CCH – Q1 2016 Trading Update
Conference call Q&A transcript – 13 May 2016

CORPORATE PARTICIPANTS

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QUESTIONS FROM

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Chris MacDonald, Redburn

Charles Pick, Numis

Kenny Lam, Barclays

QUESTIONS AND ANSWERS

Telephone Operator

Thank you, so ladies and gentlemen if you would like to ask a question please press *1 on your telephone keypad. If you change your mind and wish to withdraw your question, please press *1 again. You will be advised when to ask your question.

And the first question comes from the line of Stamatis Draziotis, from Eurobank Equities Please go ahead.

Stamatis Draziotis, Eurobank Equities

Hi there and thank you very much for taking my questions. I have two questions if I may please. The first one has to do with price mix in developing markets. You referred in your press release to weak pricing in the Czech Republic and Poland in Q1, but you also made reference in your statement to improving pricing trends in Q2. I'm just wondering does this mean that we should be anticipating kind of flattish FX neutral net sales revenue per unit case in Developing markets in the full-year? Or do you think this may be somewhat optimistic given the deflationary trends? And will the improvement in any case be driving solely by price, or do you also anticipate mix benefits?

And the second question would be with respect to FX, if you could update us on the FX situation. At the last conference call you had guided for a €135m FX hit in 2016, when the Ruble versus the USD was close to 76, now the rate is close to 67, if you could give us an updated forecast it would be great? Thank you.

Dimitris Lois, Chief Executive Officer

Morning, I will take your first question and then Michalis will help you with the FX question. So first of all, yes, what we see in Developing is a persisting deflationary trend, especially in Poland and in the Czech Republic. With this we do see some small improving trends. So this is what we have seen in Q1, we have seen in Q1 a negative FX per unit case. This is improving versus last year, by almost 90 basis points.

Now looking to year end, yes, we are working to see also Developing, having a flattish revenue per case, and this obviously will further improve the current two percentage point increase that we have seen in Q1. There are two elements that see supporting, the one is the additional price, and the second, which would contribute more, is the overall pack mix. And with this let me pass to Michalis for the FX.

Michalis Imellos, Chief Financial Officer

Yes, good morning Stam. As we said in February earlier this year we guided to a total forex hit for the full year of €135m. And this was based on a Euro to Ruble spot price of 87 at the time. Today the spot price has strengthened to 74 Euro to the Ruble. And this is the main driver of the improved estimate for the total FX hit for the year to round about €115m. So a €20m improvement.

Obviously this improvement is contingent upon this Euro to Ruble spot rate continuing at this level until the year end. As you know the most significant period that affects the overall FX impact are the summer months. So these are the ones that will determine, to a large extent, what the full year FX impact will be. Now ...

Stamatis Draziotis, Eurobank Equities

That's said - that's very clear thank you.

Michalis Imellos, Chief Financial Officer

Just to say also that as we explained in the full year results call, the oil price growth that has driven the Ruble strength drives also resin cost growth. So I would say that around 50% of this projected €20m benefit is offset by a growth in input costs, primarily coming from resin. However, this does not change the fact that we expect input costs per case on a currency neutral basis for the full year to grow by low single digits, as we guided back in February.

Stamatis Draziotis, Eurobank Equities

That's very thorough, thank you very much.

Chris MacDonald, Redburn

Good morning, just if I may can I ask a question about Nigeria and if you could a little bit more context as to what's really driving that market. I know there has been a lot of benefit from new PET capacity and Tetra Pak and the like. But this is a very strong performance on the back of, I think, high teens growth in Q1 last year. How long can we expect this sort of run rate to continue?

Dimitris Lois, Chief Executive Officer

Yes, we are very happy to see the very strong momentum continuing. A couple of points, first it is the PET in sparkling, driving the overall growth. But we have also RGB growing, especially the 50cl. So that is one element.

The second element is that we have introduced additional packages and this refers the 600ml PET. And that's in one part of the nation only, for now. The second element - we are extremely happy with consumers and the reactions on our juice innovation, Pulpy. In Q1 we have seen growth of 45% and this almost nine months after the launch, so we are very happy to see that.

And then finally, also we are very happy to see a high single digit growth in Water. So all cylinders are firing.

Now with this in mind, looking ahead, obviously it is a very challenging external environment, taking into consideration the FX overall situation. We are very strong on Nigeria, we continue to see Nigeria as a key growth driver and we will reiterate what we said in our call - that we expect the year to close strong. Not as strong as last year, and last year was double digit, at this point in time and looking at the volatility ahead of us, acknowledging the very strong start, we believe the mid single digits, potentially going to high single digit is the year for 2016.

We have strong plans ahead; we have additional SKUs to be launched, so we feel strong about Nigeria. And with this obviously we need to see how the overall external environment will develop.

Chris MacDonald, Redburn

Thank you. And if I may must two more questions, again on Nigeria. Can you comment a bit about affordability, are still seeing negative price mix in the market to encourage this volume growth? And then conversely in Russia obviously volumes are down, FX weakness, what sort of pricing have you taken in Q1 or are planning for the balance of the year. Can you comment on that please? Thank you.

Dimitris Lois, Chief Executive Officer

Yes Chris, let me start with Russia, we have started the year with high single digit price increase, and obviously we are following very closely the market. As we have said in February we were expecting for the first semester of '16 more or less the same conditions, external market conditions as we have seen in '15 - that means for low double digit decline overall in the market and that is exactly what we are experiencing currently.

Still we will reiterate what we said, that we expect overall the year to be better than last year. We don't know to what extent better and we expect this improvement to start being more obvious towards to the second part of the year. So deceleration on the decline. We do plan for additional price increases; those price increases obviously will be contingent to the external environment.

Now going to Nigeria, absolutely affordability is a key element and we have been staying the course. Now for the first quarter we do see a positive price mix and we are very encouraged with our initiatives overall. Obviously here there are two elements; the first element is the pack mix. And that's why, as I said a little while before, we are also planning to introduce additional SKUs that will address mainly price points, that is affordability, while at the same time improving the revenue per case. So overall we do work and expect to see a positive price mix this year in Nigeria also.

Chris MacDonald, Redburn

Perfect, thank you very much that was very helpful.

Charles Pick, Numis

Good morning everyone, I have two questions please. Regarding the one fewer selling day effect in the first half, did it have a similar impact on the sales to the volume and will there still be one fewer selling day applying at the half way stage please?

And then regarding Nigeria, when PZ Cussons had their Q3 update in the middle of April, they were emphasising the difficulty of securing US dollars other than at the black market rate of about 300 to 340 in terms of the Naira/Dollar rate, vis-à-vis the official rate of 199. Has that situation applied in your case as well and has it been a particularly onerous issue?

And I wonder too if you can see if you're still on track to launch Monster in Nigeria in the second half to schedule? Thanks.

Dimitris Lois, Chief Executive Officer

Let me take your first and your last question and then Michalis will take the middle question. So overall on your volume question, yes, this one less day in Q1 - we will have one more day in Q4. So for the first six months, yes this one less day will affect overall the results. Eventually, closing the year, there's going to be the same days.

Now on the third question, yes we are launching Monster and that's going to be late Q3, early Q4 and we are very excited obviously with the energy category. We don't have something right now in Nigeria, so we are absolutely excited and obviously looking overall at our growth rates in the rest of our territories. This will contribute in Nigeria for this year and obviously for the years to come. And with this let me pass to Michalis for your other question.

Michalis Imellos, Chief Financial Officer

Yes hi Charles. Indeed the situation has become more challenging as the year progressed, particularly in respect of sourcing hard currency in the official market. Currently we are able to source something like 10% to 20% of our needs through the central bank of Nigeria auctions at the official rate, the 199 Naira to the Dollar.

We are working on a number of fronts to mitigate the situation. Obviously we are working very closely with the Coca Cola Company and our suppliers to manage the continuity of supply. We have executed quite significant resin pre-buys to cover our needs for a substantial part of this year. Where necessary we support the local operations with cash injections of US dollars, and of course we are progressively increasing the purchasing of raw materials in Naira at the negotiated rates with suppliers. So overall and given the fact that we are in an investing cycle in Nigeria we don't face a major issue in terms of cash flow, but indeed it is a challenging situation and we are reviewing continuously the mix of cash injections and local purchases.

Charles Pick, Numis

Okay that's very helpful. Thank you very much.

Kenny Lam, Barclays

Good morning all, thank you for taking the questions, three or four questions actually please.

Firstly can I just confirm that within your forex guidance there's no assumption of a Nigerian Naira devaluations in there?

And then secondly can you remind us of the strategic importance of Ireland to your overall business, because trading conditions seem to be remaining very challenging there and doesn't look like a fit to your overall geographical footprint?

And then my third is around your use of cash. With your net debt EBITDA likely to go below the 1.5 to 2 times range when should we be expecting an update to your use of cash? Obviously M&A is an option and there may be a few opportunities out there at the moment, but is it reasonable that we should expect before the end of this year, maybe as early as in August, to hear an update on that?

And then lastly I just wondered if you can give us an update on the tax back job in your footprint. I am thinking about soda tax debate in Russia, I thought there was a bill proposed in the introductions back in December but then got rejected later on. Just wondering where we are now. And in Ireland again the proposed introduction of a sugar tax and in Poland the on and off debate over retail tax and how would that impact your business? Thank you.

Dimitris Lois, Chief Executive Officer

Okay let me start with your last question, and then I'll take also your question on Ireland and then Michalis will take the other two questions. So in your last question starting with Russia, we are having a very constructive conversation with the relevant authorities to ensure first of all that our products are not unfairly penalised. A final decision has not been taken by the authorities yet. On April 13th the Prime Minister publicly declared that the 2016 state budget will not be corrected until Q4, and most importantly that the government is going to keep the promise not to raise taxes until 2018. So that is the situation with regards to Russia.

Let me move to Ireland. Again there is a consultation process with the industry. This consultation process is just beginning and we will engage and make our views very clear during the process. We have responded to the public concerns about obesity in a number of ways, offering greater choice to the consumer and that covers both product and packages, we have been raising awareness about the benefits of a healthy lifestyle and active living, and we have been offering very clear nutritional information about our products. Here I would like to give you a bit more colour on what we have been doing in Ireland. First of all we have rolled out colour coding nutrition labelling on pack across all of our My Coke range in 2015. We will continue and we will roll out in '16 including Fanta, Sprite and our local juice brand Fruice. This labelling system that we have been using is one that was developed by the UK Food Standards Agency.

On top I just want to share with you that a significant part of our portfolio sold in Northern Ireland would not be affected by the tax and we expect that we will grow that part further by 2018 as a result of our continued reformulation efforts and the continued growth of our low and no calorie range of beverages. Now since I am in Ireland, first of all Ireland is more or less around 4% of our total contribution, and I am referring to the volume contribution. We have seen a slow start in Ireland, still we're looking at the underlying trends, we are not that concerned, and we are working to have overall a positive year, a year where we will see volume growing.

And with this I will move to your last question, and if I remember correctly your last question has to do with the overall Polish retail tax. Now the Polish Finance Minister has proposed a progressive scale of tax on retailers, and retailers with no more than 1.5 million Zloty and that's monthly sales, are not subject to this tax. But the tax increases progressively to 1.4% on revenue exceeding 170 million Zloty. Now the plan is yet to be adopted by the cabinet and also needs lawmakers' approval, so it is very, very early days to come to a conclusion about the impact on our business. At this point we can confirm that the majority of our revenue in Poland is derived from selling to retailers big enough to be impacted by the tax. The impact on us is expected to be softened by the fact that the tax which would be passed to the consumer is supposed to be used for some fiscal programmes that will benefit the consumers' disposable income at the end. And with this let me pass to Michalis for your other questions.

Michalis Imellos, Chief Financial Officer

Yes and starting with the question on the FX guidance and whether it includes Nigeria, yes this 115 million that I quoted, that includes a certain assumption about rest of year devaluation of the Naira. Now going back to my earlier response to a question about how we manage locally, as I said there will be a blended strategy of local purchases and cash injections, so in this respect we have built a scenario that we feel quite comfortable about that we are looking at a potential 30% rest of year devaluation for the Naira in the achieved rates in the transactional forex, and that has been taken into account in our guidance.

Now with respect to your other question on the use of cash and the year in the balance sheet, we are very consistent about the use of cash. The first priority is to reinvest in the business to drive volume and revenue growth particularly as we see more and more of our countries in our territory accelerating the top line trends. Selective M&A opportunities is the second one, bolt-on acquisitions with a compelling strategic rationale to our business portfolio, so locally relevant brands. And returning cash to our shareholders in the form primarily of dividends, we have stated that we have a progressive dividend policy where our dividend per share will grow in line with a comparable EPS growth.

Now at the moment as we said we are in a net debt to comparable EBITDA ratio of 1.5. We believe that in view of the ongoing uncertainty and volatility this is not a bad place to be. It is a position that allows the flexibility that we need in our decision making, particularly with regards to those bolt-on acquisitions. And if after considering all these factors we find ourselves in the need to optimise the gearing, we would not rule out the possibility of a special dividend.

Kenny Lam, Barclays

Very clear, thank you very much.

Telephone Operator

We have no further questions coming through at this time so I will now pass the floor back to CEO Dimitris Lois. Thank you.

Dimitris Lois, Chief Executive Officer

Thank you operator. 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 leaves us in good shape to take advantage of the positive developments in our market and capture the growth ahead. We are confident we have the right initiatives in place to make further progress in the remainder of the year. Thank you and we look forward to speaking with you again soon. Thank you operator, and have a nice day.

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