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PRESENTATION

Gerry Gallagher – Deutsche Bank AG – Analyst

Good afternoon, everybody. I think we'll make a start now. My name is Gerry Gallagher, I'm one of the consumer analysts here at Deutsche Bank in Europe working out of London. And it's my very great pleasure this afternoon to present the senior management of Coca-Cola Hellenic Bottling for you. We have Michalis Imellos, the CFO; and Basak Kotler, the Director of Investor Relations.

How I propose to do this session this afternoon is I will be doing a fireside chat format. I will start by asking half and a dozen or so of questions and at that point, I will open it up to the floor to see what questions you guys have for the team. So on that basis, we'll proceed from here.

QUESTIONS AND ANSWERS

Gerry Gallagher – Deutsche Bank AG – Analyst

So guys, the first question I'd like to ask you is in terms of your growth model, when you talk about that you talk about increasing the quality and quantity of marketing and your in-store activation. Could you help us understand a little bit more and put some meat to the bones on those two terms and how they work within your strategy?

Michalis Imellos - Coca-Cola HBC AG – CFO

Yes, sure. First of all, the way that marketing works within our system is that The Coca-Cola Company is responsible for all the consumer marketing. Whereas, we are responsible for all the customer-facing marketing, the execution in the outlet.

So what happened in the last couple of years is that there has been a change in the quality and the quantity of marketing. First of all, with Coke launching the One Brand strategy where Coca-Cola is the master brand within which you have the different variants, the sugar, the zero, the stevia, and so on and so forth. And this has really unified the advertising campaign, which has created a lot of synergies in the way that the brand is marketed.

The second thing is the whole Taste the Feeling campaign, which was quite a change in the way that the product has come in the forefront of the advertising campaign and links it with the consumer and the different occasions where the product is consumed.

Also, what is important is that our overall spend as percent of revenue, if despite the many years of crisis has been kept at fairly stable level as a percent of revenue and as gradually the markets in our territories, in our footprint are recovering, we will be slowly growing our marketing spend as percent of revenue.

Gerry Gallagher – Deutsche Bank AG – Analyst

If I could just move on. Could you talk a little about one of the favourite subjects at the moment of how you see the business positioned in terms of the overall move globally towards healthier hydration?

Michalis Imellos - Coca-Cola HBC AG – CFO

Yes. So there has been a step change in the way that innovation in our portfolio has been coming along. So virtually -- first of all, on the Sparkling, virtually all innovation is on the low-calorie side, on the light variants. Whether we are talking about Coca-Cola with stevia and a number of different variants, we recently launched in Greece a stevia with zero calories. Coca-Cola Zero with lime. A lot of reformulation also in Fanta and Sprite. Fanta with 30% less calories, Sprite low calorie and some new flavours.

Also, within other premium brands of Sparkling, the variant that we are looking at are low calorie. But also on the non-Sparkling, there is quite an expansion in the portfolio, some premium Water like the SmartWater, which is already launched in the U.K. Also, we are going from January 2018, with new tea, FUZE tea, and also later launch a premium version as well.

A lot of innovation also in Juice. And coming also in the coming years, the plant-based diary. So there is a lot of new categories, formulas and variants, which are on the lights direction. And also within Original Taste Coca-Cola, you will find that our entry packs are getting smaller and smaller and starting to give the consumer the opportunity to enjoy Coca-Cola at a lower calorie portion. So definitely the focus is there.

Gerry Gallagher – Deutsche Bank AG – Analyst

In terms of your last Investor Day set of slides, I think you showed currency-neutral revenue growth of about 4% to 5% over the medium term was the aim for the business. Could you put some more meat on the bones around that 4% to 5% and help us see how we can build that number up in our own modelling?

Michalis Imellos - Coca-Cola HBC AG – CFO

Okay. So we have laid out the model based on some core assumptions. First of all, the CAGR for 2016 to 2020, for the market, for our territories, for our footprint, been around 1.5% growth per annum, 2016 to 2020. Now 2016 and 2017 being, I would say, a little bit slower growth, primarily because of the situation with Russia and Nigeria going through the years of crisis. Whereas from 2018 onwards an acceleration of the volume growth as a result primarily of these two countries getting back into a growth trajectory and also Europe slowly, slowly recovering year after year.

Then on the revenue per case side. In the first couple of years, of 2016 and 2017, we will see a higher growth as a result of the fact that in Russia and Nigeria we are taking more aggressive pricing to recover the impact of the ForEx. Whereas 2018 to 2020, we will return to a more normalized growth.

So there is a rebalancing in how the volume and the revenue per case will grow. In the first couple of years, volume, slower, whereas, revenue per case, faster. In the subsequent three years to 2020, volume will accelerate, whereas, revenue per case growth will normalize.

Gerry Gallagher – Deutsche Bank AG – Analyst

I just want to continue from some of the Investor Day slides and maybe look at margins a little bit. You are targeting margins of around 11% by 2020, and I've looked at some of the slides you provided at the Investor Day, it looks like you're factoring in quite a bit of negative assumptions for FX and input costs. To what extent do you think the 11% is achievable? Maybe it's slightly conservative, given what appear to be some big negatives you're factoring in. And how big could the upside be? Could you help us with the delta on that? Just talk around the overall margin guidance and the components. And that point, I make it with the FX and input costs gives me at least some comfort around the achievability of the number.

Basak Kotler - Coca-Cola HBC AG – IR Director

Actually, with the expectation of that question we've brought a visual aid from our Investor Day to help the audience.

Michalis Imellos - Coca-Cola HBC AG – CFO

Okay. So the margin recovery story back to pre-crisis level margins is really -- consists really of four pillars. The first two being the volume leverage and the revenue per case leverage, and I will come back to it. Third one being cost efficiency. And there is the fourth one, which is the ForEx and the input cost in our business.

Now the first three are pillars that are in our control. It's based on our own actions in the market and execution. The fourth one, FX and input cost, is really a pillar that we do not control. It's really something that is happening out there and impacts us.

Now, Hellenic has gone through a major restructuring program in the years of the crisis, starting from 2009 and I would say, completed recently, which, in few very few words, reset the fixed cost-base to a much lower level than before. And at the same time, kept the capacity almost intact. So we were able to maintain capacity and bring the fixed cost significantly down.

The benefit of that is that as our markets have started to recover and as we load this fixed cost base with more volume and more revenue, this flows directly down to the bottom line. And this is exactly the concept of the leverage. And as you can see also from the slide, these two, volume and revenue, are the biggest contributors to the margin growth.

Revenue will always be bigger because the relationship between the volume growth and the revenue growth flowing down to the bottom line margin is around 1 to 3. So for the same growth of volume and revenue per case, volume gets 25 basis points to the bottom line, for each 1% of growth, whereas, each 1% of revenue per case currency-neutral growth generates 70 basis points of margin expansion.

Now cost efficiency, as I said, we have pretty much completed the vast majority of the restructuring program. So going forward, it takes a lot less of contribution to the margin growth, but it's very important in the sense that we continue to optimise the business, get savings, but most importantly, we load this low fixed cost infrastructure with top line growth.

Now, FX and input cost, I said earlier, is not in our control. We have made some assumptions in our model for FX and input cost. Input cost, we assume that per case, on a currency-neutral basis, will grow on average by mid-single digit every year. It's something that we see that on average is a good approximation. You might argue a little bit based on our experience over a long period of time, probably a little bit on the conservative side. But then, of course, we have blended this with some intelligence as to how things will evolve in the future.

And when it comes to FX, we have assumed a -- what we call, a normal depreciation of some of our currencies because we operate in emerging markets, inflation grows. What normal depreciation means is potentially something like EUR50 million to EUR60 million to EUR70 million hit every year. We have seen much higher at the times of the Russian and the Nigerian crisis, just like we have seen lower as well when things were progressing more smoothly.

And we like to call this FX and input cost an accelerator or decelerator to our journey to get to the 11% margin by 2020, exactly because, if things go little bit better or a little bit worse, depending on to what extent we can mitigate those impacts, we can get to the 11% a little bit sooner or a little bit later. But certainly, this business is geared up to deliver margins of 11%, which is the pre-crisis levels, maximum -- the biggest margin that Hellenic has achieved is 10.8% back in 2007.

Gerry Gallagher – Deutsche Bank AG – Analyst

Okay. Just to be clear. It sounds like, it's an operational leverage story rather than a cost-cutting story. Could you help us just clarify that understanding?

Michalis Imellos - Coca-Cola HBC AG – CFO

Yes, absolutely. Because the cost-cutting phase was exactly the phase that preceded this leverage phase. So we have done all the hard work. We have cut down the number of plants in our footprint by about 25% to 30%. Today, we have 70% of our logistics infrastructure outsourced, so very much variable cost because our business is seasonal. So it makes sense to match the seasonality rather than maintain a very high fixed cost to cover the peak season. We have centralized planning. We have ensured that we go to market with a most optimum way using distributors, wholesalers and so on. Shared service centres across the board. We operate two for Hellenic, one in Sofia, one in Russia.

So there has been a lot of work, which as I said earlier, has ensured that we have full capacity to accommodate the volume growth that is coming. And also we continue to optimise the efficiency of our lines, which add effectively to the capacity that we have from our consolidated infrastructure. So the so-called cost-cutting phase is behind us now. We've created the base, now we load it with more revenue growth.

Gerry Gallagher – Deutsche Bank AG – Analyst

Okay. So we're in June of 2017, it's a target -- 11% is a target for 2020. But could you just put a little bit of flavour on how you're progressing towards that margin target as we stand today?

Michalis Imellos - Coca-Cola HBC AG – CFO

We have had, first of all, in the last couple of years, a consistent growth of our profit margin in line with this model that we just discussed. In 2015, we grew our margins by 100 basis points. Last year, 80 to 90 basis points growth. Certainly, this year, we are looking to grow our top line, both in terms of volume and revenue per case on a currency-neutral basis. That will give us some good margin expansion also as a base.

Input costs this year are on the high single-digit as we quoted at the beginning of the year with our full year results, primarily because we have an accelerated contribution of Energy, Premium Spirits and so on in the mix, which also bring very good revenue per case. So they are fully balanced.

And in terms of currency, we are having -- I would call it an exceptional year because on one side, we have a positive correction in terms of the Rouble correcting from the overshooting that happened in the last couple of years. And at the same time, on the flip side, we have Nigeria going through a major ForEx correction, negative correction. So those two kind of balance each other.

We called earlier this year, our full year estimate for FX to be around EUR15 million negative, which is quite lower than the normal depreciation, as I call it, exactly because of the Rouble situation. Generally speaking, things are going in the right direction. So those estimates, those expectations still hold.

Gerry Gallagher – Deutsche Bank AG – Analyst

In one of your early questions, you mentioned the category that I thought was interesting. You mentioned plant-based protein. Could you tell us how big an opportunity that is for the business?

Michalis Imellos - Coca-Cola HBC AG – CFO

It's plant-based diary, and it's coming from a recent acquisition that The Coca-Cola Company did with FEMSA in Latin America. It's brand new for us. I mean, it's very early days to be able to size it. But it is an exciting opportunity for us. We are looking to go into it in our territory gradually starting next year.

Gerry Gallagher – Deutsche Bank AG – Analyst

I have quite a few other questions, but I'm keen if the audience would like to get engaged and start to asking Q&A, and already the hands are going up. So I'll pass it over to the audience.

Unidentified Audience Member

Just a quick housekeeping one. In your answer, you mentioned the fact that in marketing spend as a proportion of revenue will be going up going forward. But then I wasn't sure where it worked here in the bridge that you showed to the 11% margin target by 2020? So if you could just frame that very quickly.

Michalis Imellos - Coca-Cola HBC AG – CFO

Yes. It will be going up not dramatically, because it's as percent of revenue and our revenue will be growing. So the absolute spend will be growing also in line with that significant revenue growth. That part, together with the cost of concentrate, is within the revenue per case leverage because it is closely associated with the cost of delivering this revenue.

Gerry Gallagher – Deutsche Bank AG – Analyst

Maybe I'll pick up on a follow-up. Just in terms of the volume growth you're looking for this year, would that be -- would that come in both developing and emerging markets?

Michalis Imellos - Coca-Cola HBC AG – CFO

Okay. So what we have seen in the beginning of the year and bearing in mind that we have had quite a significant impact from the shift of Easter between quarter one and quarter two, this year it's in quarter two, last year it was quarter one. But looking a little bit at how things are up to May, because we have actuals -- not announced yet, but we have actual results.

Established markets have started on a declining performance, Established. However, there is in there an element of the cycling of some Water, low-value brands, which we discontinued in Italy. So we don't have them anymore in the mix, but we had them last year. If you exclude that impact, actually, Established have got a very marginal growth in terms of volume, which is very encouraging and we certainly expect that we will see a small acceleration in the second half of the year. So overall, on a reported basis, taking into account those delisted low-value Water brands, we should see Established potentially being flattish volume-wise in the full year.

Developing was also affected by the Easter shift. So it started on a declining trend. But quickly, from April and May, they have recovered very significantly because of the Easter effect. So overall, for the full year, Developing will also will grow and certainly, more than what we will see in half one. And when it comes to Emerging, here we have different trends in the sense that we started very well in Russia in quarter one, certainly Russia is starting to stabilise and we should see some elements of growth there.

However, it's very early days and indeed, April and May, we have seen the challenges of a market that is trying to get a direction. That's why, on a full year basis, I would say that the first and primary objective is for stabilisation in Russia, maybe a very small growth, really to mark the foundation for Russia returning to growth from 2018 onwards.

Nigeria, we have taken very significant price increases there. As a result, both of the ForEx devaluation, but also because we have not taken major price increases in Nigeria for quite some time. So we took a major price increase last year, another one in January and another one in April. Quarter one was strong. It was a 6% growth. But that's because March in Nigeria is high season. So basically whatever anyone produces, sells. And that's why did not see the impact of the two price increases really affecting us. As we took the third price increase in April and we entered the low season, we are starting to see, as we were expecting, the decline in the volumes and the volumes will recover again in the fourth quarter because December is the other high season month in Nigeria.

And therefore, putting all this together, good start, a decline in the middle of the year, growth, again, towards the end. I would say that if we close this year with a flattish performance in Nigeria, it will be a very good result, setting, again, the foundation for Nigeria returning to strong growth in 2018.

Gerry Gallagher – Deutsche Bank AG – Analyst

I just want to follow up with a follow-on question on that subject before I offer, again, to the audience. We've touched on Nigeria and Russia. Could you help us understand a little bit what the real pricing is out there? And what I mean by that is pricing beyond adjusting for FX devaluations or in-market local inflation, real hard currency pricing is really the question I'm asking here.

Michalis Imellos - Coca-Cola HBC AG – CFO

So I would split our territory into three different groups, one being Russia, one being Nigeria and the other being the rest of Europe, I would call it. In Russia, we have been taking aggressively pricing in the last couple of years. This year, we have slowed down a lot because also the correction of the currency and the fact that inflation in Russia now is getting towards the 4% mark.

So I would say that in Russia, we are doing really pricing that goes in pace with inflation development and in fact, slightly below inflation. So we have passed the FX correction in Russia.

In Nigeria, I mentioned three tranches of pricing and clearly this is not just inflation because inflation is running at around 17% at the moment. We have done a lot of adjustment to catch up also on the ForEx. I would say that from next year, pricing in Nigeria will be such that we'll be tracking the inflation development. This year is a year of adjustment.

In the other markets, in Europe, they will never be -- pricing will never be the driving force of revenue per case development. In those markets, revenue per case will develop on the back of ever improving pack mix. So selling more single-serves compared to multi-serves, and we have got an excellent track record of growing our single-serve mix every year.

Secondly, category mix. So Sparkling, Energy, juices growing quite well and contributing to the overall revenue per case growth because they have relatively higher revenue per case than Water.

And only third is pricing. And pricing has got two components. One is the price increases, but the other one is management of promotions and discounts because that is part of the pricing equation. And certainly, as the deflationary pressures in Europe are easing, we also have an easing on the promo pressures which allows us to have a much better pricing variance year after year.

The fourth element is channel mix, but that is negative across the board that reflects the general trend of the market moving more towards modern trade and discounters, which effectively means that the revenue per case that we can command is lower than what we have in HoReCa or the immediate consumption channel.

Gerry Gallagher – Deutsche Bank AG – Analyst

I'll open it up for questions from the floor before I move on maybe to talk little balance sheet and dividend and subjects like that.

Okay. I'll progress from this point. You have a progressive dividend policy with the pay-out of 35% to 45%. Could you talk a little bit about the rationale around the 35% to 45% and how maybe we should think about that pay-out ratio over the coming years?

Michalis Imellos - Coca-Cola HBC AG – CFO

Yes, that was set by the board maybe three years ago, three or four years ago. And it reflects really the growth character of Hellenic. Our first and primary objective is to invest behind our business. We have exciting Emerging markets where in order to continue to catch the growth and the demand, we have to invest ahead of the curve. And also the fact that we are very active in looking for bolt-on acquisitions. In other words, brands in our territory in the non-Sparkling area, which are locally relevant and strong. And we want to be ready to move in when the opportunity is right, the fit is right and the price is right.

So the growth agenda is that which at the end of the day makes us be on the 35% to 45%, which we calculate on the comparable EPS, and we have been able to grow our EPS in the last three or four years by low teens, which also gives a good growth on the dividend.

Gerry Gallagher – Deutsche Bank AG – Analyst

You touched on M&A opportunities. Could you to the extent that you can, much appreciated, it's always a difficult question, talk a little bit about the pipeline, what you see out there? How realistic some of the opportunities are, geography, size? Any sort of colour you can provide against the obvious caveats as to what you can actually say.

Michalis Imellos - Coca-Cola HBC AG – CFO

So as I said, by far, our first priority when it comes to M&As is bolt-on acquisitions. We have done that successfully in the past, thinking of Multon for example, you have the Juice business, same in Serbia, some Water businesses in Austria, in Switzerland and so on. Most recently, we bought a small but the leading water brand in Lithuania with quite a bit of opportunity to expand to other multi-countries and also to the modern trade. So we are very active. As and when things become available and at the right price, we would be there.

Now, on the geographic front, really this is at the bottom of our priorities. We have 28 countries with fantastic opportunity to grow. And already, we are on a seriously aggressive trajectory of recovering margins and getting back the opportunity that was lost during the years of crisis.

As you know very well, geographic expansion is very much the prerogative also of The Coca-Cola Company. They have the big picture and overall the -- they are the owners of the franchise.

We have said many times that we consider ourselves a growth company. We would look at profiles of geographic expansion if they fit a growth profile, and if it makes strategic sense and we can add value. And of course, they are at the right price.

Gerry Gallagher – Deutsche Bank AG – Analyst

Following on from that, could you just give us a sense of where the board would be comfortable in terms of leveraging the business?

Michalis Imellos - Coca-Cola HBC AG – CFO

We have a mid-term leverage target of 1.5 to 2, net debt to comparable EBITDA. We closed last year at 1.25. We have strong cash generation on an annual basis. So obviously, this will take us further down by the end of this year. And I would say that in the absence of a transformational M&A that could change completely the dynamics and the structure of the balance sheet, I'm sure the board would consider an opportunity to optimise the balance sheet through the use of a special dividend. We've done it before in the last, I would say, 10 years, at least two or three times we have issued a special dividend. And that is a good way to optimise the balance sheet.

Just to remind you here, we cannot do share buybacks because as a foreign company in the LSE, we need to have a minimum of 50% free float. We are at around 52%, 53%. So buybacks are only marginal to prevent dilution of shareholders from exercise of stock options and so on. Special dividend is the only way to optimise the balance sheet by returning capital.

Gerry Gallagher – Deutsche Bank AG – Analyst

And just following on to that, could you just give us your sense of the working capital position of the group? Should we see any changes there? Or where we're at is, in terms of being negative, is something you guys can run with as a business moving forward?

Michalis Imellos - Coca-Cola HBC AG – CFO

Yes, it's one of our -- it's one of the cornerstones of the model that we laid out last year that we want to be in triple-digit negative working capital territory, so EUR100 million negative or less. And really in Hellenic, we have done a fantastic job. Since 2008, we brought working capital down by about EUR650 million. Since 2013, we are in negative territory. And since 2015, we are in triple-digit negative. So it's happening and it is sustainable, and our intention is to stay in this territory.

Gerry Gallagher – Deutsche Bank AG – Analyst

Okay. I've got one final big picture question before we see if there's any more from the audience. Does the change in Chief Executive at The Coca-Cola Company make any real difference to the business on a day to day basis?

Michalis Imellos - Coca-Cola HBC AG – CFO

First of all, on a, let's say, personal matter, James is somebody who knows Europe extremely well. So clearly, he is very familiar with the challenges that our footprint faces. But on a broader scale, I think the total beverage company that was recently presented and unveiled is really something that is a huge opportunity for us going forward. First of all, it's very clear that without success in Coke our business cannot succeed. So that is something that needs to be there. And there is a major focus on lights as we discussed at the beginning of this session. With practically all innovation that is coming from the pipeline being in the lights section and that is great to address also the way that, particularly in Western Europe, the consumer habits are changing. But also on the non-Sparkling, it's coming very strongly in the equation with more new categories and more innovation, as I mentioned earlier.

We, obviously, welcome also the restructuring that is happening in the company and the fact that the decision making is getting closer and closer to the countries, that is the right place to make decisions. So we are very excited and also what started two or three years ago, the renewed focus on revenue and balancing appropriately volume and revenue per case as opposed to one or the other is really something that is helping us as bottlers to be more successful.

Gerry Gallagher – Deutsche Bank AG – Analyst

And we have a question from the audience near the front.

Unidentified Audience Member

Just a quick question on the competitive environment in Nigeria. Can you just maybe elaborate a little bit on that? And also give us some insight on market share trends in Nigeria?

Michalis Imellos - Coca-Cola HBC AG – CFO

Okay. In Nigeria, looking at Sparkling primarily, we, obviously, are market leaders. We have share north of 52%. Major -- I would say, major competitor there is Pepsi with a share of around north of 30%. We have seen a number of lower value brands across the nation, mostly with the local character rather than nationwide, it's quite a big and complex country to cover holistically.

Like I said, I was the one that was for some time the more prominent big brand. We have had recently the entry of BIG Cola as well. And what we have seen, BIG Cola being at around 3% market share at the moment, we saw that they source this primarily from La Casera. It's specifically for BIG Cola, because we have seen them in other markets as well. The scale of the investment at the moment is not major and is pretty much local around the Lagos area. So I would say that the two players primarily that are competing on the Sparkling space, us and Pepsi.

Gerry Gallagher – Deutsche Bank AG – Analyst

If we have no other questions, Michalis, Basak, thank you very much for your time and your insights of the business. Thank you.

Michalis Imellos - Coca-Cola HBC AG – CFO

Thank you.

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