CCH – 2016 Full-year results
Conference call script – 16 February 2017

CORPORATE PARTICIPANTS

Dimitris Lois - Coca-Cola HBC AG – CEO

Michalis Imellos - Coca-Cola HBC AG – CFO

Basak Kotler - Coca-Cola HBC AG - IR Director

Operator

Thank you for standing by ladies and gentlemen, and welcome to the Coca-Cola HBC's conference call for the 2016 full-year results. We have with us Mr. Dimitris Lois, Chief Executive Officer, Mr. Michalis Imellos, Chief Financial Officer, and Ms Basak Kotler, Investor Relations Director. At this time all participants are in listen only mode. There will be a presentation followed by a question and answer session. If you wish to ask a question, please press star one on your telephone keypad at any time and wait until your name is announced. I must also advise that this call is being recorded today Thursday, February 16 2017. I now pass the floor to one of your speakers, Ms Basak Kotler. Please go ahead.

Basak Kotler - Coca-Cola HBC AG - IR Director

Forward-looking statements

Good morning. Thank you for joining our call today to discuss Coca-Cola Hellenic Bottling Company's results for 2016.

Today, I am joined by our Chief Executive Officer, Dimitris Lois and our Chief Financial Officer, Michalis Imellos.

Following the presentation by Dimitris and Michalis, we will open the floor to questions. Before we get started, I would like to remind everyone that this conference call contains various forward looking statements. These should be considered in conjunction with the cautionary statements on the screen. This information can also be viewed in our press release issued today.

Now let me turn the call over to Dimitris.

Dimitris Lois - Coca-Cola HBC AG – CEO

Full-year highlights

Thank you Basak. Good morning everyone and thank you for joining our call.

I will start by giving an overview of 2016 before Michalis takes you through our financial performance. I will then discuss our operational performance, and the outlook for the year.

I am very pleased with our performance in 2016 which follows the significant margin expansion in 2015. This year we've again delivered strong growth in profitability and the business is performing in line with the trajectory we laid out at the investor day.

Starting with the top line, volume growth was marginal in the year. We saw good growth in a number of markets, while the weakness in Russia and a couple of our Established markets offset those gains.

Our revenue growth management initiatives – a key area of focus for the company – delivered very well, with 2.9% currency-neutral net sales revenue per case growth, making this the sixth consecutive year of improvement.

The leverage from revenue growth and cost management initiatives helped us improve our operational profitability, leading to a 100 basis-point decline in operating expenses as percentage of revenue.

This in turn, supported 90 basis points of EBIT margin expansion to 8.3% while spending more on marketing. Our margins are now 190 basis points higher than our 2014 lows, a very impressive trajectory.

Comparable earnings per share was 97 Euro cents, a 12% increase on the prior year.
Furthermore, better profitability has supported strong free cash flow generation.
The business has delivered well on our plans to return to sustainable growth and higher margins.

With this confidence, our Board proposes a 44 Euro cent dividend per share, which represents a 10% increase on the prior year.

With that, I will turn the call over to Michalis.

Michalis Imellos - Coca-Cola HBC AG – CFO

Financial review

Thank you Dimitri and hello everyone.

In line with our practice, as I take you through our financial results for the full year, I will refer to comparable figures which exclude the impact of restructuring costs, the mark-to-market valuation impact of commodity hedges and specific non-recurring items.

Financial performance overview

Currency-neutral net sales revenue grew by 3.0% in the full year. On a reported basis, net sales revenue declined by 2.0%, affected by significant currency headwinds from our Emerging markets segment.

Volume growth was marginal at Group level with good improvement in the Developing and Emerging segments.

Currency-neutral net sales revenue per unit case improved substantially, as a result of category and package mix improvements across all three segments, as well as our pricing actions, mainly in Emerging markets, which offset currency headwinds.

Gross profit margin fell by 10 basis points as a benign input cost environment and price increases were offset by negative transactional foreign currency impact.

Operating expenses as a percentage of revenue improved by 100 basis-points, a stellar performance driven by the combined effect of top-line operating leverage and our optimisation initiatives supported by restructuring.

Part of the savings were invested in increased marketing during the course of the year.

Comparable operating profit increased in the full year by 9% versus the prior year and comparable operating profit margin expanded by 90 basis points. Operating leverage and benign input costs more than offset the adverse currency impact that reached €101 million in the year.

Comparable EPS reached 97 Euro cents, 12% higher than prior year.

Our working capital balance remained in the triple-digit negative territory and the working capital days improved further compared to the prior year.

We generated strong free cash flow of 431 million Euros in the full year, up 19 million year-on-year.

Substantial improvement of FX-neutral net sales revenue per case growth

Turning to the revenue performance in more detail:

As I mentioned earlier, FX-neutral net sales revenue per case improved substantially versus the prior year. Our successful commercial strategy and execution improved category and package mix in all segments and pricing, which we used to offset adverse foreign currency movements, helped in the Emerging segment.

In our Established markets, FX-neutral net sales revenue per case increased by 0.3%. Good category and package mix was partially offset by deflationary pressures and adverse channel mix.

In Developing markets, improved category and package mix more than offset deflationary pressure and negative channel mix, leading to a 0.6% increase in FX-neutral net sales revenue per case.

The Emerging markets saw a 7.1% improvement in FX-neutral net sales revenue per case mostly as a result of price rises which as I mentioned we used to offset FX headwinds. Category and package mix also contributed to the improvement, offsetting adverse channel mix.

Input costs benign overall

Turning to input cost:
FX-neutral input cost per case was broadly stable in the full year.

EU and Russian sugar prices, which we had contracted at favourable levels at the end of 2015 were offset by increased PET resin prices, closely correlated to rising oil prices in the year.

Profit and margin growth

Turning to operating performance, we recorded comparable operating profit of 517 million Euros in the year, 44 million higher than in the prior year. Overall, revenue leverage, cost control and benign input costs more than offset the impact of adverse foreign exchange movements.

Let me provide you with some more colour on those key drivers on a segmental basis:
In Established markets we benefited from mix improvements, cost optimisation initiatives and input cost tailwinds (mainly from EU sugar). These were only partially offset by adverse impact from deflationary pressures in several of our markets.

In Developing markets, the leverage afforded to us by volume and mix improvements was offset by a strong currency headwind arising from the weak Polish Zloty and adverse input costs.

As you know, the Emerging markets segment attracts the vast majority of the €101 million of adverse FX impact. We were able to offset this with price increases throughout the year, as well as volume growth, ultimately lifting comparable EBIT margin by 20 basis points.

Restructuring plans

As far as restructuring is concerned:
We incurred charges of 38 million Euros in the year, mostly in our Emerging markets.

Restructuring benefits in the year from 2015 and 2016 initiatives amounted to €20 million Looking ahead to 2017, we expect restructuring costs of approximately €26 million with estimated annualised benefits of €14 million from 2018 onwards.

The savings in 2017 from initiatives taken in 2016 and those that will be taken in 2017, are expected to reach €15m.

Strong free cash flow generation

Turning now to free cash flow, we generated 431 million Euros of free cash flow in the year, 19 million more than in the prior year. The increase was driven by operating profitability growth.

We remain disciplined in our working capital management, sustainably delivering triple-digit negative balance, while improving working capital days.

Our capital expenditure as a percentage of revenue came in at 5.9% excluding the sale of idle assets, and 5.3% on a net spend basis.

Looking ahead, our annual capex spending over the medium term is expected to remain in the range between 5.5% and 6.5% of net sales revenue.

We remain confident in our proven ability to generate solid free cash flow in the short to medium term, despite the macroeconomic and currency headwinds.

Diversified financial profile

Let me now touch upon the financing of our business.

We successfully refinanced the €600 million November 2016 bond. The new bond is cheaper, saving us about €8 million year-over-year, starting in 2017.

Net financing costs for 2016 amounted to 62 million Euros, decreasing by €6 million compared to the prior-year period, mainly due to decreased net foreign exchange losses.

Our net debt/comparable EBITDA ratio stood at 1.25 times at year end.

EBIT margin development

Before I conclude, let me reiterate the dynamics of our profit margin expansion in the light of our 2016 Results.

Firstly, a reminder of the operating leverage formula we shared with you last year. All else being equal, one percentage point of volume growth, yields approximately 25 basis points of EBIT margin improvement, while one percentage point of FX-neutral revenue per case growth, yields approximately 70 basis points of EBIT margin improvement.

Applying this formula to our results, our 90 bps EBIT margin expansion in the year can be explained as follows:

- volume leverage impact negligible – based on the 0.1% volume growth in the year
- 210 basis points expansion from revenue leverage – based on the 2.9% growth in FX neutral net sales revenue per case in the year
- 40 basis point expansion from our cost productivity initiatives
- 160 basis points contraction from the combined impact of FX and input costs.

As also shared with you previously, these dynamics manifest themselves in the P&L with flattish gross margin development and a significant improvement in OpEx as a percentage of revenue.

With that, let me now pass the floor to Dimitris, who will take you through the operational performance for the year.

Dimitris Lois - Coca-Cola HBC AG – CEO

FY volume by segment

Thank you Michali.

Overall, volume increased marginally by 0.1%, with good growth in a number of markets such as Nigeria, Romania and Serbia being offset by weakness in Italy, Austria and continuing decline in Russia, our largest market.

In Established markets, volume declined by 2.3% led by Water and Sparkling which more than offset volume growth in Energy.

Developing markets grew volumes by 1.3%, with growth in nearly all markets driven by Sparkling and Energy.

In the Emerging markets, volume grew by 1.2%, with strong growth in Nigeria, Romania and Serbia being largely offset by continued declines in Russia.

Volume growth by category

Looking at our performance by category:

- Sparkling beverages volumes increased by 1% in the year, with good performances in Nigeria, Romania, Poland and Ukraine more than offsetting declines in Russia, Italy, Greece and Austria. This positive performance is a direct result of our commercial initiatives, new occasion, brand, price, pack and channel (OBPPC) choices, selective affordability measures and campaigns such as Taste The Feeling.
- Within the category, Trademark Coca-Cola increased by 0.7%, with a 6% increase in Coke Zero and approximately 5% uplift in Fanta and Schweppes.
- In Juice, growth in Developing did not offset declines in Emerging and Established, ending the year down 3%.
- Water volume declined by 2%, impacted by cycling the hot summer of 2015, as well as the delisting of certain low value brands in Italy.
- Energy maintained its growth, with volumes up over 20% following the launch of Monster in several new markets including Russia, Italy and Romania. This continues to be a strategically important category for us and one we remain excited about with further launches across our markets expected this year.
- RTD Tea performance remained weak overall with certain markets such as Ukraine and Romania, performing well.

Established markets

Turning now to our performance by segment and focusing on some of the bigger countries.

In our Established markets segment volume declined by 2.3% in the year mainly a result of lower Water and Sparkling. 2015 performance had benefitted from particularly good Water volumes in a hot summer.

In Italy volumes declined 3% in challenging market conditions with ongoing depressed consumer sentiment. The launch of Coca-Cola Life and Monster into the market, as well as good performances by Coke Zero and Fanta helped slow the decline in the Sparkling category which was down nearly 2%. Water was negatively impacted by our strategic decision earlier in the year to de-list many low value water brands. Excluding these low value brands, water volumes increased by low single digits. We were pleased to improve our single serve mix in the year, as a result of our OBPPC actions especially in Sparkling.

Volumes in Greece were broadly stable in the year. Growth in Stills, particularly Water were offset by declines in the larger Sparkling category despite Coke Zero, Schweppes and Monster performing well. We are broadly happy with this performance in very challenging trading conditions.

In Switzerland, volume declined by 2% driven by Stills. Sparkling beverages were broadly flat compared to prior year with good growth in Coca-Cola regular and Coke Zero. While deflationary pressures limited the opportunities for price increases in Established markets, package mix was favourable owing to our focus on OBPPC initiatives which led to FX neutral net sales revenue per case increase of 0.3% in the year.

Developing markets

In our Developing markets, volume grew 1.3% with nearly all of the countries in the segment posting growth.

The sparkling beverages category was the main growth driver in the segment, supported by Energy and Juice.

In Poland, volume increased by 1% in the year with good performances in Sparkling and Energy offset by Stills, largely Water.

In the Czech Republic volumes declined marginally with growth in Sparkling, Juice and Energy offset by declines in Water and Tea. Double-digit growth in Sprite and modest growth in Coca-Cola Regular led Sparkling to a 2% increase while Juice also grew by high single digits.

In Hungary, we reported a marginal volume increase with growth in Sparkling and Energy offset by declines in Water. Coke Zero, Energy and Sprite grew by double digits. Our focus on increasing single-serve contribution also delivered results, with package mix improving by 1.2 percentage points in the year.

A favorable brand mix along with improved pack mix across categories resulted in a 0.6% increase in FX-neutral net sales revenue per case.

Emerging markets

Volume in our Emerging markets grew by 1.2% in the year with strong growth in Nigeria, Romania and Serbia being partially offset by continued declines in our largest market, Russia.

As expected, volumes in Russia continued to decline, falling 8% in the year, although the decline slowed in the second half. Double digit volume growth in Energy and high single digit volume growth in Fanta and Coke Zero offset some of the decline in the country.

Volumes in Nigeria continued to grow strongly, increasing by 11% in the year with all main categories posting growth. Trademark Coca-Cola drove the increase following the introduction of 60cl PET bottle in addition to our 35cl returnable glass bottle at affordable price points. Sprite and Fanta also grew strongly. In Stills, Water grew double digits whilst Juice also grew helped by the launch of Pulpy in a new 40cl PET pack.

Volume in Romania increased by 9% in the year and posted the eighth consecutive quarter of growth in Q4. There was some excellent performances across our portfolio. A double digit growth performance in Sparkling was driven by Trademark Coca-Cola, Fanta and Schweppes. Growth was further supported by Water and Juice, the latter mainly due to a good performance by Cappy Pulpy.

FX-neutral revenue per case grew by 7.1% in the period, in line with our strategy to implement pricing initiatives in markets facing inflationary pressures and currency headwinds.

Looking ahead

In closing, we are very pleased with our performance in 2016. We delivered a second year of strong growth in profitability and the trajectory of the business remains in line with the plans we outlined at our Investor Day last June.

Looking at 2017 we expect:
Volume to continue to grow in the Developing and Emerging segments and to stabilise in the Established segment.

Continuation of the substantial FX-neutral net sales revenue per case growth. Currency depreciation and the associated inflation will remain a key feature in some of our markets, and we see inflation picking up in our more developed markets. Our initiatives to improve mix will continue.

At current commodity price levels, input costs are expected to be a high single-digit headwind in the year mainly driven by resin and higher oil prices.

Taking into account our hedged positions and current spot rates, the adverse impact on EBIT from foreign currency is expected to abate to levels around 15 million Euros for the full year.

Our actions in cost management and the effect of top-line operating leverage are expected to result in further reduction in operating expenses as a percentage of net sales revenue, supporting EBIT margin growth.

Q&A

And with that, I will now hand over to the operator, and Michalis and I will be happy to take your questions.

[Q&A transcript will be available on the Company's website on Friday 17th February]

2020 strategic plan

I want to thank you for joining us today and for all your questions that facilitated a good discussion. I will leave you with the following thoughts.

Over several years and in a difficult external environment, we have created a more efficient and stronger business that is primed for growth. We have a balanced spread of territories with structurally attractive characteristics and specific plans for growth. These factors give us confidence in the medium-term potential of the business, and we continue to make good progress towards our 2020 targets which we laid out at our investor day in June 2016.

I want to thank you and we look forward to speaking with you again.