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Coca-Cola Hellenic - Deutsche Bank Global Consumer Conference

Dimitris Lois - Coca-Cola HBC AG – CEO

Good morning ladies and gentlemen. Thank you for joining us.

Today, I am here with Michalis Imellos, our CFO, and Başak Kotler, our Director of Investor Relations.

Forward-looking statements

I presume you all recognise the usual wording in respect of forward-looking statements.

CCHBC at a glance

I'd like to start with a quick overview of Coca-Cola HBC.

We are the second largest bottler in the Coca-Cola System, a strong partnership for over 60 years.

We operate in 28 countries - a balanced territory with exposure to emerging, developing and established markets.

Our portfolio of products comprises many of the world's best-selling non-alcoholic beverage brands and our offering is the most diverse among all bottlers with still drinks representing 31% of our volume. We have a strong backbone focused on customer collaboration, winning at the point of sale and unparalleled distribution.

Last, but not least, we are a sustainable business where corporate responsibility and sustainability are integrated into all aspects of our business.

The opportunity we see

Importantly, our business is poised for growth with significant opportunities, and today, I would like to share with you why we believe we can grow our business as well as improve its profitability in the medium term.

Business growth
Increasing per capita consumption in Sparkling beverages

Let me start with the opportunity we see in increasing per capita consumption in sparkling beverages – our largest category.

In 2014, overall consumption in our territory was 129 servings per person - less than half the European average and a fraction of the consumption in the United States.

Consumption in Nigeria is at just 48 servings, and although an Established market in terms of its economy, Italian consumption is at 154 servings.

We believe that there is ample room for growth in our territory as the emerging markets develop. I will come back to this in a minute.

In addition, you shouldn't underestimate the potential in countries such as Italy and Greece, where consumption per person used to be 25% and 47% higher, respectively, prior to the Eurozone crisis. As the general macroeconomic conditions improve, we expect these markets to return to pre-crisis consumption levels.

Business growth
Emerging market exposure

I mentioned the potential in emerging markets as the economies in these countries develop. I would like to spend a few more minutes on this point.

Evidence suggests that there is good correlation between GDP per capita and sparkling consumption per capita.

Notably, many of the countries in our territory are in the bottom left-hand corner, where GDP and consumption are relatively low. Therefore, we have good reason to believe that as these economies grow, we should benefit from an increase in the consumption of our products.

In fact, if we plot our three segments and Coca-Cola HBC as a whole, you can see that our territory is still in early stages of growth.

Business growth
Emerging market exposure

We are also encouraged by the demographic dynamics in our Emerging markets, which account for 50% of our volumes.

In addition to the current low level of consumption per capita, these countries generally have:

- Favourable demographics for population growth. Nigeria for example is expected to significantly outpace the world population growth rate. In addition, half the population in Nigeria is below the age of 19.
- An expanding middle class also helps our business by improving affordability. While it is difficult to get aggregated data for this, let me share with you the Nigerian data point: middle-class households i.e. those with income exceeding $7.5k in Nigeria, are expected to quadruple by 2030 in absolute terms.
- Urbanisation is another trend that benefits our business. Urban centres facilitate the availability of our products. Populations are moving from rural areas to urban centres and this is particularly pronounced in some our Emerging markets.

Business growth
Market share expansion

Moving on to growing our business through the development of our share in our markets.

Our overall volume share in our territory is 43%. This gives us a solid foundation to build upon.

In our markets, our second biggest competitor is less than half our size, leaving about 40% to private label and B-brands. This means further growth potential as consumers switch from local brands and home-mixed drinks to our branded goods.

Business growth
Exposure to growth categories

We have broadened our product portfolio since 2001, increasing the contribution of still drinks from 10% in 2001 to 30% in 2014.

In the medium term, Sparkling beverages will continue to contribute most of the incremental cases to our business. But we have more to look forward to. The superior growth rates seen in Water and Juice in the pre-crisis years are expected to return in the future.

Our diverse portfolio of Sparkling beverages, Water, Juice, Ready-to-Drink Tea and Energy gives us the drivers to win in the overall NARTD category.

Business growth
Retail landscape

Currently our customer base is quite fragmented with no single customer accounting for more than 3% of our Group volume. Having said that, the retail landscape is changing, with customers, particularly in the organised trade channel, growing and consolidating over time.

At Coca-Cola HBC, we not only recognise this trend, but we have also set ourselves up to benefit from it by creating joint value and improving profitability as customers grow.

Business growth
Retail landscape

This involves the development of our route-to-market and logistics capabilities.

In route-to-market, and that is the day-to-day sales and execution service we offer our customers, we look at several metrics.

DIFOTAI measures the ability to deliver in full, on time and accurately invoiced, and RED measures right execution daily.

The development of the metrics that you see, demonstrates how we exploit technology, such as SAP, for better service to our customers. This in turn, enables us to create and share value with our customers.

We are also optimising our production and warehousing footprint to yield cost benefits. In the last two years, we reduced the cost of delivery from plant to end customer by 80 basis points as a percentage of revenue.

Margin expansion
Revenue growth management

Turning now to the margin expansion initiatives in our business, let me start with revenue and then move to the cost side.

We have a well-established architecture we call OBPPC which we utilise to increase the value we get from every case we sell.

We do this by creating packages per channel at specific price points, targeting occasions we believe are critical. Good examples of these occasions are 'Meals with Coke' and the 'Socialising occasion'. As a result, OBPPC improves our single-serve mix, which has now reached 40% of our portfolio, despite the fact that the fast-growing organised trade channel inevitably shifts our package mix to multi-serves.

This is complemented by price increases to offset currency depreciation and inflation where necessary. We have executed very well in recent years with improvement in FX-neutral net sales revenue per case for 14 consecutive quarters.

In the last two years, the improvement was 3.6%, which, in a subdued volume environment, has supported the top-line. This improvement was the result of both initiatives, although I must add that the concentrate price increase in 2014 contributed to the increase in the pricing element.

Margin expansion
Infrastructure optimisation

In order to support our profitability, we have also adopted a strong efficiency focus.

Since 2008, we have reduced the number of plants by 18% without sacrificing capacity. The corresponding reduction in our Established and Developing segments, where we have done most of the work, is 34%. This consolidation is also coupled with a reduction in the number of warehouses and distribution centres.

The purpose of the exercise was to optimise capacity, creating plants with more and faster lines, and bigger distribution hubs.

With SAP now in place in all of our 28 markets, we are taking a holistic look at our manufacturing base and believe that there is a lot more we can do, particularly in our Emerging markets.

A leaner production and logistics base allows us to generate more operating leverage when volumes improve, enhancing the bottom line.

Margin expansion
Operational cost control and cash generation

With equally effective initiatives, we reduced operating expenses as a percentage of revenue by 160 basis points since 2008. We have done this with cost discipline, but also with specific actions and investments.

We set up a Shared Services Centre in Bulgaria and we are swiftly moving all back office transactional processes into this highly efficient and specialised team.

SAP has been implemented in all of our countries, giving us opportunity for sharing best practices across the group.

We also have a great track record in cash flow generation. We have reduced our working capital by 550 million euros since 2008.

We have a disciplined approach to capital expenditure, investing about 5.5% of revenue, mostly on revenue-generating assets.

All of this is instrumental in generating cash and reducing financing costs.

Summary

In summary, there are significant growth opportunities in our territory, and we are focused on taking advantage of these opportunities in the future to grow profitably and sustainably.

That bring me neatly to the subject of sustainable business.

A sustainable business
Earning the trust of our communities

Our business strategy recognises the critical importance of creating shared value for employees, consumers, customers and communities. Over the last decade, we have integrated corporate responsibility and sustainability into all aspects of business management, making long-term investments that aim to build value over time.

A very significant stakeholder for our business are the communities where we operate. Enriching the lives of communities, contributing to the public good and safeguarding the environment are priorities for us and form a strategic pillar of our business we call Community Trust.

We believe that the initiatives under this strategic pillar make us local and help us win the trust of our communities. We group them under three banners: promoting health and wellness, minimising our environmental impact and benefitting local communities.

I would urge you all to read our Integrated Annual Report to see the multitude of initiatives we have in place, as well as the great results we have achieved and the stretching targets we have set ourselves.

A sustainable business
Recognised as a leader

Our efforts have been recognised externally by the Dow Jones Sustainability and FTSE4Good Indices since 2008 and 2001, respectively.

And it gives me immense pleasure to point out that in 2014, our Company was named the industry leader amongst beverage companies in the Dow Jones World and Europe Sustainability Indices.

Separately, we have been awarded an A rating and were included in the Climate Performance Leadership Index by the Carbon Disclosure Project. We are also included in the Euronext-Vigeo UK 20.

We are extremely proud of our achievements and the recognition we receive motivates our people to continue to excel.

Financial performance
Managing adversity

Before closing, let me take a couple of minutes to summarise our financial performance in the last few years. I will focus on the last five years since 2010 – a period during which we have had to manage a combination of very strong headwinds.

During this period we faced macroeconomic difficulties in our Eurozone countries such as Italy, Greece and Ireland, which impacted volumes in these highly profitable countries. At the same time, countries in the Developing segment, such as Czech Republic and Poland, also faced difficult trends. Part of the volume loss was offset by growth in the Emerging market segment, but as you know, we can't achieve the same value per case in Emerging markets as we do in our Established markets, so this leads to a less favourable country mix.

Input cost increases and foreign exchange depreciation caused even more significant setbacks, totalling nearly 400 million Euros together. All of this has led to a decline in gross margins of roughly 500 basis points.

Under these circumstances, we focused our efforts on cost efficiencies, lowering operating expenses as a percentage of net sales revenue. Our cost efficiency initiatives, combined with our efforts to improve price and mix, underpinned our margins at around 6.5%.

We are determined to expand our margins to pre-crisis levels. The drivers of this expansion will include:

- operational leverage as volumes stabilise and grow,
- revenue growth management initiatives, which are expected to outweigh input cost developments, and
- continuing on our optimisation and efficiency journey.

Opportunities
Operating leverage

Let me close this section now by giving you an understanding of the operating leverage in the business.

All other things being equal, we estimate that 1% volume growth will expand EBIT margin by 25bps.

Again all other things being equal, 1% revenue per case growth will expand EBIT margin by 70pbs.

This leverage is slightly more skewed in Emerging markets due to the higher weight of fixed costs in the segment.

2015 outlook
Mitigating the headwinds

Looking at 2015, we expect:

- a year of volume stabilisation for the Group overall, with trends in Established and Developing markets stabilising or improving,
- revenue growth management actions delivering FX-neutral net sales revenue per case growth, and
- input cost tailwind to the tune of high single digits.

These factors, combined with our self-help measures to control operating expenses, should mitigate the significant foreign exchange headwind we continue to face this year.

Clear strategy
Achieving results

Looking further out, we believe the strategy we have been executing with focus and discipline is the right one. Our main objectives remain:

- Winning at the point of sale, every day and in every occasion.
- Growing currency-neutral revenue per case consistently while continuing to address affordability.
- Maintaining cost leadership in every aspect of our business as we work on improving efficiencies and optimising our cost base.

- And finally, focusing on working capital improvement and continuing to generate strong free cash flow.

I hope I have convinced you that there are many reasons to be excited about the future of our business.

Moreover, we are good at controlling the things that we can influence, and our business is in much better shape to leverage that growth.

Q&A

With that, I would like to open the floor to questions.