-commerce websites, and through working with newer, digital-only customers such as food delivery platforms to increase the beverage penetration in food orders.

And finally, by exploring the opportunities which are emerging in direct-to-consumer platforms.

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We are still early on this journey. However, we are seeing high double digit growth in this area, have bold ambitions and are investing and building capability fast to achieve them.

Diverse geographic footprint

Throughout the COVID-19 pandemic we have seen our Emerging segment outperform and the acceleration of its recovery in Q1 is notable. Within the segment, our largest markets are showing the best momentum.

Nigerian volumes continue to expand double-digit despite high comparatives. We are benefiting from the underlying strength of the category, but importantly also growing ahead of it, and gaining shares. We are harvesting the benefit of investments we have made in the market in several key areas. Let me pull out two of the most important.

Firstly, we have made decisive improvements in our route-to-market by consolidating several of our distribution partners. This allows us to work more closely with each partner, building capabilities, driving faster customer delivery times and better customer service.

Secondly, Nigeria was a lead market for Big Data and Advanced Analytics (BDAA). We can now fulfill consumer and customer demand in a much more precise way than ever before. By building layers of information around an outlet, including key demand parameters like foot traffic, weather, social media activity and demographics, we are able to provide a targeted offering and in-outlet execution to our customers which ultimately drives more transactions.

There is a significant opportunity in Nigeria. With a current population of over 200 million, Nigeria is expected to become the third most populous country globally by 2050. Combine this with its very low per capita consumption and you see a vast potential in the market which we will continue to invest behind.

Russian volumes have accelerated in Q1, growing double-digit. We have seen strong growth in both at-, and out-of-home channels, as the country has emerged from lockdown. Russia is also one of the markets where international travel restrictions boost local tourism benefiting our business. We saw this firsthand during the new year holiday celebrations this quarter.

Russia remains a highly competitive market, but one where we are seeing strong results from our revenue growth management approach which targets both affordable and premium offerings. We are able to manage demand for affordability through pack/price architecture which hits the right price points for consumers. This, combined with strong activation around the most high-value at-home occasions, particularly meals at home, is driving strong performance. On the premium side, Adult Sparkling is showing excellent

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performance, with Schweppes doubling in size in Q1. This reflects the great work done, together with The Coca-Cola Company team, to elevate the offering with new visuals, packaging and flavours and execution in the market which builds on the product as a premium mixer.

The Developing segment's performance has been adversely impacted by the sugar tax in Poland, which came into effect in January. We have passed on the tax in full, and performance has been in line with our expectations. We are seeing strong performance from Coke Zero and importantly, the market is showing good signs of recovery in March when we also relisted at a major retailer after a temporary pause.

In our other markets in the Developing segment, the most important driver of relative performance continues to be the ongoing restrictions in the out-of-home, which in Q1 were in place in most of the markets in the segment.

Our Established segment countries have the largest exposure to the out-of-home channel and given the continuation of restrictions in Q1 and into Q2, are still feeling the impact of COVID-19. The offset to that remains the performance of the at-home channel where volumes grew by high-single digits in Q1.

The continued good performance of price/mix in the Established segment is notable in light of the challenges in the out-of-home channel. The main driver has been ongoing strong category mix due to the good performance of Sparkling, particularly Trademark Coke. We've also grown Adult Sparkling double digit, while Energy grew over 50%.

Price/mix

The benefit from strong category mix is visible throughout the business. Q1 price/mix was up 1.3% like-for-like, despite the adverse impact of closures in the out-of-home channel. Note that pricing taken in Poland to pass on the sugar tax contributed 180 basis points to price/mix in the quarter.

What is encouraging is that the drivers of these improved price/mix trends appear sustainable. The strong category mix, as a result of the good performance of Sparkling and Energy, is due to our deliberate prioritization of these categories. The other largest driver is the stabilisation of package mix due to both the first signs of improved trends in the out-of-home channel, where it has been allowed to reopen, as well as our concerted efforts to increase single-serve penetration in the at-home channel. And finally, we have proceeded with planned price increases in several markets during the quarter.

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Innovation

Disciplined innovation remains a driver of growth today and tomorrow. By disciplined I mean that you will see fewer innovations which will be either truly scalable or more targeted.

Costa Coffee is a prime example. 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.

Along with large-scale innovations, we are making calculated choices in exciting new categories: we continue to develop Topo Chico, launching in Switzerland in April, and we are working on the targeted acceleration of Aquarius in several markets.

Keeping our core business vibrant is of critical importance. This quarter we have begun the roll out of an enhanced formula and package design of Coca-Cola Zero Sugar. We believe the revamped proposition will make the product even more loved by consumers.

Sustainability

We continue to make progress on our Mission 2025 sustainability commitments, and I am also proud to say that during the quarter we committed to further significant reductions in carbon emissions across our business and value chain. This quarter we announced Science Based Targets in line with the 1.5-degree pathway to reduce Scope 1, 2 and 3 emissions.

Recent trading and outlook

Let me now bring you right up to date in terms of current trading and say a few words about the rest of the year and beyond.

As mentioned at the start, we have seen COVID-19 related restrictions continue in our European markets into Q2, nevertheless, given the continued strong performance in our Emerging segment and our expectation that vaccine roll outs continue over the coming months, we still expect a similar shape of recovery in 21 as we laid out at our full year results, namely a red scenario in Q1, moving gradually to orange in the back half of Q2 and then progressively moving to green during the second half of the year.

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We are continuously monitoring the situation. The flexibility of our portfolio, route to market, commercial strategy and agility of our people will allow us to promptly adjust our investments and approach to maximize our opportunities.

The speed of recovery from the pandemic remains uncertain, but Q1 puts us on track to achieve our 21 guidance for a strong recovery in FX-neutral revenues, along with a small increase in EBIT margin.

Through all of this we remain focused on the long-term potential of our business, guided by our strategic growth pillars and the financial targets we laid out back in 2019. We continue to believe that once recovery is underway the business can return to the growth algorithm we laid out in 2019, which was for 5 to 6% FX-neutral revenue growth and 20-40 basis points of EBIT margin expansion per year on average.

Thank you for your attention, I will now hand over to the operator, and Ben and I will be happy to take your questions.

Q&A *[Q&A transcript will be available on the Company's website on Thursday 13th May]*

Zoran wrap up

Thank you for your time today. We believe that the results we announced today, despite the continuation of COVID-19 related restrictions through most of our markets, underlines the fundamental attractiveness of our markets and industry, as well as the importance of the careful prioritization which has ensured resilience even in the current challenging operating environment.

While clearly there are uncertainties and challenges to come, we are well prepared to continue to adapt and capture the considerable growth opportunities in our industry.

Now let me extend my good wishes to you and your families, and all of us at Coca-Cola HBC sincerely hope you stay safe and well. We look forward to speaking to you all again soon. Thank you.