CCH – 2015 Q3 Trading Update
Conference call Q&A transcript – 5 November 2015

CORPORATE PARTICIPANTS

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QUESTIONS FROM

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Tristan van Strien, Deutsche Bank

Edward Mundy, Nomura

Andrew Holland, Societe Generale

Chris MacDonald, Redburn

QUESTIONS AND ANSWERS

Telephone Operator

Thank you. Just a reminder ladies and gentlemen if you would like to ask a question please press *1 now. And the first question comes from the line of Stamatios Draziotis from Athens. Please go ahead.

Stamatis Draziotis, Eurobank Equities

Hi there thank you very much for taking my questions. My first one has to do with volumes, I know you normally do not want to comment on the weather conditions, but given the quite impressive volume growth in the quarter I'm just trying to I guess get a sense of the underlying trends and a comment as to the extent to which you think this underlying trend can continue into next year?

Secondly on raw material costs, I understand you are still at the point of building your plans for next year, but could you maybe elaborate a bit on input costs and whether you are still anticipating a small increase in currency neutral cost per case next year please?

And my last question has to do with FX. I understand that emerging market currencies tend to be rather volatile, but I was just wondering, assuming spot prices and taking into account any hedges that you have in place what sort of transactional impact from currency do you come up with for next year please? Thank you.

Dimitris Lois, Chief Executive Officer

Let me take the first two questions and then Michalis will take your last two. First, we are very pleased with the volume we have seen in Q3. And here what is more pleasing is to see the sequential improvement quarter after quarter and I'm referring to the underlying trend.

You referred to the weather; the weather impact is really not an exact science, so I would not attempt to quantify it. What I can say is that without any kind of weather impact we have seen good growth, driven mainly by strong execution. And for this quarter also the easier comparatives.

Your second question has to do with overall year and looking at next year. So what I can say is that looking at the overall performance we are very pleased. We are very pleased to have delivered this very strong performance. And I would say in an environment that has not been easy to say the least. The progress we have made is the result of strong focus behind our strategic action and more importantly the execution from each and every country. So barring any unforeseen macro or geopolitical circumstances I'm very optimistic about sustaining this positive momentum. And with this let me pass now to Michalis for your input cost and your FX.

Michalis Imellos, Chief Financial Officer

Thank you Dimitris, good morning. With regard to the input costs for 2016, although it is a little bit early, as you said we are building our plans at this point in time, we have some good visibility with regard to some of the commodities because we are well hedged. So with EU sugar to start with we have already entered into contracts for about 70 to 75% of our exposures in EU sugar. And we see for those contracts a price which is pretty much in line with the 2015 price. And the rest of the exposures on EU sugar will be round about that price or maybe a little bit higher.

In terms of world market sugar we are covered already for Russia and to a large extent for Nigeria. There we expect to see a small increase next year. Resin is obviously the wild card, we cannot hedge and a lot will depend on the price of oil for next year. And in terms of aluminium we are over 70% hedged already and there net-net, taking into account price, conversion costs and delivery costs we see a small increase as well.

So all in all and subject to putting everything together when our plans are finalised, yes we still see a small increase on an input cost per case currency neutral for next year. But we will give you a more firm update and guidance in February with our full year call.

On your question about FX for 2016, there really it is very early to give a call. Of course we know that it will be a headwind again next year, not as big as what it has been in 2015. But quite where we are going to land it's very early to give a call; we will give some guidance again in February with our full year results.

Stamatis Draziotis, Eurobank Equities

That's clear, thank you very much.

Telephone Operator

The next question comes from the line of Tristan van Strien from London. Please go ahead.

Tristan van Strien, Deutsche Bank

Good morning from London. Tristan from Deutsche Bank here. Two question if you don't mind. The first one - can you just give a little bit more colour on the Russian market and where the decline is, whether it's in modern trade, traditional trade, or how we should think about that and what the trend will be in the next few quarters around that?

And then the second question you shut down a plant in Slovakia in the quarter and I just want to get a sense of the amount of closures and efficiency that you're driving, this quarter and for the next few quarters and how many production plants you actually have at this point in your European operations? Thanks guys.

Dimitris Lois, Chief Executive Officer

Morning Tristan, starting with Russia - so what we have seen is a quarter with approximately a 10% decline, cycling low single digits decline in the prior year. Now overall the market is also low double digit and we have seen an acceleration of the market decline in Q3. The additional reason here was headwind in weather, weather was not good.

Now all in all we have very strong plans and these strong plans is also including the launch of Coca-Cola Zero and we are very happy to see how this is evolving. We are also very happy to see our entry pack that we launched doing very well; so very strong plans. We don't see the next couple of quarters, and definitely Q4, the overall environment changing a lot. And with all that also we have to take into consideration that Q4 has four less days and we are cycling a pretty strong Q4, last year it was 4.5% growth.

With all that we do reiterate what we have said back in August with us targeting mid single digit decline and I would say broadly in line with the year to date underlying trend. Now moving to a Luka this decision to close down the production plant is part - as we have discussed of our ongoing restructuring programme. And here giving you a bit more colour in Central Europe we operate six production plants, and about 33 production lines. And those are with 330 kilometres distance between our plants. So the closure of the plant will obviously help optimise costs while continue to bring our customers and more importantly our consumers the best products and services.

I wouldn't like to sort of expand more, we have been working a lot on Established and Developing, and we have a bit more work to do. But the big opportunity lies behind the overall optimisation in Emerging.

Tristan van Strien, Deutsche Bank

Thank you Dimitris that was very insightful. Just to go back on Russia, do you see the retailer environment changing? I mean there's more and more volume growth through your key accounts, are they becoming a bit more aggressive in negotiations like the UK style or is this the same as has been?

Dimitris Lois, Chief Executive Officer

No Tristan, you're absolutely right, it's the organised trade that is leading the way versus fragmented. But we haven't seen a drastic change in the way we have been working together with all the big retailers.

Tristan van Strien, Deutsche Bank

Brilliant. Okay thank you very much guys.

Telephone Operator

The next question comes from the line of Edward Mundy in London. Please go ahead.

Edward Mundy, Nomura

Morning everyone three questions please. The first is on the revenue per case, currency neutral revenue per case which has deteriorated a little bit in the third quarter. On my estimates the impact from higher sales of water, the drag on negative product mix is about 50 basis points, is this broadly in line with your thinking?

Secondly Dimitris I think you mentioned you're very optimistic about sustaining the positive top line momentum into 2016, clearly you're not going to have the same degree of input cost tailwind into next year, so arguably you're going to have to take more pricing, could you perhaps provide a bit more granularity on what gives you this optimism, is it further commercial initiatives, is it new product launches, or are there some more costs that you can find which can help fund the weak revenue per case growth?

And then thirdly in light of the ABI SAB transaction, are there any opportunities for you to widen your footprint, in particular in Africa?

Dimitris Lois, Chief Executive Officer

Okay Ed let me start with your last question and then going backwards. Obviously it is a very consequential transaction and that is for the whole beverages sector. It is also public knowledge that there are many complexities which will take quite some time to resolve. So until such time as we have greater visibility on the final shape and obviously the timing of the transaction it feels a bit premature to be speculating too much about the overall broader implications and the impact overall all in NARTD business and in us.

Now let me go to your next question with regards to my optimism for the market for next year. So obviously there is a first element that has to do with the weather in Q3 this year and Q3 being our biggest quarter. And I have addressed that by saying that even if you eliminate the weather we feel good with the overall sequential improvement.

Now looking next year, first of all the external environment in Europe, we do see an overall stabilisation. We also believe that the overall deflationary environment will start moving towards a healthy inflation, approximately around 1% overall. So this will allow us to consider pricing initiatives.

We have very strong plans and those strong plans call both for marketing, working together with the Coca-Cola Company, very strong plans starting very early in the year. And we have very good momentum behind our execution, focusing mainly on the two occasions and that's meals with Coke and the socialising occasion; expanding our focus behind small baskets with the two SKUs that have been doing very well and that's the 1 and the 1.25 litres, focus behind our single serve multi packs; so very strong execution plans.

Going to the third question of yours with regards to revenue per case on quarter three. First of all we don't see anything materially different in established and developing from what we have seen in the last two quarters, and I'm referring to the deflationary pressures. I'm also referring to keeping and staying the course with regards to our strategy behind transactions, behind small baskets and behind additional points of interaction, always balancing with affordability and some targeted promo.

Now the difference in Q3 was obviously the water growth, and here if I can give you a bit more colour. In established the rate of the water growth was almost three times faster than sparkling, and in developing it was about six times. With this in mind and understanding that the price per case for water is less than half, obviously we can understand the impact.

Now let me make also a point. We are very happy to see that. We are very absolutely very happy to see the growth of volume, the growth of profitable volume, and obviously I am referring to that since this had a material effect on the revenue per case.

Edward Mundy, Nomura

And my estimate of about 50 basis points negative impact from higher sales of water, is that broadly consistent with your thinking?

Dimitris Lois, Chief Executive Officer

Let the IR come back to you on that, on the exact contribution.

Edward Mundy, Nomura

Okay great. And just as a follow up to the second question Dimitris you mentioned you've got very strong plans for marketing and working together with Coke starting in the New Year. Obviously Atlanta Coca Cola Company recently appointed James Quincey as Chief Operating Officer. You know what impact does that have on your business if anything at all?

Dimitris Lois, Chief Executive Officer

Well as a matter of fact I will start with the relationship, the personal relationship I have with James. We have been working very well in Europe. What you see obviously in 2015 is work that we have started together and all the business unit presidents back in '14, so an excellent relationship. And obviously James being in Europe understands extremely well the opportunities and the challenges that we have gone through. So very happy, we are very happy.

Edward Mundy, Nomura

Very clear, thank you.

Telephone Operator

Next question comes from the line of Andrew Holland from London. Please go ahead.

Andrew Holland, Societe Generale

Hi, two, maybe three questions. First one for Michalis, you gave us some very helpful and very explicit margin guidance at the first half. You talked about I think your expectation of flat margins across the business in H2 which obviously implied I think it was about 40 bps of margin growth for the year. Given the strength of your volume performance in Q3 do you think you may actually do rather better than that for the full year? That's the first question.

Second one is you just mentioned slightly higher marketing or you mentioned marketing plans for next year. Do you actually plan to increase marketing as a percentage of sales next year?

And then the third one, just to clarify Dimitris what you said on water. You were saying that's it's half the price of CSDs did I understand, or half the price of your average for the portfolio?

Dimitris Lois, Chief Executive Officer

Andrew let me take the last two and then Michalis will take the first one. Yes it is half the price of CSDs.

Now going to marketing it's rather early for next year, but giving a bit more colour on this year and focusing on established and developing, working together very well with the company, overall marketing has been stepping up, both in terms of quality and in terms of quantity. And with regards to quantity both established as a total spend and developing are a bit north of 20% versus last year.

Now on the total DME obviously we have the Sochi cycling that's why you don't see that as for the whole group. But for the two segments and also for emerging excluding Russia we have been investing quite a bit more.

Let me turn now to Michalis.

Michalis Imellos, Chief Financial Officer

Yes hi Andy. To keep things simple with regard to the margins, let me say that nothing has really changed our view following the quarter three results about the full year profit margin. We are confident that we will grow margins on a full year basis. And looking at the consensus as well we are comfortable with where the consensus is with regard to profit margins.

Andrew Holland, Societe Generale

Okay thank you, that's very clear.

Telephone Operator

We currently have no more questions coming through so just a final reminder ladies and gentlemen. If you would like to ask a question please press*1 now.

And the next question comes from the line of Chris MacDonald in London. Please go ahead.

Chris MacDonald, Redburn

Hello Dimitris and Michalis. If I might just ask, can you update us on your FX guidance for the full year? I believe at H1 you indicated that it would be around 155 million hit to EBIT, is there any update on that? Thank you.

Michalis Imellos, Chief Financial Officer

Yes in quarter three we saw a slight deterioration in mainly three currencies against the spot that we had quoted back in August in our call, namely it was the Russian rouble, the Ukrainian hryvnia and the Belarusian rouble. As a result we saw a small deterioration in quarter three over and above what we had quoted in our August call, it was around 10 million. For quarter four and where the spot rate is at the moment primarily for the rouble because that's what makes the difference, it is around 70 again.

So we would say that our outlook for the two months remaining for the end of the year are pretty much in line with what we were seeing back in August. So the only difference between what we quoted, the 155 that we quoted in August, and what we see now is what happened in quarter three, that's around an extra €10m, so the 155 becoming 165. And we have mitigated fully this 10 million primarily through some savings in resin because as we had also shared in August the FX and the resin savings move in the opposite direction, and the rest through some other revenue and cost actions.

So the 10 million extra has been fully mitigated. We see a full year of around €165m of negative FX and we see a slightly better input cost overall without changing our expectation for high single digit decline for input cost per case currency neutral. And therefore no overall impact to the bottom line.

Chris MacDonald, Redburn

Perfect, thank you.

Telephone Operator

We have no further questions so I'll hand back to Dimitris Lois to conclude today's conference.

Dimitris Lois, Chief Executive Officer

I want to thank you for joining us today and for all your questions that facilitated a good discussion around our third quarter performance. Over the last few years we have set in motion a number of important strategic initiatives which we believe leaves us in good shape to take advantage of the positive developments in our market and capture the growth ahead. We have a clear strategy and we know that when executed with excellence it works.

Thank you and we look forward to speaking with you again soon. Thank you operator.

Telephone Operator

Ladies and gentlemen thank you for joining today's conference. You may now replace your handsets. Thank you.

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