

# CCH – 2015 Q1 Trading Update

## Conference call Q&A transcript – 15 May 2015

### **CORPORATE PARTICIPANTS**

**Dimitris Lois - Coca-Cola HBC AG – CEO**

**Michalis Imellos - Coca-Cola HBC AG – CFO**

### **QUESTIONS FROM**

**Stamatis Draziotis, Eurobank Equities**

**Charles Pick, Numis**

**Edward Mundy, Nomura**

**Andrew Holland, Societe Generale**

**Andrea Pistacchi, Citi**

### **QUESTIONS AND ANSWERS**

#### **Telephone Operator**

Thank you, before I move to the first question, please be reminded if you would like to ask a question it's \*1 on your keypad.

And our first question from the line of Stamatis Draziotis. Please go ahead.

#### **Stamatis Draziotis, Eurobank Equities**

Hi there, thank you very much for taking my questions. Could I start by asking how big the impact of Easter was, I mean you mentioned that 6% of the volume growth was accounted for by the extra selling days, how much was Easter please?

My second question has to do with your organic price mix. I know you've already guided for lower growth in FX neutral revenue per case in 2015 versus 2014, but I'm just wondering whether the flat price mix at Group level is something we should expect for the remainder of the year please?

And the last question would be on FX, I mean I understand this is a trading update, but given the significant movement in the price of the rouble since your last results in February, could you give us an update regarding your estimate of the negative FX impacts for the full year please?

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### **Dimitris Lois, Chief Executive Officer**

On your first question with regards to Easter, it's a bit less than 1%, so the four days, a bit less than 6%, and Easter a bit less than 1%. With that, underlying, this is the second quarter after Q4 that we have been growing.

With regards to your second question the revenue per case, I would like to start by saying that Q1 is not an indication for the year. That is a small quarter where we have seen both the Catholic and the Orthodox Easter being in this quarter, and usually in Easter we have more multi-serve products and multi-packs of multi-serve, obviously affecting the revenue per case.

With this in mind we reiterate that we will grow the FX neutral revenue per case, and as we said back in February, we will grow at a lower pace than what we have seen in 2014.

Now I will pass the floor to Michalis to cover your FX question.

### **Michalis Imellos, Chief Financial Officer**

Yes, hi Stam. Now at the time of the full year results in February we gave some guidance around the expected full year impact. And based on the spot rate of the rouble at the time which was around 75, we estimated that the total impact on the P&L would be around €200m.

Today, as we said with the improved spot rate on the rouble, which is around 58 at the moment against the euro, we estimate on a full year basis a negative FX impact of about €140m.

### **Stamatis Draziotis, Eurobank Equities**

That's very helpful, thank you very much. Thank you.

### **Michalis Imellos, Chief Financial Officer**

Just to say a couple of things because obviously this guides immediately to a €60m reduced hit from the €200m to the €140m. First of all we all appreciate that this is not realised yet, because it assumes that this 58 rouble to euro rate, which is the spot rate at the moment, will remain throughout the remainder of the year. And clearly the summer months are the most critical in determining the final impact for the year.

We also said back in February, we described that there were four levers which would mitigate the €200m negative impact that we were estimating at the time. And we explained that we would be able to flex those levers in accordance with how forex would progress during the year.

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So now that we have right now an updated situation, we will also flex those levers. So for example, pricing increases in the countries whose currencies have been devaluing sharply. These pricing needs are now moderating obviously.

The partial recovery of the oil price, which is actually what is leading to this rouble rate improvement, at the same time it's reducing the expected benefits to input costs, as you can imagine resin, and also fuel costs, which are particularly important in Nigeria.

The intensity of the self-help actions, we said that we would be moderating those if the FX was to improve, and this is actually the case.

And finally with the easing of this full year impact we have more room to support top line growth through additional promo activities wherever we deem that it is necessary, in whatever market we feel that it is necessary.

So while we are flexing all these levers we expect that most of the €60m in reduced hit in the full year will be offset by the flexing of these levers, so net-net we do expect that that were will be some benefit flowing to the bottom line, based on these updated assumptions, not all of it.

It's difficult to quantify it at this point because there are, as you can imagine, many moving parts; but once again all this will depend on whether the FX rate and mainly the rouble, will remain at the current levels, throughout the year, and in particularly the developments in the seasonally important summer months.

### **Stamatis Draziotis, Eurobank Equities**

That makes sense, thank you very much. And just a follow up, I presume that your guidance regarding FX neutral input costs per case down in the high single digits remains unchanged, is that correct?

### **Michalis Imellos, Chief Financial Officer**

At this point in time yes it remains unchanged, with the only proviso around the resin prices, because that's the only moving part there. All the rest we are practically hedged throughout the commodities there.

### **Stamatis Draziotis, Eurobank Equities**

Thank you very much, thank you.

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### **Telephone Operator**

Thank you and our next question is from the line of Charles Pick. Please go ahead.

### **Charles Pick, Numis**

Good morning, yes thanks very much. A couple of questions please. It looks as though constant currency sales were up 6.7%, can you give the figure please adjusted for Easter and the four extra selling days? And also the like for like volume decline adjusted for the extra selling days and the early Easter in the established region please?

And it is possible to give a flavour as to what Nigeria was like on a like for like adjusted basis, given that the SAP disruption effect did feature in Q1 of last year?

And finally on the FX issue, I appreciate you don't give EBIT data any longer, but would it be possible to give any sort of clue as to what sort of impact you've seen in the first quarter from FX, translational and transactional?

### **Dimitris Lois, Chief Executive Officer**

Okay, let me take your volume questions. So first of all for the Group the four trading days is a bit below...

### **Charles Pick, Numis**

It was revenue actually, it was revenue - revenue is plus 6.7% at constant currency.

### **Dimitris Lois, Chief Executive Officer**

So what's, sorry ...

### **Charles Pick, Numis**

Sorry, I was trying to gauge what the underlying revenue is on a like for like basis allowing for the early Easter and the extra four selling days?

### **Dimitris Lois, Chief Executive Officer**

Well that doesn't change, the underlying revenue doesn't change, you are talking about now revenue per case, or revenue overall?

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**Charles Pick, Numis**

Overall revenue?

**Dimitris Lois, Chief Executive Officer**

It's exactly the same, that's why I referred also to volume, it's 6%. So eventually translating the volume to revenue the four days plus the Easter is more or less a bit less than 6% and a bit less than 1%. So if you add those two that reflects also through the revenue.

**Charles Pick, Numis**

Okay, thanks.

**Dimitris Lois, Chief Executive Officer**

Now going to your established - again here your established, this is a volume question if I understand correctly?

**Charles Pick, Numis**

Yes, yes.

**Dimitris Lois, Chief Executive Officer**

Okay. Well the established reported grew by 3.4%, so applying the same rule with less than 6% on the trading and less than 1% on the Catholic Easter, that is a low to mid single digit decline. And looking at that and looking at last year, what we have seen and what is a point of encouragement is that the rate of decline is improving.

So going now to Nigeria, Nigeria grew by high teens and we are cycling, as you pointed out correctly, a low single digit decline versus last year. So even if you take out the low single digit decline and the four selling days, obviously we have a very strong underlying growth in Nigeria which is double digit.

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### **Michalis Imellos, Chief Financial Officer**

And on your FX question, so in the first quarter the negative impact was around €18m. Clearly this is, as we have said many times, quarter one is not representative because it's a relatively small quarter and in particular the months of January and February are very small, so it's March really that impacts this number. And because in March we did have a relative strength of some of the important currencies, I would say that the vast majority of this €18m was transactional, not translational.

### **Charles Pick, Numis**

Okay, that's very helpful, thank you for that.

### **Telephone Operator**

Thank you, our next question is from the line of Edward Mundy. Please go ahead.

### **Edward Mundy, Nomura**

Morning gents, two questions. First of all I was wondering whether you were able to comment on trading into the second quarter, given Q1 has got a fair amount of noise within it?

And secondly on your revenue per case, I think you mentioned in your opening remarks that you expect an improvement in revenue per case. Are you able to provide a bit more colour around that, in particular some of the headwinds on pack and channel mix that you faced in the first quarter?

### **Dimitris Lois, Chief Executive Officer**

Morning Ed, now in April trading obviously was impacted by the phasing of Easter and that's established and developing. But this was expected. So overall we are still on course with our plans for the year, and that's a year of growth.

Now on your second question that has to do with the revenue per case FX neutral, a couple of elements there to give you a bit more colour. Definitely the growth this year will be driven from emerging and within emerging from the countries that have adverse currency. Now here, take into consideration what Michalis referred to on the development, especially of the rouble, this will adjust the revenue per case growth on emerging; but definitely emerging will be a segment that will drive the growth.

Moving to established and developing, here what we have seen overall is a deflationary environment, and in this deflationary environment we are working consistently with our

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own OBPPC execution, while at the same time addressing affordability. So with this in mind and contingent to inflation, so moving from deflation to inflation in established and developing this will drive any potential growth on the revenue per case in established and developing.

### **Edward Mundy, Nomura**

Thank you, and just to follow up, on your emerging division, I mean Russia, I think the brewers have indicated that they've taken pricing about high single digit in the first quarter, are you able to quantify what pricing you've taken in Russia and whether you've got plans to put in more pricing for the remainder of the year?

### **Dimitris Lois, Chief Executive Officer**

Ed, we have taken high single digits pricing in Russia and as it stands right now we don't have plans for additional pricing. But we need to follow closely the developments of currency.

### **Edward Mundy, Nomura**

Great, thank you.

### **Telephone Operator**

Thank you and our next question is from the line of Andrew Holland. Please go ahead.

### **Andrew Holland, Societe Generale**

Yes hi, so when we're adjusting for Easter and for the four extra selling days, as I look at the business as a whole your volumes, depending on what exactly close to 6 and close to 1 means, your volumes are flat overall. The current market expectation for the full year is for a slight decline in volumes, to be precise 0.4% I think. Do you think that that expectation is possibly a bit too cautious given your performance so far this year? That's the first question.

The second question is just sequentially, I'm just looking at established markets which seem to be perking up a bit in Q4, in terms of volumes, and now the volumes have gone negative again, even though your currency neutral net sales revenue per case is down. Can you give any sort of reassurance that you're more optimistic about established market performance?

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### **Dimitris Lois, Chief Executive Officer**

Andrew on your first question, yes in Q1 net-net we have seen a growth in volume. So if you take the trading, four trading days and catholic Easter, the underlying net debt is positive. So we are welcoming a second quarter of positive volume performance.

On the second part of your question, yes we believe it's a bit cautious. Now moving to established what we have seen is a decline in underlying, again I would like to reiterate that is an improvement, a considerable improvement from the high single digit decline last year. This is mainly driven also from the market and I will pick Greece, Austria and Italy as the markets overall that have been affecting this decline. And for the rest of the year we reiterate that we are working to conclude the year with a stable performance overall for established.

### **Andrew Holland, Societe Generale**

Okay and just as a follow up can you give us a clue on what's happening to your immediate consumption package types, particularly in established markets?

### **Dimitris Lois, Chief Executive Officer**

In Q1 this has been also affected quite a bit from Easter. And I'm saying that because in Easter usually we have quite a bit of multi serve, and more importantly multipacks of multi serve. So these have affected a relatively small quarter with the multipacks growing faster than single serves.

### **Andrew Holland, Societe Generale**

Okay, thank you.

### **Telephone Operator**

Thank you. And our next question is from the line of Andrea Pistacchi. Please go ahead.

### **Andrea Pistacchi, Citi**

Yeah hi, good morning. I have a couple of questions please. The first one comparing to February your comments and tone seem to me a bit more confident, a bit more optimistic, not hugely but definitely more confident. So more specifically in what markets do you feel a bit more positive than you were three months ago?



And I don't know if Russia may be one of these, you guided - you'd suggested that you expected Russia could be down about mid single digit this year. Now against the most difficult comp of the year I think you said that underlying you were down mid single digit. So are things panning out there clearly probably not as bad as you thought and how does it feel on the ground there with the consumer? Is there any sense at all that things may be bottoming out?

And then lastly please on Poland and Czech which have been difficult for you for a number of years. Q1 very strong, of course we can't read too much into that because of the comps and that, but from an underlying point of view do you think we're turning the corner in these two markets?

### **Dimitris Lois, Chief Executive Officer**

Okay let me start with overall. Overall we reiterate what we have said in February, that we are working for a positive volume year and giving a bit more colour, having eventually the established stabilising, the developing growing and the total group growing. So with this in mind Q1 is a small quarter, definitely we are encouraged and we said that it's in line with our expectation.

Now going to Russia, still very challenging environment and we don't - at this point in time we don't believe that we will see a material difference for the rest of the year. We said that underlying is as per expectation for Q1, mid-single digits. And we expect that eventually this is where we will see overall the year around mid single digit. And we said that also we have very strong plans for the rest of the year, coping also with the difficult outside environment.

Now moving to Poland and the Czech Republic, very happy and very happy that our strategy that we have focusing is really paying dividends. And this is something that we will also see for the rest of the quarters and we do expect that this year both markets and overall developing will be growing and will be growing pretty well. So that's overall what we see with regards to the volume.

### **Andrea Pistacchi, Citi**

Okay thanks,

### **Telephone Operator**

Thank you. Ladies and gentlemen please be reminded if you would to ask a question on today's call press \*1 on your telephone keypad now.

Okay we have a follow up question from the line of Charles Pick. Please go ahead.

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### **Charles Pick, Numis**

Thanks. Yeah just two questions please. Can you please clarify how far out the hedging applies for the raw material situation? And secondly you've mentioned in the past that you would introduce the Monster brand into Russia as soon as possible. Is there a definite date yet please?

### **Dimitris Lois, Chief Executive Officer**

There is no definite date yet. We are expecting the closing of the deal between Monster and the Coca-Cola Company. And as you know we are with Monster in 12 of our markets and we are working for the rest of the markets, obviously Russia is one of the markets.

Let me turn to Michalis for the first part of the question.

### **Michalis Imellos, Chief Financial Officer**

Yeah as we were saying earlier practically on all commodities with the exception of resin we are almost fully hedged, certainly on EU sugar, world sugar as well, metal more than 80% - aluminium I mean more than 80%, and juice is more than 90%. Resin clearly it's the one that we at this point in time I would say including the actuals that have run up to this point, up to and including April, we are about 40% covered let's say including the actuals. So this is what remains open for the remainder of the year.

### **Charles Pick, Numis**

Right, thank you very much.

### **Telephone Operator**

Thank you. And we have a follow up question from the line of Ed Mundy. Please go ahead.

### **Edward Mundy, Nomura**

Thanks guys for taking a follow up. Just coming back to revenue per case for the full year. If I understand you right we're not looking at further price increases in Russia, yet the positive revenue per case momentum for the full year is going to come from the emerging markets. So do you plan to take further pricing in Nigeria, Romania? I was wondering whether you could provide a bit more colour around that.

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And second question is around the positive impact from operating leverage in the developing markets where it looks like volumes are going to have a much better year. I was wondering whether you might be able to quantify that?

### **Dimitris Lois, Chief Executive Officer**

On the first part Ed yes. On the rest of the emerging, overall we do have plans for additional pricing. So eventually that's why we reiterate that the growth on revenue per case FX neutral will be driven from emerging. Let me pass to Michalis.

### **Michalis Imellos, Chief Financial Officer**

So clearly with developing progressing very well in terms of the volume growth, we do expect some leverage. On the flip side this is volume that will come primarily from the organised trade so this is another factor which sort of reduces the impact of the positive leverage. We don't provide a specific number. It will depend very much on also the specific markets within developing that it comes from.

### **Edward Mundy, Nomura**

Great, thank you.

### **Telephone Operator**

Thank you. And we have a follow up from the line of Andrew Holland. Please go ahead.

### **Andrew Holland, Societe Generale**

Yes on a slightly different subject your peer at CCE John Brock has been quite outspoken recently talking about the possible merits into the Coke system of a single European bottler. Now that can only happen by bringing about some kind of combination between CCE and CCH. Do you share his view that there are merits to the Coke system from such a combination?

### **Dimitris Lois, Chief Executive Officer**

Andrew we have a very long and successful history of running established, developing and emerging markets together. And as I have also personally shared with you, we feel very blessed with the territories we have. And our business model relies on this balance

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between established and emerging markets. And obviously we discussed with the Coca-Cola Company very recently and we have renewed the bottling agreements for all of our territories for another ten years. So I think this kind of gives you a strong indication of where we stand.

### **Andrew Holland, Societe Generale**

Okay, thank you, that is indeed clear.

### **Telephone Operator**

Okay, thank you. And we have no further questions coming through so I will hand you back to Dimitris Lois to conclude. Thank you.

### **Dimitris Lois, Chief Executive Officer**

Thank you operator. And I want to thank you for joining us today and for all your questions that facilitated a good discussion around our first quarter performance.

Over the last few years we have set in motion a number of important strategic initiatives which we believe leave us in good shape to successfully respond to the challenges, the marketplace, and also to capture the growth ahead. In a volatile external environment we continue to focus on the elements we can control becoming stronger, leaner and more efficient. We have a very clear strategy and we know that when executed with excellence it works.

Our main objectives are winning at the point of sale every day and in every occasion, growing currency neutral revenue per case consistently while continuing to address affordability, 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. Thank you and look forward to speaking with you soon. Thank you operator.

### **Telephone Operator**

Thank you for joining today's call. You may now replace your handsets.

### **DISCLAIMER**

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