CCH – 2015 Half-year results
Conference call script – 13 August 2015

CORPORATE PARTICIPANTS

Dimitris Lois - Coca-Cola HBC AG – CEO

Michalis Imellos - Coca-Cola HBC AG – CFO

Basak Kotler - Coca-Cola HBC AG - IR Director

Operator

Thank you for standing by ladies and gentlemen, and welcome to the Coca-Cola HBC's conference call for the 2015 half-year results. We have with us Mr. Dimitris Lois, Chief Executive Officer, Mr. Michalis Imellos, Chief Financial Officer, and Ms Basak Kotler, Investor Relations Director. At this time all participants are in listen only mode. After a brief update on 2015 half-year results, we will open the call to questions. 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 Thursday, August 13 2015. I now pass the floor to one of your speakers, Ms Basak Kotler. Please go ahead.

Basak Kotler - Coca-Cola HBC AG - IR Director

Forward-looking statements

Good morning. Thank you for joining our call today to discuss Coca-Cola Hellenic Bottling Company's results for the first half of 2015.

Today, I am joined by our Chief Executive Officer, Dimitris Lois and our Chief Financial Officer, Michalis Imellos.

Following the presentation by Dimitris and Michalis, we will open the floor to questions.

Before we get started, I would like to remind everyone that this conference call contains various forward looking statements. These should be considered in conjunction with the cautionary statements on the screen. This information can also be viewed in our press release issued today.

Now let me turn the call over to Dimitris.

Dimitris Lois - Coca-Cola HBC AG – CEO

Half-year highlights

Thank you Basak. Good morning everyone and thank you for joining our call.

I will start by giving an overview of the first half of 2015 before Michalis takes you through our financial performance. I will then discuss our operational performance, and the outlook for the remainder of the year.

We are pleased to see that our strategic initiatives are delivering top line growth while significantly improving profitability.

Starting with the top line, we achieved 3.8% volume growth in the first half. The underlying growth, excluding the effect of the 4 additional selling days, was 1.3%.

Our pricing actions in markets most affected by currency headwinds, balanced with deflationary pressures and the affordability measures we took in several of our markets, led to stable currency-neutral net sales revenue per case.

Favourable input cost environment, volume leverage as well as our revenue growth and cost management initiatives helped us significantly improve our operational profitability, leading to a 170 basis point expansion of EBIT margin.

Furthermore, our consistent focus on disciplined working capital management led to further improvements in working capital balance sheet position and days. These improvements, coupled with operating profit growth, allowed us to more than double our free cash flow compared to the prior-year period.

Comparable earnings per share was around 39 Euro cents – a 44% increase on the prior-year period.

Looking at our overall performance in the face of challenging macroeconomic and trading conditions in many of our markets, we are pleased to see the results of our actions to return our business to growth.

With that, I will turn the call over to Michalis.

Michalis Imellos - Coca-Cola HBC AG – CFO

Financial review

Thank you Dimitri and hello everyone.

In line with our practice, as I take you through our financial results for the first half, I will refer to comparable figures which exclude the impact of restructuring costs, the mark-to-market valuation impact of commodity hedges and specific non-recurring items.

Financial performance overview

As Dimitris mentioned, our volume increased by 3.8% on a reported basis, partly supported by the four extra selling days in Q1, which account for 2.5 percentage points of growth.

We have seen an acceleration in the volume growth rate in the second quarter on an underlying basis – that is after accounting for the extra selling days and the phasing of Easter which benefited Q1 and had a negative impact in Q2.

Net sales revenue declined by 1% in the first half, negatively affected by the significant currency headwinds, particularly in our Emerging markets segment.

Currency-neutral net sales revenue per unit case was stable in the first half, as our pricing actions in markets facing currency headwinds were offset by affordability measures and deflationary pressures in a number of our markets.

Favourable input cost environment and volume leverage more than offset the significant negative foreign currency impact, leading to a 60bps expansion in the gross profit margin.

Our optimisation initiatives supported by restructuring are reflected in the significant improvement of our operating expenses as a percentage of net sales revenue. More specifically in the first half, our cost management actions led to a 110bps decrease of operating expenses as a percentage of revenue, further supporting the EBIT margin expansion.

Comparable operating profit increased in the first half by 31% versus the prior-year period, while comparable operating profit margin expanded by 170bps. Favourable input costs, operating leverage and our cost management actions more than offset the adverse currency impact.

Comparable EPS reached 39 Euro cents, 44% higher than prior year, driven by the expansion of our operational profitability.

Our consistent actions to optimise working capital continued to drive improvements in both the working capital balance and the working capital days compared to the prior-year period.

We generated strong free cash flow of 219 million Euros in the first half, up 124 million compared to the prior-year period. I will cover this in more detail later in my presentation.

Stable FX-neutral net sales revenue per case

Diving a bit deeper into our top line performance during the first half, FX-neutral net sales revenue per case, was stable in comparison to the same period in the prior year.

Key driver of the performance was the positive pricing impact to mitigate adverse foreign currency movements in markets impacted by currency depreciation. However, this good performance was offset by limited opportunity to take pricing in certain deflationary economies and markets where there are affordability concerns.

In our Established markets, FX-neutral net sales revenue per case declined by 2.4%. This decline was driven by deterioration in price mix, amidst deflationary pressures, as well as negative category mix partially offset by favourable package mix.

In Developing markets, improved category mix was not enough to offset unfavourable price and channel mix, leading to a 2% decline in FX-neutral net sales revenue per case.

The Emerging markets segment's 4.3% improvement in FX-neutral net sales revenue per case was mainly the result of our pricing actions put in place to mitigate the FX headwinds in countries facing currency depreciation and the associated inflation. Category mix was also positive, partially offset by negative channel mix.

Favourable input cost environment

Turning to input costs:

FX-neutral input cost per case declined by 7.2% in the first half in line with our expectations.

The key drivers for the decline were lower EU and World Sugar costs, in line with expectations, as well as improved PET resin prices, which followed the sharp decline in oil prices as the year progressed.

Cost management initiatives delivering results

Our consistent focus on optimising our operating cost base achieved good results in the first half, leading to a 4% reduction in comparable operating expenses.

Comparable operating expenses as a percentage of net sales revenue improved in the first half, decreasing by 110 bps to 29.5%. On a segmental basis, the improvement was driven by the Emerging segment, which decreased by 260 basis points, as well as the Developing, which decreased by 30 basis points. In our Established markets, comparable operating expenses as percentage of net sales revenue increased by 20 basis points.

The main driver for the deterioration in Established markets was certain one-off items and to a lesser extent operational deleverage.

On the other hand, operational leverage coupled with our optimisation initiatives mostly benefited Emerging markets and to a lesser extent Developing.

Cost efficiency remains a key priority across our business and we are confident that we can achieve improvements in operating expenses as percentage of net sales revenue this year.

Operating leverage and input cost benefits delivering profitability

Turning to operating performance, we recorded comparable operating profit of 219 million Euros in the first half, 52 million higher than in the prior year. Overall, volume leverage, lower input costs and cost control more than offset the impact of unfavorable foreign exchange movements.

First half profitability was partly supported by the four additional selling days in Q1. We will discuss the phasing impact of the additional days in more detail in the full year outlook section.

All three reporting segments posted strong comparable EBIT improvement in the first half. More particularly:

Established markets improved by 20 million Euros compared to the same period last year. Price/mix decline was more than offset by lower input costs and FX benefits, mainly from the year-on-year strengthening of the Swiss franc.

Our Developing markets improved by 22 million Euros compared to the prior year. Volume leverage and lower input costs were the key factors offsetting increased marketing investment and deterioration in price/mix.

The Emerging markets segment grew by 11 million Euros year on year. Benefits from our revenue growth initiatives, volume leverage and lower input costs more than offset the significant impact from negative currency movements.

Restructuring update

We incurred restructuring charges of 22 million Euros in the first half, mostly focused in Established and Emerging markets and to a lesser extent in Developing.

We maintain our guidance of annual restructuring costs of approximately €45 million with estimated annualised benefits from 2015 initiatives to reach €30 million from 2016 onwards.

The savings in 2015 from initiatives taken in 2014 and those that will be taken in 2015, are still expected to reach €44m.

Solid free cash flow generation in the first half

Turning now to free cash flow, in the first half we generated 219 million Euros, 124 million higher than the prior-year period.

The free cash flow increase was mainly driven by working capital improvements and to a lesser extent operating profitability growth. We remain disciplined in our working capital management approach as evident in the working capital amounts and days, which continue to improve on a year-on-year basis.

Capex spend was lower than in the prior year, mainly as a result of phasing in our spending. We reiterate our annual capex guidance range at 5.5% to 6.5% of net sales revenue.

We also still expect Free Cash Flow generation for the 2013 – 2015 period in the range of €1.1 to €1.2bn Euros.

We remain confident in our proven ability to generate solid free cash flow in the short to medium term, despite the macroeconomic and currency headwinds.

Diversified financial profile

Let me now touch upon the financing of our business.

Total first half net financing costs amounted to 37 million Euros, decreasing by 2 million compared to the prior-year period. This improvement was mainly driven by the cessation of hyperinflation accounting in Belarus and lower foreign exchange remeasurement losses from the Ukrainian Hryvnia and the Nigerian Naira.

As already communicated, our $400 million bond maturing next month will be repaid from our own funds.

We remain committed to maintaining a conservative and diversified financial profile, translating to a Net Debt to comparable EBITDA ratio in the range of 1.5 to 2.0 times.

Phasing impact of additional selling days

Before I conclude, let me touch upon certain EBIT phasing considerations that are relevant for your modeling.

This year, we expect a positive EBIT contribution from operational leverage. We are very pleased to see this materialise in our first half performance.

This contribution however has been exaggerated in the first half by the phasing impact of the 4 additional selling days in the first quarter. We expect this to reverse in the fourth quarter when we will have four fewer selling days. We estimate this phasing impact to be approximately €25m in EBIT.

At the same time, FX remains a significant headwind this year and still volatile. We estimate that, at current spot rates and taking into account our hedging positions, the full-year P&L impact of foreign currency translation and transaction will be 155 million Euros. The corresponding first half FX impact on EBIT amounted to €66m.

With that, let me now pass the floor to Dimitris, who will provide some more colour on our operational performance in the first half.

Dimitris Lois - Coca-Cola HBC AG – CEO

Improving volume trends

Thank you Michali - I will now turn to the operational highlights for the period.

Overall, volume increased by 3.8% in the first half, cycling a 3.4% decline in the same period last year.

Emerging and Developing markets were the main growth drivers, while decline in the Established markets decelerated. The year-on-year improvement in the first half was predominantly driven by Nigeria, Romania, Poland, Ukraine and Hungary.

In the Established markets, volume was broadly stable, following a 4.2% decline in the prior-year period. Volume growth in Ireland and Greece, supported by good overall performance in Water, was outweighed by declines in Switzerland and Austria.

Developing markets trends remained positive, continuing the turnaround. We achieved 6.2% growth in the first half, cycling a 6.6% decline in the prior-year period. Good performance across the segment, mainly driven by good Sparkling growth supported by Water performance in Poland and Hungary.

In the Emerging markets, volume grew by 5.4%, cycling a 1.7% decline in the same period last year. Volume performance in the first half was driven by continued growth momentum in Nigeria, strong performances in Romania and Ukraine as well as exceptional performance in Juice, partly supported by the addition of Moya Semya, which we added to our portfolio in Russia.

Growth in all categories gained pace in the first half

Looking at our performance by category:

Sparkling beverages volumes increased by 3% in the first half. This performance was driven by a number of elements. Firstly, execution of initiatives at the point of sale. A good example is our ongoing work to develop occasions such as Meals&Coke across our territories. Also, our focus on more and better marketing such as Share a Coke in Nigeria. Finally in the Developing segment, our performance in the organised trade.

Within the category, Trademark Coca-Cola increased by 4% and Coke Zero by 16%.

Juice continued its positive momentum, delivering growth of 18%. Russia was the main contributor to this growth as a result of the drive behind our recently broadened juice portfolio in the country with Moya Semya. We also delivered good growth in juices in Nigeria, Greece and Ukraine. It is worth noting that even excluding Moya Semya, growth in the juice category overall for the Group was 10%.

Water grew by 4% in the period, demonstrating good performance in most of our countries, particularly Ukraine, Nigeria and Romania. Additional investment behind our brands and promo intensity in markets with affordability concerns were key drivers.

Energy maintained its growth, with volumes up 9% driven by Ireland, Hungary and Poland.

RTD Tea performance remained weak except in certain pockets such as Romania and Ukraine.

Established markets - Broadly stable volumes

Turning now to the reporting segments and some of our bigger countries in each segment.

Stable volume in our Established markets segment, was an encouraging result. Without the four extra selling days, volume would have been down by about 2.5%, following a 4% decline in the prior-year period.

In Italy, the underlying macroeconomic and trading environment remains challenging. Against this background, our focus on our OBPPC strategy led to a broadly stable performance in Sparkling, with Coke Zero, Sprite and Energy registering positive performances. OBPPC actions, specifically our single-serve focus in Sparkling in the immediate consumption channel, have also driven single-serve mix improvements in the period.

Greece, which returned to growth in 2014 after four years of decline, grew marginally in the first half. We believe this is a pleasing performance amidst challenging trading conditions. Looking ahead, we remain cautious as the macroeconomic environment is uncertain.

In Switzerland, volume declined by low single digits in the first half, cycling a similar rate of decline in the prior-year period. Water grew by mid single digits in the period, helped by increased distribution, although this was not enough to offset the Sparkling volume decline.

While deflationary pressures limited the opportunities for price increases in Established markets, package mix was favourable owing to our focus on OBPPC initiatives.

Developing markets -Evidence of turnaround

In our Developing markets, we are seeing evidence of a turnaround in volumes, having pursued a strategy to rationalise unprofitable volume in the organised trade throughout 2014. The segment achieved 6% volume growth in the period with contributions from all of the countries. The growth rate was amplified by the four extra selling days.

The sparkling beverages category was the main growth driver in the segment, supported by Water in Poland and Hungary.

In Poland, volume increased by high single digits in the period. We saw good performances across most categories, with Sparkling beverages growing by high single digits, driven by good results in the organised trade. Still beverages posted a low single-digit increase, driven by Water performance.

The developments in the Czech Republic are similar to those in Poland, with high single-digit volume growth, driven by good performance across most key categories.

In Hungary, high single-digit volume growth was driven by Sparkling beverages, which increased by low teens. Our focus on increasing single-serve contribution also delivered results, with package mix improving by 1.9 percentage points in the first half.

Deflationary pressures in the segment, combined with a less favourable channel mix, resulted in a 2% reduction in FX-neutral net sales revenue per case.

Emerging markets - Very good performance in a volatile environment

Volume in our Emerging markets segment grew by 5% in the first half of the year, demonstrating resilience in markets, some of which are facing headwinds.

Volumes in Russia declined by low single digits. We continue to expect a high single-digit decline in the Russian NARTD market. Therefore, we are pleased that the performance we have seen in our business so far in the year is better than market and in line with our expectations. This performance is largely driven by the Juice category, as we increase the distribution of the new Moya Semya brand, but this shouldn't detract from the fact that Trademark Coca-Cola also held up well. Looking ahead, we reiterate our expectation for a mid single-digit decline in our volumes in Russia this year.

Volume in Nigeria continues to demonstrate robust growth momentum, delivering mid-teens volume growth. With a successful 'Share a Coke' campaign, additional PET bottle production capacity and improved product availability, the business delivered a very good performance across all categories. Nigeria remains a key growth driver for the Group.

Volume in Romania increased by high single digits in the half year, with good performances across our portfolio, partly supported by the VAT reduction in June.

Package mix continued to improve, driven by good growth in the Sparkling single-serve packages.

FX-neutral revenue per case grew by 4.3% in the period, in line with our strategy to implement pricing initiatives in territories facing currency headwinds.

Looking ahead

In closing, we have become more optimistic as the year has progressed and remain confident that 2015 will be a year of volume growth and expansion in margins.

In order to achieve these goals, we will be working to deliver volume growth in all three segments.

We reiterate our expectation for an improvement in FX-neutral net sales revenue per case in the full year, while recognising that the increase may be modest.

We continue to expect a high single-digit percentage decrease in full-year currency-neutral input cost per case year on year.

Our actions in operating expense management are expected to result in a reduction in operating expenses as a percentage of net sales revenue, supporting EBIT margin growth.

Taking into account our hedged positions and current spot rates, we expect an adverse impact on EBIT from foreign currency to amount to €155 million for the full year.

Q&A

With that, I will now hand over to the operator, and Michalis and I will take your questions.

[Q&A transcript will be available on the Company's website on Friday 14th August]

Clear strategy - Achieving results

I want to thank you for joining us today and for all your questions that facilitated a good discussion around our half-year results.
Let me leave you with the following thoughts.
We have a clear strategy and we have started seeing evidence of delivery.
We are confident that this proven strategy, combined with our leading market positions and broad geographic exposure, positions us well in the medium to long term.
Thank you and we look forward to speaking with you again soon.