CCH – Investor Day
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QUESTIONS FROM

Stephanie D'Ath, Bank of America

Sanjeet Aujla, Credit Suisse

Charlie Mills, Credit Suisse

Edward Mundy

Tristan van Strien, Deutsche Bank

Charles Pick, Numis

Chris MacDonald, Redburn

Andrew Holland, Societe Generale

Komal Dhillon, JPMorgan Cazenove

QUESTIONS AND ANSWERS

Stephanie D'Ath, Bank of America

My first question is on your revenue target of 4 to 5% constant FX, could you maybe split out what you expect on volume - do you expect to take share and grow faster than the 1.5% volume growth that you expect in your markets? And would the rest be price mix, or do you expect part of it to be M&A?

My second question relates to your margin guidance of 11%. If we look at consensus by 2018 it is at 8.1% today on VUMA which is the consensus that you collect I believe. Do you believe that expectations are therefore too low and that 8.1% which is only 60 bps out of the 350 bps you expect in the next five years should be revised?

And then finally in terms of input price inflation and FX assumptions, what did you take into account? And more particularly maybe on the Naira and the fact that sugar prices have gone up a lot recently? Thank you.

Dimitris Lois, Chief Executive Officer

Okay, let me take your first and second question and Michalis will help me on the third one. So the first - there are two contributors to the top line growth, to the 4 to 5% average annual FX neutral revenue increase. The first one is volume and the answer is yes our target is to outperform the market. With this in mind with regards to the value there are a lot of initiatives that we heard from Zoran covering the revenue per case element. These initiatives include the focus behind OBPPC extended to and supported by the occasions, the two basic occasions that we would be after. Obviously HORECA and the overall drive in single serve, we have a momentum and we are working to accelerate this momentum. And there is an energy element, so there is an overall category element and focus that is going to be supporting that.

On top there is a pricing element. And this pricing element is supported by what we see with regards to the outside environment and I'm referring to the deflationary environment moving slowly to inflation. Obviously the '16 to '17 period - this is going to be a bit slower and then we expect acceleration, '18, '19 and '20. So those are the key elements we see with regards to the top line growth.

The second question was - could you remind us of your second question?

Stephanie D'Ath, Bank of America

So the margin guidance of 11% implies 350 basis points expansion, if you look at consensus the latest number we have is I think 8.1% for 2018, therefore it looks like everything is back loaded if we assume consensus goes in line with your guidance. Would you believe that there should be more expansion shorter term rather than longer term?

Dimitris Lois, Chief Executive Officer

Okay, obviously yes there are two elements, we are not giving specific EBIT margins for the two periods, but we are giving elements that would allow you to build your models. And this is the 4 to 5% annually - average, on the average increase in the top line. And obviously we are giving the end destination with regards to OpEx as a percent of revenue, 26 to 27% versus the 29.2 and the 11%.

So I'm sure that with this number you will be able to develop your models and with this to see what exactly would be according to your model the EBIT margin in the years to come. But obviously with what we have been sharing today I believe that it is more aggressive than what we have seen overall with the VUMA estimates. And with this let me pass to Michalis for your FX question.

Michalis Imellos, Chief Financial Officer

Your next question was about input costs, FX and specifically Nigeria. So in terms of the input cost and the FX we have taken general industry assumptions about the evolution of commodity prices and our key rates for the next five years. If you look at our case for the Group input costs, probably you should look at an average over those five years of low to mid single digit increase on an annual basis.

When it comes to FX clearly there is an expectation of a general stabilisation of our currencies, of course with continuing depreciation because we are taking primarily about emerging markets, but not to the magnitude that we saw in 2015 and 2014.

And specifically about Nigeria we said in our last call that we are already looking to see how we are incorporating in our expectations a significant devaluation that is imminent in Nigeria and we expect that, assuming some stabilisation after this significant devaluation, we can hope that for Nigeria as well we will see after 2017 a progressive depreciation of the currency.

Stephanie D'Ath, Bank of America

And can I maybe just on the first question because you answered the price and the volume - the revenue per case and the volume element, but are there any M&A assumptions built in on the 4 to 5% given it's constant FX and not organic?

Dimitris Lois, Chief Executive Officer

No. This is organic it does not include any M&A.

Sanjeet Aujla, Credit Suisse

Hi, can you just talk a bit about how you expect your A&P ratio to evolve over the next few years please?

Dimitris Lois, Chief Executive Officer

Our?

Sanjeet Aujla, Credit Suisse

A&P.

Dimitris Lois, Chief Executive Officer

DME? [Direct Marketing Expenses]

Sanjeet Aujla, Credit Suisse

A&P - advertising and promotion.

Dimitris Lois, Chief Executive Officer

Okay, advertising. What we have seen in '15 is a substantial increase of our DME and especially looking at our Established and Developing to the tune of 20%. We believe that currently we are at a good level and at this point of time we see that the overall DME will increase appropriately, looking also at the revenue increase. So that's what we see for the next couple of years.

Edward Mundy

Hi, thanks for the presentation. I was just hoping to perhaps drill into the volume growth drivers and then also the revenue growth drivers. Where do you think is the most low hanging fruit, where is the most opportunity to really dial up execution on both of those two fronts?

Keith Sanders, Region Director

I think from the volume perspective I think clearly you saw the opportunity that we're gaining just through the updated EDS [Every Dealer Survey] and our route to market. So we've built the capability there and that's a competitive advantage we really have versus other players in the market. So that's a definitive opportunity just through horizontal and then the vertical growth in the existing outlets that we optimise and service.

In terms of overall volume, as the markets continue to improve after 2017 because of our per caps level within the respective markets, and the overall per caps relative to a more developed market as Dimitris outlined, that's also a significant opportunity in terms of tailwinds, so we're going to get that also. Now that's less in terms of our actions, but it's certainly an opportunity that we see going forward.

We still have an opportunity in getting cold drink equipment in the top end of the trade, we don't have 100% penetration in platinum or gold outlets, we're continuing to invest in cold drink equipment. And that's not only just a volume opportunity, but it drives the right mix and the right package. So that's an excellent opportunity that also drives revenue.

I could go on, but there's quite a few really sizable opportunities that we have. If you look at the occasions we've identified the top four and those are - they are waiting to be capitalised on if we address them appropriately with our customers and we are doing that from our partnership with Coca-Cola, how we approach these occasions to how we execute and how we leverage the value with our customers.

And as I indicated that 2 billion from those occasions is only if we penetrate each of those four occasions with one additional drink per week. Now that comes back to the per capita discussion, but it's a significant opportunity. Now as we do this we also try to leverage the revenue at the same time so we have the right balance and that's my segue to you Zoran.

Zoran Bogdanovic, Region Director

Well, to build on that I would say three things. One is exactly the occasion piece, we're being very, very sharp on these top two occasions of meals and socialising, especially because that connects with the second point where single serves, on which, over the last few years and going forward we really put a significant emphasis and knowing how higher NSR per case those packages have versus the rest of the portfolio this is definitely something that we would see as - as you call it lower hanging fruit.

And the third element is the HORECA channel; this is really where our whole portfolio plays in so well. And in the last couple of years especially because of the mixability opportunity that we have where we connect really our whole NARTD portfolio. So these are the three things which I really think will drive the value.

Edward Mundy, Nomura

Thanks, and just to provide a bit more colour on how that fits into cash flow. I think on slide 68 you showed the marketing equipment is 24% of the Capex budget, as Capex goes back to 5.5 to 6.5% of sales are we going to see coolers as a proportion of the Capex budget start to rise, which is then going to drive increased penetration into HORECA and more single serve and that nice virtuous circle?

Michalis Imellos, Chief Financial Officer

Ed, this is going very much in line with the progressive recovery of the HORECA channel and generally the immediate consumption channels. So as Dimitris, and Keith, and Zoran highlighted about the prospects of recovery across our territory this channel is the one that was significantly impacted by the crisis and it's exactly the one that poses the biggest opportunity going forward. So it will be very relevant to increase our investment as this channel gets back into a growth trajectory.

Tristan van Strien, Deutsche Bank

Thank you very much. Just three questions, the first one on Water, it's obviously a growth driver in terms of volume, but also appears to be revenue dilutive on a per case basis. So I guess the question is - is it also margin dilutive? And how exactly does the concentrate model work on that one, and brands like Neptune does that also play a royalty or powdered water fee to Coca-Cola I guess?

The second one is on your Board, have they - which is an indirect way of asking is Coca-Cola agreeing with your margin target by 2020, basically?

And then the third one, I guess specifically to Keith, how is the RAD and your Every Dealer Survey, these are all programmes that Coke has being doing for years, they have they golden path, they have always had these types of programmes when you look at your bottler presentations ten years ago, the exact same thing. How is this different?

Keith Sanders, Region Director

Okay, I'll take that one first and then the others - I think Michalis it would be best if you took it. Every Dealer Surveys are out there, but when you look at our portfolio of countries the capability to do an Every Dealer Survey isn't the same and isn't established. In Russia there weren't many agencies that did Every Dealer Surveys. And because of the volatility of our markets over the last five years the retail landscape has changed dynamically. So as outlets mature and the retail landscape matures it changes a lot and in our territories particularly there's been dynamic changes in the retail landscape over the last five years.

So the process of course is better, smarter, with GPS, etc., so you can build the capabilities. In some cases we do it ourselves. But the opportunity that we're getting from it now is enormous. They might not get for example in the US where they know where every dealer is and it's very clear. So both the combination of the evolving retail landscape, the changing types of customers, the closing and opening of different convenience stores, specialty outlets, in our territories particularly creates an immediate, sizeable opportunity.

So I think the difference between what they did before, what we do now, is the approach and the capability, because all bottlers don't do that internally, some hire out others don't. But I think the size

of the opportunity now, the time is right for us emerging out of a challenging environment with a lot of changes in the market provides significant opportunity for us. So the difference I think is the size of the opportunity immediately now for us.

Dimitris Lois, Chief Executive Officer

Tristan let me take the second one with regards to alignment - absolutely. And alignment starts at the top line, alignment starts aggressively increasing the top line. So what you have seen, the 4 to 5% definitely is something that we have been working together. From then on obviously the work that we have been doing and we will continue to do with regards to costs, which translates to the OpEx as a percent of revenue results to this 11%, but everything starts with the top line, so the answer is yes we are absolutely aligned and aggressively pursuing the top line growth.

Michalis Imellos, Chief Financial Officer

Tristan I will take the question on Water, everything you said is factually true in the sense that Water in terms of revenue per case, and ultimately in terms of margin on the face of it is dilutive to the overall Group figures. However, as you have seen first of all from the presentation of Keith we have done a good job over the years to grow revenue per case of Water. The focus on single serve, the focus on the right occasions also for Water and back to the point that Ed earlier asked, immediate consumption and HORECA is growing and we associate Water with the right occasions that is driving more single serve and is driving more value. That's one thing.

The second thing is the fact that we have seen sometimes Water potentially growing, or outgrowing significantly the growth of other categories, but that's more of a one off situation. We saw that last year in the summer because of the very hot weather conditions and that really affected the mix. But this tends to be kind of a one off. We have of course put certain assumptions in this case that we have prepared for the growth of Water, it is a significant opportunity and whenever we add potentially more volume, either because of the special occasions, or through M&A, yes it can be dilutive, but let's not forget that it is always incremental as revenue and as profit. So we will always welcome incremental profit over potentially diluting a little bit some of those metrics.

So we will continue to optimise revenue per case and bottom line margin, because there are also some cost efficiencies that we can drive for the Water in the Water model. Also within the bolt on acquisition strategy, finding the appropriate brands, locally relevant that we can add to the portfolio, they can be sometimes brands that are more relevant in the modern trade than the IC and then upon acquisition they might potentially be more dilutive, but certainly incorporating them in our portfolio and driving them and making them available also in the immediate consumption can increase further the value.

Charles Pick, Numis

Thanks very much, two questions please. On the average 1.5% per annum for the volume growth, can you quantify that please between the 2016/'17 period and the '18/'20 periods, you've done it on slide six and seven effectively for the Established and Developing countries, but I wondered if you could give it in aggregate?

And secondly will there be any increase in concentrate costs in this period and have you allowed for that?

Dimitris Lois, Chief Executive Officer

No we have not allowed and we don't expect that we will have a concentrate price increase in this period.

With regards to the 1.5% if you will see the first two years, '16 and '17 is flattish and then towards '18 to '20 it's a bit close to 3%. So the aggregate between '16 and '20 gives us this 1.5%. Yes it's slide five.

Chris MacDonald, Redburn

Thank you for the question. If we look at the slide deck, the release today and the implied uplift to 11% margin, within that your OpEx as a percentage of net sales guidance suggest that about two thirds of the cost or the two thirds of the uplift is costs to come out of the business through managing your OpEx. And historically you've talked about your cost savings programme in Established and Developing being most of the way complete with Emerging being the main market where this is going to come from. And I was wondering perhaps if you could expand and give us a bit more context of details on cost savings programmes or areas - Nigeria and Russia in particular where this might come through?

Michalis Imellos, Chief Financial Officer

First of all certainly there are optimisation opportunities and I referred to some of those both on the Established markets where - or Europe as we call it, borderless Europe where potentially we are coming towards the end of the optimisation agenda. And Emerging markets where we started a couple of years ago and we are focusing now a lot on Russia and Nigeria. And that's both on production infrastructure front, with potentially consolidation of plants, ensuring that we have more productive, faster lines in our plants in order to increase capacity without potentially expanding too much on the cost. And also in Nigeria.

However I want to emphasise again that even though we will have cost efficiencies driven by this programme, the massive or big part of the OpEx as percent of revenue reduction will come from the operating leverage. In other words the fact that we have a very efficient base with utilisation that has still room to increase, and with a growth of volume and revenue that was described by Keith and Zoran that we anticipate in the next five years, putting this on this lean and efficient machine that we have already created and we continue to optimise is exactly what will give the boost to OpEx as percent of revenue and therefore to the margin.

So what is a little bit of a paradox here is that you see OpEx as percent of revenue going down dramatically, you would immediately assume that there is a major cost cutting programme potentially that is happening but that’s not the case. We will continue with our efficiency and optimisation programme but it is putting more volume, substantially more volume and more revenue on this lean base which is going to drive the reduction of OpEx as percent of revenue and therefore margin. This is the very essence of what you have heard us many times say about the significant opportunity for Hellenic that operating leverage poses.

Andrew Holland, Societe Generale

Just following up on that, so help me understand how this operating leverage works through and whether there is any sort of big uplift in Capex that's going to be required. I mean if you're talking about simply sort of more efficient production lines, so presumably more cans per minute and so on, does that require you to increase your Capex and should you be giving us a bit of a clue about where that's going to go over the next three or four years that you haven't?

And then just related to that, my memory from when things started to go pear shaped back in 2008 one of the first things you did was to cut a lot of sort of seasonal workers, perhaps a lot of salespeople. Is there a danger as your volumes pick up that you're going to have to put those jobs back into the system and therefore diminish that operational leverage?

Dimitris Lois, Chief Executive Officer

Let me take the second one with regards to sales. Andrew you have been following us developing our route to market and we are extremely proud of the capabilities we have developed. There are three objectives in route to market. The first one is obviously accelerate the top line and that is revenue per outlet. Second is improve the service and that is relationships. And there is a third one which is improve the overall cost efficiency.

Now as we do this and as you have seen from Keith's presentation we segment the market which means that the platinum, gold outlets are those outlets that in the vast majority are being serviced by us. And from then on there is a very detailed selection of wholesalers with two key priorities. First data sharing, and the second one the one number that is core is with regards to distribution of the top 20 SKUs. With this what I am saying is that we feel very confident with our sales force and we feel absolutely confident with the route to market evolving and obviously having the EDS now being an extended part of that that we have absolutely no risk as the volume increases.

And with that let me pass to Michalis for your second question.

Michalis Imellos, Chief Financial Officer

Okay so there are a number of things that can happen and will be happening which will increase the volume that we service on our infrastructure base. So for example let's start with the fact that the utilisation of our assets today is not at 100%. I showed some numbers in my slides, on average we are somewhere around 60%. So already you have a lot of space that you can utilise by putting extra volume on this line without spending anything extra. So that's number one.

Second one is service line efficiency which there are a number of ways to increase the line efficiency of our production lines. As you grow the line efficiency of a specific production line practically you increase its capacity, because you can produce more volume on a faster line and so on and so forth. So that way, simply by addressing line efficiency and continuing to grow line efficiency, you are growing also the capacity, further, of the line.

The third one is what I mentioned earlier that within the 5.5% to 6.5% of revenue of Capex spend, and let's not forget here that as revenue grows Capex also grows for the 5.5% to 6.5% to stay in that range, we have specific plans, we had them and we have executed them in the borderless Europe territory, in the Established markets primarily. We are doing this also now in Nigeria and in Russia,

whereby by retiring two for example smaller, slower lines and installing a bigger capacity faster line you are utilising this Capex investment to increase far more your capacity than the capacity you had previously with the two older lines. And by the way you are more efficient as well so you drive the cost down.

So these are just three very quick ways through our actions which, without increasing significantly the P&L cost of our production overheads or the Capex investment, we can increase the volume that we can put on this what I called earlier lean and efficient machine.

Andrew Holland, Societe Generale

Could I just press you on your capacity utilisation, 60% where do you think that can get to? What is your optimum utilisation?

Michalis Imellos, Chief Financial Officer

For example we have an aspiration over the midterm to raise it to 70% or even slightly above that. So that will give us some significant space for extra volume on this infrastructure.

And as I said that's just one of many other ways to increase overall the capacity. Line efficiency is another one, Capex investments to invest into faster and more productive lines is another one.

Charlie Mills, Credit Suisse

Maybe a cheeky question but since both Stefanos and Ben are here I wonder if they could tell us what the current state are of the Russian and Nigerian markets, challenges they're facing particularly with what we read about oil price and the respective currencies?

Dimitris Lois, Chief Executive Officer

Absolutely.

Stefanos Vafidis, General Manager Russia

Thank you very much for your question. Well practically I have no big news as already we have shared earlier, the market is still on the downturn. We see negative trends stabilising though and enjoying a little bit the currency movements for the time being. But we stay with our original expectations that we expect the market to recover in the next year, gradually until that point. So for the time being this is the outlook we have.

Ben Langat, General Manager Nigeria

I don't think it's very different for Nigeria. A lot of spend in the country and in the government is really pegged to the oil revenues and so some of the regions in the country that depend on government allocation of funding has to come from that. So for the time that the oil revenue will not have recovered we still expect to see a stressed economy.

There are things that are happening to try and diversify that like try and reduce the input bill. There are some agricultural inputs that are going on to try and develop and diversify the economy more which I believe in the long term will help to reduce the stress from this coming up.

In terms of the exchange rate regime it's also very unpredictable as you would imagine. There are many numbers being floated around. We have built in various scenarios on how this will pan out and really see what opportunities we can be able to take should it get to any of those levels, but in the short to medium term we still expect that there will be a devaluation in the country but we are prepared for that and have put in strong contingency plans. Thank you.

Dimitris Lois, Chief Executive Officer

If I can add Charlie I think the stabilisation to the $50 [oil price] is a nice place to be. Also I don't think that the markets were expecting that this will happen at this point of time so it's definitely a good place to be right now for obviously both of our markets.

Is there anything from the webcast?

Facilitator

There is nothing yet.

Question

Sorry just two quick questions. What's the typical cost of a high speed line in one of the 28 countries you operate in?

And secondly, following on logically from what you were talking about on the Capex front a few minutes ago, surely your ratio ought to come down well below that 5.5% as a percentage of sales over time.

Dimitris Lois, Chief Executive Officer

So addressing the first one, I mean this depends a lot on the different elements that eventually would be part of this line. I would say more or less between €15m and €17m to €20m, depending on what exactly is the configuration of this high speed line. High speed line is to the tune of 40 plus, 42,000 PET 500 ml bottles per hour. So this is the basis. Obviously the packaging configuration, the flexibility the line has and so on and so forth adds up to what the eventual number would be.

On the second one if I understood correctly what we are referring to is that in the period medium term 16' to 20' we foresee that we will stay in the 5.5% to the 6.5% of revenue for our Capex.

Question

Sorry, it just sounds as though you expect to be squeezing far more out of the existing infrastructure plus some modest spend on these new extra high speed lines, so logically if you're correct on the turnover growth that you're projecting, the Capex to sales spend ought potentially to come below the 5.5% by the end of the period?

Michalis Imellos, Chief Financial Officer

Yeah, however Capex also includes coolers and as we said earlier it's a key element of the growth strategy. And also some other items with regard to plant maintenance or extensions, warehouses, there are a lot of other elements; it's not just production lines that go in there.

Komal Dhillon, JPMorgan Cazenove

Dimitris you talked about more active M&A strategy going forward and obviously you talked about the changes in the Coke system, so which geographies would you be targeting specifically?

Dimitris Lois, Chief Executive Officer

So from the more active M&A now we go to which geographies you are targeting?

[Laughter]

Question

Yes you were expecting this one.

Dimitris Lois, Chief Executive Officer

I like this bridging.

So let's sort of reiterate what we said to make sure that we're not going to get carried away. We said that we reiterate absolutely our focus and what we have been sharing with all of you to grow our top line, and right now the scorecards call for a 4% to 5% annual average growth and that's FX neutral. And eventually expanding the efficiency that would allow us to flow through and go back to the pre-crisis EBIT. So that continues to be our top priority.

As we progress, as the markets are getting better what I said is yes, we're going to be more active with M&As and here the first element under M&As is what we have been loud, juice and water. If and when there are opportunities with regards to geographic expansion and those opportunities are under the umbrella of being consistent with our strategy, we are a growth company, and also financially sound, yes we will look at them. We have we believe great experience in emerging. We have Russia and Nigeria, it cannot get more emerging, so we feel that doing what is right for our shareholders we will review the opportunity whenever that comes.

Stephanie D'Ath, Bank of America

Maybe a follow up on that one. What is the maximum leverage you would be ready to take were you to do M&A?

And a second question, in terms of your mix is it fair to say that about 60% of your revenues are sugar-added products and where do you see that mix going forwards? Are you expecting carbonated soft drinks or the sugar added carbonated soft drinks to decrease in the mix and what would be the impact on the margin? Thank you.

Dimitris Lois, Chief Executive Officer

Well starting with the second question, in the next couple of years I think that the highest growth will come from low, zero sparkling beverages along with energy. So those are the two categories that in the next couple of years will expand the most. And we have seen very good evidence of that, even in '15 and in the start of the year. So sparkling overall, and especially taking into consideration the per capita consumption and I'm not referring only to Emerging, I'm referring also to Established. And a

very good example is Italy being 40% lower in per capita consumption versus Bulgaria. So good opportunity in sparkling. Within sparkling yes it's going to be the low, zero calorie that's going to be growing at the highest speed, and energy.

Now going to NCB, to non-carbonated beverages which is 31% of our volume our market shares there are a lot lower than the 40% you had in sparkling which means that there is an organic greater opportunity for growth, and on top of that we said that we are targeting to accelerate through M&As. So that gives you I believe quite a bit of colour with regards to the mix of the products and categories. And I'll pass to Michalis for your first question.

Michalis Imellos, Chief Financial Officer

I haven't got an awful lot to say. I mean if there is such a situation we will look at our options. You are asking a question that pertains more to the structure of a deal so it depends very much on the nature of such a deal and what available options we have, and we will consider then our strategy. But there isn't a specific number that I can give you now in terms of target leverage.

Dimitris Lois, Chief Executive Officer

Anything else?

Good, then we would like to thank you for the discussion and the dialogue. We want to thank you for availing yourselves to be with us and we look forward to continuing this dialogue and definitely let's spend some time together enjoying a Coke or anything else you might like to mix with Coke.

[Laughter]

Thank you.

END

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