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Fireside chat

Andrea Pistacchi, Deutsche Bank, Beverage Analyst

Good morning, everyone. Thank you. Thank you for coming. We're here with Coca-Cola Hellenic. I'm Andrea Pistacchi from Deutsche Bank, Beverage Analyst, and it's my pleasure to introduce Zoran Bogdanovic, Chief Executive, and Michalis Imellos, Chief Finance Officer.

So the format here will be a fire side chat. So I'll ask Zoran and Michalis a few questions and then we'll open it up to the -- to the floor if you have any questions.

So I think a good way of starting it is if I ask -- and Zoran has been Chief Executive for about six months. Of course you've been at the Coca-Cola Hellenic for much, much longer than that. I think around 20 years, probably a bit -- a bit more than that and you've taken over at a time when there's a lot of change happening at Coca-Cola and in the Coke system under Quincey's leadership. So again, just backdrop, it would be interesting to hear what you think are the two, three strategic priorities for Hellenic right now.

Zoran Bogdanovic, Coca-Cola HBC AG, Chief Executive Officer

Zoran Bogdanovic: Thank you, Andrea. Good morning, everyone. Thank you for joining. Indeed, as you said, it's a very interesting time. Exciting time in the Coca-Cola system and in that context I was grateful when I took over the organization six months ago, to take over such an organization in excellent shape, in the growth mode trajectory and with a strong talent pipeline.

Now, top two, three strategic priorities I would highlight. Number one is development of a true 24/7 total beverage portfolio. When I say "24/7" I just want to reiterate that that really means providing beverages for the needs for the consumer occasions across, literally, 24/7 from the morning all the way until the evening because developing such a variety of categories that we serve to consumers and customers is something that we see as a critical differentiating point.

Second thing is development of people and empowerment of people so that this increasing complexity can be dealt with from a capable and empowered organization that can really act with speed in delivering and executing that big portfolio.

And the last point is a very close, tight partnerships with customers to accelerate our revenue growth. And when I say "with customers", that means really that as a total beverage Company, we serve customers across all possible channels and that's also one differentiating point that we believe makes a difference in our strategy.

And I would just say also in the context of developing a total beverage Company, and that ambition, together with Coca-Cola Company, we, and I'm personally excited with the direction also that Coca-Cola Company is taking and changes and steps that they are doing. That helps us a lot as one system.

Andrea Pistacchi, Deutsche Bank, Beverage Analyst

So in this system, there's going to be more focus on value rather than just volume compared to the past. So, talking about value and revenue growth, where do you see the, on a five year view, the most significant revenue growth opportunities for Hellenic?

Zoran Bogdanovic, Coca-Cola HBC AG, Chief Executive Officer

You made excellent reminder of this aligned view on the value creation, so that it's not like volume or value. However, really aligned view on the -- on the value is something that brings much more clarity, speed and view of how to grab the opportunities that are out there.

When it comes to the opportunities, we can split them in two areas. One is the categories and second one is geography. In the categories, even though we already predominantly are in the sparkling beverages, approximately 70 percent of the portfolio, there are many opportunities still in this category, especially when we see development of the zeroes and lights, no sugar variants and also adult and mixers as a segment within sparkling that is growing very fast.

So we see across the market, the growth rates in both of these and how much that is helping us, together with innovation that happens within sparkling. That's why we see also this year very pleasing growth of the sparkling category.

Secondly, in a number of other categories this year we have made a huge change in all markets, simultaneously switching to Fuze Tea which is totally redefining the category. A constant innovation in juices. We are -- apart from the mainstream water, we are premiumising water. For example, with Smart Water that we have now rolled out to a number of our markets.

And entrance to the new categories, plant-based beverages. We entered in May in 13 markets with the plant-based beverages from soy from almond, et cetera. So for customers, this was a big thing that we came with something like this, but that's another revenue pool that we see amazing growth ahead of us. Not to mention energy, which is growing every year double digit. Sports drinks. So that complemented also with our, as we call them, complimentary categories of distribution of premium spirits and coffee. That really gives you the sense of opportunities that are in categories.

And then in geographies, we are really lucky and privileged to have geography in countries that we have. All the way from Russia, from Vladivostok, to Dublin in Ireland, Lagos, Nigeria, Riga in Baltics. So 28 markets where – from developed, developing and emerging, opportunities are immense. Just talking about Russia and Nigeria, number one. Per capita levels which exist there and bringing them just to the average of Hellenic or average of Europe would be -- would be immense and will be continuous growth.

But I would like to highlight, also, in the geographies, very often in the calls, et cetera, people ask about Russia and Nigeria which I fully understand, but there is a second tier of Company -- of countries that are -- that have, over the years, developed so much and are bringing lots of growth. Ukraine, Hungary, Serbia, Romania, Poland, Czech. Just to name a few that are bringing lots of growth and we see lots of opportunities.

Andrea Pistacchi, Deutsche Bank, Beverage Analyst

So putting this into numbers, you have a revenue growth target of 4 percent to 5 percent.

Zoran Bogdanovic, Coca-Cola HBC AG, Chief Executive Officer

Yes.

Andrea Pistacchi, Deutsche Bank, Beverage Analyst

This sounds a sustainable target, clearly also for the -- for the medium-term with all these growth opportunities. When you think about this target in terms of building blocks, how should you think about it? The market growth or whether you need to get to this level of growth, do you need to gain share in the markets? And do you need innovation every year that is fueled to you by the -- by the Coke system like Fuze Tea, of course, that you're rolling out this year or Monster last year?

Zoran Bogdanovic, Coca-Cola HBC AG, Chief Executive Officer

Just as a reminder, the 4 percent to 5 percent growth bracket, we have articulated mid-2016 when we had the Investor's Day, and the London stock exchange, and that's an average rate from 2016 to 2020 and it's a currency neutral one. The starting assumption was that we saw -- at that time, the estimate that non-alcoholic, ready to drink industry would grow an average 1.5 percent per year. Less of a growth in the first years, but then more of a growth, like a hockey stick in the -- from 2018 onwards.

On top of that, we do have ambition and we believe we can gain market share further as we have done in the past years which brings around 40 basis points. So that brings you already around 2 percent or just above that. And then on top of that you add the price mix, as for us it's a balanced game between volume and price mix. That's how we want to drive the revenue growth. And price mix, we believe a starting point is that we can be around the inflation that is in the market. We also see that, in a number of our territories, there is back to the healthy inflation levels, which is helping.

And on top of that we have also opportunities when it comes to mix. Constantly we are developing package mix. More opportunities there. Brand, I mentioned package so when you put all that together we do feel that 4 percent to 5 percent is sustainable. And especially in this -- in the second part of this period of 2016 to 2020, we see that on the upper end.

Andrea Pistacchi, Deutsche Bank, Beverage Analyst

And then if I -- if I shift to margins, you've done an excellent job rebuilding margins in the -- in the past few years. You set back -- when you set at the Capital Markets Daythere in London, you set a margin target for 2020 of 11 percent. Your two years in having delivered well against that. Are you confident you can -- you can achieve this target, two years -- two, two and a half years to go? And what would you say -- are there risks in not -- what are the main risks potentially in maybe not getting there?

Michalis Imellos, Coca-Cola HBC AG, Chief Financial Officer

Let me take this one, Andrea. We are confident that we can get to the 11 percent by 2020. We've had, so far, three years of good margin growth, on average 100 basis points of growth since 2015 and that has been the whole operating leverage story. So following the years of quite intense restructuring up to 2014, we have been able to accelerate growth of the top-line, which on the lean fixed-cost base, it has yielded quite significant margin expansion.

And we will continue with that, especially now in 2018 and going towards 2020 we are going to see a small deceleration in the pace of growth. Last year, already, we had an exceptional growth of 120 basis points, but that was helped quite a lot by good news on the ruble following a couple of years of significant depreciation.

And let me take the opportunity also to say, specifically for 2018, that we expect the first half to be a bit slower in terms of the growth compared to the second half and there are specific reasons for that. First of all, there has been significant marketing investments that we have been making in the first half related with the FIFA World Cup, related with the revenue growth management. And also in the second half, we will cycle significant marketing investments that we made in the second half of 2017. So both these factors create a phasing advantage in the second half compared to the first half.

And also we will have certain price increases in countries like Nigeria and Russia in the second half. So that is going to boost further the margin growth in the second half. So we do expect a much faster expansion in the second half of 2018 compared to the first half of 2018.

Having said that, to your question about potential risks, we just feel that as we spoke in the Capital Markets Day a couple of years ago about certain accelerators and decelerators in this journey, this is all that really could determine the exact time of when we get to the 11 percent. So far, the input cost environment, the way we see it for 2018 and to some extent for 2019, is quite benign. We are, for this year, quite well hedged in terms of sugar and aluminium. So we have very good visibility and some good development in terms of input cost. Very low single-digit growth for 2018.

So the only one that is potentially a wild card is FX, last year we had good news because of the positive correction, I would call it, from the ruble. This year, we return to more normal currency depreciation and impact on the P&L, but nothing that we don't handle through the top-line development.

Andrea Pistacchi, Deutsche Bank, Beverage Analyst

And if I -- if I can follow up on this, when you think about the potential for margin expansion even after 2020, I mean without talking about targets or anything like that, but do you see -- I mean one of the main drivers of the margin has been operational leverage from the top-line growth. So if you can continue to grow the top line at 4 percent or 5 percent, should this continue to deliver margin expansion?

Michalis Imellos, Coca-Cola HBC AG, Chief Financial Officer

So yes, we absolutely believe that we can continue to grow margins beyond the 11 percent and beyond 2020. What will change is the fact that as we move towards 2019, 2020 and beyond, back to Zoran's point about the expansion of the portfolio, the new categories, the new channels that we will be entering into and also generally the country mix, we see that directionally the -- we will accelerate the expansion of the absolute size of the business in terms of top-line and bottom-line. However, the pace of growth of our margin will slow down.

So we will not see the expansion rates that we saw between 2015 and 2020 and already, as I mentioned earlier, a slow down in the face of growth will start being evident from this year to 2020. So absolutely continue to expand from the 11 percent, but at a slower pace than 2015 to 2020.

Andrea Pistacchi, Deutsche Bank, Beverage Analyst

So if we move to a topic that I'm sure a lot of people would want to know about. I'm sure you've had a lot of questions on CCBA in your various meetings now. Of course, I don't think there's a lot you can say, but the markets think that you're interested in the asset.

I'll just ask you conceptually or how you think about the balance between growth that you'd get with more exposure to emerging markets and risk that this entails. Considering that an important aspect, I think, of the investment case of Coca-Cola Hellenic up until now has been the good balance between the developed and emerging markets that you have in your -- in your business.

Zoran Bogdanovic, Coca-Cola HBC AG, Chief Executive Officer

Yes. Well, as you very well said, two things. One, yes, this question comes up and secondly, I cannot say much because simply we don't comment on any M&A things and such speculation. So I think that's understandable. Given the fact, also, I would just reiterate we are very open about the fact that we are actively looking for anything that might be a good fit and bolt-on for us, primarily in terms of categories where we can find something interesting that fits our growth agenda.

But also you know in the Coca-Cola system, we are always open to discuss whenever there may be something coming up, but, on that point, the fact that we also have a number of emerging markets in our territory, I can only say that that's a very, very important part of our growth. And learning how to deal and operate in the emerging market segment. And that's one of the critical drivers of growth for the future.

So I would just say that our knowledge, capability and expertise in dealing with such markets is -- it's very clear. But equally we very much appreciate and value developing in established markets which are also playing critical role in the overall way of how we are driving and shaping the growth. So as I said earlier, very lucky with the -- with the territory coverage that we have today and the footprint and I believe this can serve us extremely well for many, many years ahead of us.

Andrea Pistacchi, Deutsche Bank, Beverage Analyst

If I may, in part, sort of connect it to this, can I ask you what sort of, what level of, -- I mean, operational synergies do you have in your existing markets now? I mean where I'm aiming is to understand whether hypothetically in the context of a potential sort of CCBA deal, if you were to dispose some European assets, whether this would create some dissynergies.

Zoran Bogdanovic, Coca-Cola HBC AG, Chief Executive Officer

As Michalis mentioned, we went through a lot of transformation through a number of years to make our organization leaner, faster, more agile. At the same time, the business we are in is very much a local business. So in every one of the countries we have production facilities and so each of our markets is kind of self sustainable for a big majority of our volume because that's the nature of the business and huge distances are never cost-effective. And from that point of view, I believe we are well set from synergies and this point of view.

Andrea Pistacchi, Deutsche Bank, Beverage Analyst

Then, if I may ask about the balance sheet. Again, partly probably connected to what we've just talked about. Your net debt EBITDA at the end of 2017 had fallen to 08. Your balance sheet target is 1.5 times to 2 times. Should large M&A opportunities not arise, is there any obvious reason why you wouldn't releverage your balance sheet up to your target?

Michalis Imellos, Coca-Cola HBC AG, Chief Financial Officer

That will basically be the objective and as you know, we can't do buybacks in a large scale due to the free float threshold. So the only real option is a special dividend which we have done in the past on a number of occasions, but that would be the most quick and efficient way to get the leverage back to our targeted range.

<u>QUESTIONS & ANSWERS</u>

Andrea Pistacchi, Deutsche Bank, Beverage Analyst

I suggest now maybe we try to open it up to the floor if there are any questions. We have a question here at the front.

Unidentified Participant

The Coca-Cola Company headquarters have gone through a lot of change. Can you comment at all on all the changes that have gone there? And is it -- is it becoming a bit more reactive?

Zoran Bogdanovic, Coca-Cola HBC AG, Chief Executive Officer

Yes, as I mentioned in the -- on the first question, we do see that the speed, the openness, the speed of reaction to what matters on the ground with consumers, I can -- I can only say that we are very much encouraged and excited with the direction the Coca-Cola Company is taking. Fully respecting sparkling as still a critical category, but evidently they have opened it up and they are opening.

And as a result of that attitude and direction and faster risk-taking, I can say that concrete evidences of that are visible also what's happening this year because last year we only discussed plant-based beverage opportunity and we very quickly came to the conclusion that we want to go there together. We invested in our facilities in Prague in the Czech Republic and I would say nine months later, we are out there in 13 markets.

I have to say, this is much faster than it has been in the past and I do see that that's not a one-time case. Smart Water was another example where we had very short conversation. The way we have discussed and agreed. The way of introducing the Fuze, overnight introduction, was also a very productive, efficient conversation. We had both sides a strong commitment how we will do it.

So to conclude, I personally can say also from my end as someone who's been around for more than 20 years in the system, I do see that this opening up and total beverage portfolio, that the Company is talking about in very concrete and tangible terms, is something that will make a very visible difference.

Andrea Pistacchi, Deutsche Bank, Beverage Analyst

So maybe I'll ask -- while we wait for questions, I'll ask another question about two of your key markets, Russia and Nigeria. They've been a bit -- a bit more difficult the past few quarters, past year. In part because of the macro, in part because of the competitive environment. I think there was a bit of a decline again in Q1, but you reiterated your expectation that Q1 that the markets should grow for the full year. So A, what gives you -- what gives you this confidence? How are these markets progressing? And do you think these markets can grow even if the competitive environment remains intense? Have you got enough going on of your initiatives to drive growth?

Zoran Bogdanovic, Coca-Cola HBC AG, Chief Executive Officer

In short, absolutely yes. But I mean these two markets are precious, unbelievable growth engines of the future. And yes, both of them have faced their own macro, political, economical crisis, which sometimes come and go, but one thing is for sure. That both of the markets are developing in the right direction and they are becoming more stable, more developed, population in the countries becoming more affluent. More and more people -- for example, in Nigeria, from the poverty entering slowly, middle class, which is opening immense opportunities. As a reminder, in Nigeria, every two years you have the growth of the population of the size of Switzerland.

So yes, in Q1 we had soft starts in both of them, but it was -- especially in Nigeria, it was expected. Let me start in Nigeria. As we were cycling in Q1, two price increases. Whereas now, from April 1, we entered the period where we cycled all three price increases as we had in the last 18 months and especially because in April 1 of last year was a quite sizable price increase that the competition didn't follow. So we stayed playing at the premium level and that's a very conscious choice because we clearly want to drive value and create value where both volume and price mix play a role.

Secondly, we were cycling very high volume growth of the Q1 of last year. Also, we came on stream with a high speed line which is actually the fastest line in Nigeria and in whole Africa which started end of March which helped us a lot with PET capacity and we already feel it.

And also activating FIFA World Cup which starts this week where Nigeria has qualified. Nigerians have two big passions, music and football. And we are activating that in Q2 and we have seen from -- what we have seen from the start of Q2 and throughout this quarter that Nigeria, in line with our expectations, has returned to growth.

Same with Russia. We did plan that our pack mix -- pack price all OBPPC changes will start end of March. So that has happened and been rolled out. Secondly, we also completed full listing with all the key accounts of the Fuze Tea, which in Q1 was not done. Then, we also have fine-tuned also our promo activities in line with more than expected, intensified competitive activities in Q1, still maintaining a good healthy balance between volume and price as it will never be just volume.

And also key activities in Russia starting because of the FIFA World Cup now in Q2. We've been there in April and I've been very pleased with what I saw in terms of the activation across all channels. And last, but not least, we know that we are going to cycle a very bad summer. Last year that was in Russia, it was a horrible summer. So if we just have a normal summer, we don't expect -- we don't need anything above normal. So we are cycling something that will help us. So I'm pretty confident that both of those markets will continue with a growth and will have a -- will have a good growth year this year.

Andrea Pistacchi, Deutsche Bank, Beverage Analyst

So yes -- sorry, yes?

Unidentified Participant

We see in Australia, a wonderful country, we're seeing a movement of the young mums going away from sugar and we had tried Stevia. It didn't really get a lot -- a lot of bite.

What do you seeing across your developed markets versus -- obviously in Russia and Nigeria, people aren't really worried about calories. And how is that battle going and is there a niche product study that come up in some of the developed markets? We're seeing it with a lot of these niche products coming from competitors. How is that all playing out and really does it matter in the whole steamroller of Coca-Cola going forward? Does it really matter that you're losing a little bit of sales to niches in developed markets? I'm not sure I'm totally on track, but see how you go.

Zoran Bogdanovic, Coca-Cola HBC AG, Chief Executive Officer

Yes. We see in our established developed markets that in all of them our, as we call them, Zero and Light variants are having strong growth, double-digit, and that's already at the back of a number of them having already high percent of Zeroes and Lights in the total mix. So we do see that it matters. That's why to bring excitement and novelty to that segment in the category, majority of flavor innovations that are happening are happening on Zeroes and Lights. And we do see that it matters to consumers whether that's lime, whether that's cherry, whether that's lemon. I mean it can be anything.

So we do respect that as close as they can be, Austria and Switzerland, but you will see that flavour preferences and what one country likes, the other one likes something else. So we do that and consciously we innovate in that segment and it's not surprising, for example, in Italy that now for a number of quarters we are constantly having a strong double-digit growth on Zeroes and Lights. So that works.

Now, when it comes to these various niche players, I would stick even within sparkling category. That shows how much opportunity there is and that's why we are also tapping with new brands. I would like to highlight here an example of the adult drinks which are growing three times faster than the whole category and with Schweppes, that we have in several markets, we have now introduced Royal Bliss.

I'm absolutely optimistic and hugely confident about what this segment means and how much value it brings from the market because, as a reminder, you can have this as a stray drink or more and more what happens is that you have this as a mixer and mixability after work, evening. Schweppes, in all of our countries, sells at premium. It's between 10 percent and 50 percent above Coke and it's growing for a number of last quarters strong double-digit because consumers want it, recognize high-quality product.

And I have to say it's not only us, but the whole segment of the adult drinks is going very well. It's only that we are now accelerating that we are playing with more brands there. It used to be only Schweppes and Kinley. Now it's Royal Bliss. So we are very much focused on this segment, which maybe five years ago we didn't take to that level, not even close, but now this is accelerating to a very high degree.

Unidentified Participant

Can you talk a little bit about what proportion of your business or maybe what proportion of your growth is coming from new products and what the right level that should be and maybe just compare and contrast across the developed markets and the developing markets as well?

Zoran Bogdanovic, Coca-Cola HBC AG, Chief Executive Officer

So last year, as well as this year, first of all, if you -- if you take the percent impact on our total volume it would be between 4 percent and 5 percent and this is without cannibalization and -- yes, without cannibalization, but we do see that a need in developed, but in other markets as well that innovation plays.

So last year we had a big number of innovations, but this year we say we have probably more -- I mean not probably, certainly more than ever innovations coming into the -- into the market across all categories because we do see that it is, one, engine of growth, second, bringing the excitement and relevance the consumers want and it also give us -- gives us the opportunity to bring in products which are more premium, give additional benefits to consumers that they appreciate. So the whole price mix opportunity is there as well.

So in short, I can really say that this is critical and going forward, I would expect that our ability and capability to constantly come up with relevant innovations is only going to increase and not to be smaller. Thank you.

Andrea Pistacchi, Deutsche Bank, Beverage Analyst

Maybe our last -- we're got a question there.

Unidentified Participant

It's about CCBA. I know you can't really comment on any rumors or anything, but just can you tell us a bit more about the timing that you're fixing yourself or is there any official timing? Because I mean we've been talking about it for a very long time now so what should trigger something in terms of the time frame of this thing?

Zoran Bogdanovic, Coca-Cola HBC AG, Chief Executive Officer

Thank you. In fairness, the ones who are absolutely best positioned to answer on this are our colleagues from the Coca-Cola Company. Initially, they have given certain timelines. You know well, as from what we have read and heard from their calls, is that they had also some regulatory things in South Africa. Elections were there and all sorts of things. So I think everything that they said as a timeline which I think they did say that eventually they see that by the end of the year or something like this. I will just say what we've heard what anyone can hear from them. So I think really they are the ones to give the most accurate answer.

Andrea Pistacchi, Deutsche Bank, Beverage Analyst

One last question. Thank you.

Unidentified Participant

Do you see yourself as the only viable bidder for that business for Africa? Is that an auction type process or do you see yourselves as the only bidder?

Zoran Bogdanovic, Coca-Cola HBC AG, Chief Executive Officer

I really cannot say anything more than what I said on the topic. I really wouldn't know. I really wouldn't know.

Unidentified Participant

Okay. Thanks.

Zoran Bogdanovic, Coca-Cola HBC AG, Chief Executive Officer

Zoran Bogdanovic: Yes.

Andrea Pistacchi, Deutsche Bank, Beverage Analyst

All right. I think time is finished so I'd like to thank you very much Zoran and Michalis. Thank you very much for being here.

Zoran Bogdanovic, Coca-Cola HBC AG, Chief Executive Officer

Thank you.

Michalis Imellos, Coca-Cola HBC AG, Chief Financial Officer

Thank you.

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