CCH – 2015 Half-year results
Conference call Q&A transcript – 13 August 2015

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QUESTIONS FROM

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Stamatis Draziotis, Eurobank Equities

Edward Mundy, Nomura

Andrew Holland, SG

Charles Pick, Numis

QUESTIONS AND ANSWERS

Telephone Operator

Our first question comes from the line of Sanjeet of Credit Suisse, London. Go ahead please.

Sanjeet Aujla, Credit Suisse

Hi Dimitris and Michalis I'm just wondering if you can just comment on trading you've seen in July, particularly on the back of what was a bad weather period for you last year?

And then also looking into the second half of the year, given all of the moving parts you've laid out, should we anticipate any margin expansion in the second half of the year? Thanks.

Michalis Imellos, Chief Financial Officer Hi Sanjeet, regarding the second half and the impact of the phasing let me just say that first of all on an underlying basis, in other words excluding the phasing impact of the four selling days we expect to see in the second half an acceleration in the volume growth. Of course when you factor back the selling days - the four extra selling days on a reported basis, in other words the performance that we will see in the second half the growth will appear to be decelerating. But the underlying growth and the acceleration of the growth is there.

When it comes to the FX, the foreign exchange, in the second half, because the second half is a bigger part of the year than the first half, we expect that the negative impact of the FX will accelerate and it will overtake the benefits from the input costs.

So overall looking at all these factors and how they will play into the second half, to the EBIT margin we expect that there will be volume growth in the second half and therefore volume leverage. Input costs will be a benefit but they will be outpaced by the negative FX hit, and therefore taking into account also the impact of the four extra selling days, which as I said is boosting the half one performance by €25m, and therefore it will negatively impact the second half by the same amount. Overall we don't expect that there will be a material change in the second half EBIT margin versus prior year.

Sanjeet Aujla, Credit Suisse

Very helpful. And then just on the July trading, if you could just give us a couple of comments on any particularl trends?

Dimitris Lois, Chief Executive Officer

Yes, as you said last year Q3 the weather was unfavourable, especially in the Established. So what we have seen this year, July performance was good.

Sanjeet Aujla, Credit Suisse

Okay thanks.

Telephone Operator

Now our next question comes from the line of Tristan from Deutsche Bank, London. Go ahead please.

Tristan van Strien, Deutsche Bank

Good morning gentlemen and lady, well done. Just a few questions - can you give a little bit of colour on your operational expenses and where the savings came from, did it come from just cleaning up your footprint a bit, or was it cross border synergies? And the same thing on your working capital, what drove that improvement?

And then lastly obviously Nigeria is off a low comp, it looks like the underlying is growing as well quite solidly, how do you see the consumer environment right now in Nigeria, just some qualitative comments on that please?

Dimitris Lois, Chief Executive Officer

Morning Tristan I'll start with Nigeria and then Michalis will cover your opex and working capital. So yes you're absolutely right, even if you exclude the four extra selling days Nigeria performance has been strong. And I'm saying that, taking into consideration also the fact that we are cycling relatively easy comps for the first half of last year.

Now we do see strong performance for the second half also, recognising the fact that we are cycling high single digits of growth last year. And that is basically driven from the focus on all of our strategic initiatives, I will briefly refer to better and more marketing, Share a Coke is an excellent example, the additional capacity both in PET and in Water. So those are the key elements along with innovative products and packages that we will be introducing in Q3 in Juice.

The last part refers to the consumer sentiment; the consumer sentiment is still a bit subdued. We have seen, I would say, a smooth elections and after-election process, but still with the oil prices at 50 we see a pretty subdued consumer confidence. So all in all strong growth in Nigeria will continue for the second half of the year. And now let me pass to Michalis for the opex and the working capital.

Michalis Imellos, Chief Financial Officer

Hi Tristan, on the opex we have good performance both in Established and Developing markets, but primarily the improvement in the first half is coming from Emerging. Now in Emerging - if I was to focus in Emerging because that's where the bulk of the improvement is coming from, I would say that there are three major drivers, one is clearly the volume leverage because Emerging markets still has quite a bit of fixed element in the opex, so that helps us as volume is growing.

Secondly there is clearly a good development in the revenue per case underlying on a currency neutral basis, so that is helping also the opex as percent of revenue.

Thirdly we have recently started to work also on certain Emerging markets with some restructuring initiatives. So this is production infrastructure optimisation and also continuing to rationalise our logistics operations. Of course you know that we continue on also the back office shared services programme also in these markets and with process efficiency improvements. So all this is also contributing.

And finally a smaller point, I would say that in Emerging markets you also have cycling of the Sochi Olympic spend. But that in the Emerging markets is around 50 bps; it's not really the majority of the improvement.

When it comes to working capital the improvement is coming across the board, from receivables, inventories and payables. But it is primarily focused on receivables. We are working very hard to manage receivables across our footprint and particularly in countries that are more challenged right now by the crisis. And I would say also not only from those three elements of the working capital, but Established and Emerging segments are also improving and in Developing markets we are more or less flattish.

Tristan van Strien, Deutsche Bank

Thanks Michalis. Just on Nigeria, I mean you talked in Q3 new packages and the last time you spoke about the potential of Monster in that market, do you still see that coming up?

Dimitris Lois, Chief Executive Officer

Yes, right now we are in discussions with Monster, Nigeria is one of the markets, so this is definitely on our agenda.

Tristan van Strien, Deutsche Bank

Right, thank you very much guys.

Dimitris Lois, Chief Executive Officer

Thank you Tristan.

Telephone Operator

Our next question comes from the line of Stam from Eurobank Equities, Athens. Go ahead please.

Stamatis Draziotis, Eurobank Equities

Yes hi there, Stam Draziotis from Eurobank Equities. Thank you very much for taking my questions. One question would be, you mentioned that you intend to continue taking pricing actions in markets impacted by currency depreciation; does this mean that you might take further pricing in Russia after the one you had taken earlier this year if the rouble depreciates further in the second half please?

A second question would be on the raw material environment. I mean I understand it's probably too early to provide guidance for next year, but could you give us some rough indication as to what you anticipate in terms of input costs?

And the third question would be with regards to free cash flow, I can see you have left your guidance unchanged versus the Q1 trading update despite the robust first half, does this have to do mainly with the capex phasing that you mentioned, or is there anything that has to do with working capital dynamics, or some other element of operating cash flow in the second half? Thank you.

Dimitris Lois, Chief Executive Officer

Let me take your first question with regards to revenue per case FX neutral on the Emerging, yes we reiterate our statement that we are planning to continue considering price increases in all of the markets that have been affected by currency headwinds. You refer specifically to Russia, Russia is a possibility and you are absolutely right, this would be contingent to how the rouble will develop from now on until year end. Now let me pass to Michalis to cover your other two points.

Michalis Imellos, Chief Financial Officer

Hi Stam, on the input costs as you said it is a bit early, we are at the point now where we are building our plans for 2016. Nevertheless we have some early indications, when it comes to EU sugar we have covered already 70% of our needs, more or less at the prices that we experienced in 2015 and the remaining 30% is currently being negotiated. There we might have for that 30% some upward pressure as the price is going up.

On world sugar we are 100% hedged in terms of Russia and around 50%, 60% in terms of Nigeria, so we have some good visibility there. And in terms of aluminium we are about two thirds hedged for 2016.

So putting all this together and considering that 2015 has probably been the lowest point in terms of input cost pricing we should expect to see some small increase in the input costs per case on a currency neutral basis. But we'll come back in February with some more specific guidance in that respect.

When it comes to free cash flow, really the performance of the first half - we have to always take into account that there is an extra €25m coming from the extra selling days, which is not going to be there in the second half. So overall the results so far fit very well within the guidance we've given on the €1.1bn to €1.2bn.

Stamatis Draziotis, Eurobank Equities

That's very helpful, thank you very much.

Telephone Operator

Our next question comes from the line of Edward Mundy of Nomura, London. Go ahead please.

Edward Mundy, Nomura

Morning everyone, three questions please. The first is on working capital, do you expect the same level of uplift in the second half?

The second is, just following on from the last question around pricing and also input costs, you know over the last 12 to 18 months, you know Coke has moved much more from a volume to a value basis, and Hellenic historically has done a very good job on this and after a year of boosting affordability to get the volumes up, given the input cost benefits, as you start to cycle those benefits do you expect the shape of your top line into 2016 to start to move towards value over volume?

Then the third question is really around the announcement last week around the formation of Coca-Cola European Partners are you able to expand at all on whether there was an opportunity for you to participate in this deal and as to why you didn't?

Dimitris Lois, Chief Executive Officer

OK let me start from the revenue per case, as you have seen in during this year there are a couple of dynamics and I'll focus on the Established and Developing; mainly we have seen deflationary - strong deflationary environments and on top of that the affordability element that we have been working. So this is the predominant driver for what we have seen so far in both Established and Developing. And we don't expect materially different trends in those two segments for the second half of the year.

Now for the Emerging we have been staying the course with taking price increases, especially in all the markets that have been affected by currency wind. For next year Ed it's a bit early, but I think it makes a lot of sense to see the revenue next year overall growing at faster pace than the volume.

Going to the second question, which was on the consolidation, the transaction here was focused on consolidating the Spanish, the German operations, with CCE. In that regard there was no real role to play for CCH and we were not involved at all with this process.

Let me turn to Michalis now for your next question.

Michalis Imellos, Chief Financial Officer

Hi Ed, if you look at the working capital balance per se we reiterate our target to come to three digit negative working capital balance by the end of this year. In terms of the contribution of working capital into the free cash flow, one has to see how working capital is changing versus the beginning of the year and compare it to the corresponding change in the prior year. And there the dynamic becomes a bit more complex, but in summary we don't expect that the strong contribution of working capital in the free cash flow in the first half will be equally strong on a full year basis; although the original target of getting to three digit negative working capital balance still holds.

Edward Mundy, Nomura

Great thank you. And just a follow up, I mean Ukraine you grew mid-teens in the first half I was wondering if you could provide a little bit more colour, I mean I know it's an easy comp but a bit more colour on what happened in Ukraine?

Dimitris Lois, Chief Executive Officer

Yes Ed, this - first of all the growth comes from all categories, Sparkling was very strong, Juice very strong and also Water has been performing extremely well. Here what we see is the strategic priorities and decisions we have taken few years back in a very difficult environment which means that the route to market, the focus at the point of execution is delivering great results and we are expanding dramatically also our market share overall in all segments.

We expect that the underlying trends will more or less continue for the second half of the year also.

Edward Mundy, Nomura

Okay thank you.

Telephone Operator

Our next question comes from the line of Andrew Holland of SG, London. Go ahead please.

Andrew Holland, SG

Yeah hi, just a clarification if I may on Michalis' comments on the second half margin, were you saying that you don't expect any change versus last year's H2, or were you suggesting that the margin could actually be down in the second half?

Michalis Imellos, Chief Financial Officer

Well, yeah I'm expecting that it will be broadly in line with last year second half.

Andrew Holland, SG

Okay, fine thank you. And just on marketing spend was there is there any sort of phasing of marketing spend that we should be aware of by any of the regions through the year?

Dimitris Lois, Chief Executive Officer

Andrew, what we have seen is expanding our marketing spend in both Established and Developing as we heard from Michalis in Emerging we had the Sochi last year, so that's why Emerging is down. And these trends will continue in Established and Developing for the second half of the year. So overall we are investing more in marketing initiatives both for the first and we will for the second half of the year.

Andrew Holland, SG

Okay thank you. And just - I know you don't really like splitting them out, but can you give an idea of what your pricing was in percentage terms in Russia in the first half?

Dimitris Lois, Chief Executive Officer

High single digits.

Andrew Holland, SG

High single digits. Thank you very much.

Telephone Operator

Our next question comes from the line of Charles Pick of Numis London. Go ahead please.

Charles Pick, Numis

Thanks very much, I have three questions please. Can you clarify please what the underlying sales decline was, allowing for those extra four selling days?

Secondly on the affordability measures in certain countries can you elaborate a little on what those measures involved and which particular countries were affected?

And thirdly when it comes to the FX debit indicated of €155m for the full year is it possible to indicate how that splits between the translational and transactional and what you've assumed for Russia?

And also sort of quasi linked to that I think you indicated the FX debit was €66m in the first half and seemed to imply that was more than covered by lower input costs. Is that correct and can you quantify please what those lower input costs were worth in the first half?

Dimitris Lois, Chief Executive Officer

In your first question you refer to underlying sales decline, you're referring to Established markets?

Charles Pick, Numis

No, well I was thinking of the Group overall?

Dimitris Lois, Chief Executive Officer

But the Group overall grew, did not decline underlying.

Basak Kotler, Director Investor Relations

Not volume.

Dimitris Lois, Chief Executive Officer

You are talking about the volume, sorry I apologise, are you talking about volume?

Charles Pick, Numis

I was talking about sales sorry, sales in the first half for the Group overall were down 1% and I was wondering what the underlying decline was allowing for the extra four selling days coming out?

Michalis Imellos, Chief Financial Officer

So you are talking about revenue on a reported basis we were 1% down, on an underlying basis that translates to about 3.3% down.

Dimitris Lois, Chief Executive Officer

Okay, now moving to your second question with regards to affordability this is in combination with the markets that have been deflationary, which is most of the markets in Established and in Developing. A very good example is Poland, we have seen around 3% deflationary environment in the beginning of the year, moderating to around 2%. So in this market we have taken focused actions behind promo intensity in specific packages and that was mostly towards organised trade.

Another example was Greece, where also we have been focusing on the promo intensity. Here we have been also working on single serve multipacks. So those are two good examples of affordability in combination with the deflationary environments. Now let me turn to Michalis for your third question.

Michalis Imellos, Chief Financial Officer

Okay, so the full year forex impact of €155m is based on the current spot rates for any positions that are not hedged in the remaining of the year. So the assumption there is with rouble to the euro at around 70 rouble to the euro for the year to go. And that's an average throughout the remainder of the year on our un-hedged positions. And the split of transactional and translational for this €155m if approximately 85% of this is transactional and only 15% being translation.

It is also interesting to note that 90% of this €155m is coming from Russia.

Now your second question on the €66m forex hit in the first half, yes that more or less covered - was offset by the input cost benefit in the first half. When it comes to the full year this €155m negative forex hit will outpace the benefits from input costs. And I would say that there will be a difference of about 15 to 20%.

Charles Pick, Numis

Okay thank you very much, very helpful.

Telephone Operator

Ladies and gentlemen please be reminded if you wish to ask a question please press *1 on your telephone keypad.

Thank you for joining today's conference.

Dimitris Lois, Chief Executive Officer

I want to thank you for joining us today and for all your questions that facilitate 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 have confidence that this proven strategy combined with our leading market positions and broad geographic exposure position us well in the medium to long term. Thank you and we look forward to speaking with you again soon.