CCH – 2017 Full-year results
Conference call script – 14 February 2018

CORPORATE PARTICIPANTS

Zoran Bogdanovic - 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 2017 full-year results. We have with us Mr. Zoran Bogdanovic, 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 Wednesday, February 14, 2018. 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 2017.

Today, I am joined by our Chief Executive Officer, Zoran Bogdanovic and our Chief Financial Officer, Michalis Imellos.

Following the presentation by Zoran and Michalis, we will open the floor to questions. In order to facilitate a good Q&A session, we suggest that you ask your questions one at a time, waiting for us to answer one question before you ask another. The operator will keep your line open, until we have exhausted all your 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 Zoran.

Zoran Bogdanovic - Coca-Cola HBC AG – CEO

Full-year highlights

Thank you Basak. Good morning everyone and thank you for joining our full-year results call.

I am delighted to host my first full-year results as CEO of Coca-Cola HBC.

I will start by giving an overview of the year. Michalis will then take you through our financial performance, before I discuss our operational performance and outlook for 2018.

As you can see, I am fortunate to have taken over a business in excellent shape. 2017 was an exceptional year for the company. We are delighted to have delivered strong growth in volume, revenue and margin, demonstrating significant progress towards our 2020 goals.

Starting with the topline: FX-neutral revenue grew by 5.9% in the year, achieved through a good balance of volume and FX-neutral revenue per case.

FX-neutral revenue per case grew strongly, up 3.6%, and faster than in 2016 due to better price, category and package mix in all segments.

Volumes grew by 2.2% overall, with strong growth in the second half of the year. We grew across all segments, with particularly strong growth in our Emerging and Developing countries, despite a challenging operating environment in both Nigeria and Russia.

EBIT margin increased substantially, up 120 basis points as a result of our ongoing focus on revenue growth initiatives led by price increases and mix improvements. We were also helped by volume leverage, careful management of input costs and a small positive foreign currency impact.

Comparable EPS was 1 Euro and 23 cents, up 27% on the prior year.

We increased our net capital expenditure spend by 46 million Euros in this period, focusing on revenue-generating opportunities in markets with high growth potential. This impacted our free cash flow, which declined marginally to 426 million Euros.

Finally, our Board is proposing a 54 Euro cents dividend per share, a 23% increase on the 2016 dividend.

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

Michalis Imellos - Coca-Cola HBC AG – CFO

Financial review

Thank you Zoran 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 5.9% in the full year. On a reported basis, net sales revenue increased by 4.9%. In recent years, reported revenue growth has been considerably smaller than the currency-neutral one. In 2017, the stronger Russian Rouble helped to minimise the currency impact.

Volume growth of 2.2% was broad based across the segments and accelerated as the year progressed, with the second half delivering better volume expansion than the first half. We are pleased to see good momentum in our medium-sized Emerging and Developing segment countries, while Nigeria and Russia produced flattish results in a challenging operating environment.

FX-neutral revenue per case grew in all segments as well, up 3.6% overall, with positive contributions from price, category and package mix.

Gross profit margin improved by 90 basis points, helped by the significant price/mix improvement, operating leverage from volume growth as well as careful management of input costs and a small positive foreign currency impact.

Operating expenses as a percentage of revenue improved by 30 basis points, a good performance driven by top-line operating leverage.

Financial performance overview

Comparable operating profit increased in the full year by 20% versus the prior year and comparable operating profit margin expanded by 120 basis points. Better price/mix, combined with volume leverage, drove this excellent performance. We also managed our input costs carefully, taking advantage of certain windows of opportunity to pre-buy PET resin for instance. I will give you a bit more colour in a few minutes.

Currency impact was an 8 million Euro tailwind in the year due to the strong Russian Rouble, which more than offset our other weaker currencies, mainly the Nigerian Naira.

Comparable EPS reached 1 Euro and 23 cents, 27% higher than prior year, further helped by the improved financing costs year on year.

Our working capital balance remained in the triple-digit negative territory.

We generated strong free cash flow of 426 million Euros in the full year, down 5 million year on year. Higher operating cash flow was offset by a 46 million Euro increase in net capital expenditure as per our plans to invest in revenue-generating assets.

Revenue growth from balanced volume and price/mix growth

Turning to the revenue performance, let me start by saying that we are very pleased with the balanced contribution from volume growth and price/mix improvements. It is also good to see that the growth is broad based across our markets.

As I mentioned earlier, currency neutral revenue per case improved substantially versus the prior year. Our successful commercial strategy and execution improved category and package mix in all segments. We also implemented significant pricing to offset adverse foreign currency movements, particularly in the Emerging segment.

In our Established markets, currency neutral revenue per case increased by 0.7%. Good category and pack mix was partially offset by adverse channel mix.

In Developing markets, improved price, category and package mix led to a 2.7% increase in FX-neutral revenue per case.

The Emerging markets saw a 6.9% improvement in currency neutral revenue per case mostly as a result of price rises, which, as I mentioned, were deployed to offset currency headwinds. Category and package mix also contributed to the improvement, offsetting adverse channel mix.

Input costs slightly better than expected

Turning to input cost:

Currency neutral input cost per case was up by 3.1% in the year. This is slightly better than the guidance that we gave in November.

We had contracted EU sugar prices at favourable levels at the end of 2015, which proved successful. PET resin prices did increase as expected, but careful management and certain well-timed pre-buys by our procurement team ensured that we secured better pricing versus our plans.

Operating leverage delivering despite higher marketing

Turning to our OpEx performance. We have worked hard over the years to right-size our operating cost base, and we continue to use our infrastructure effectively while we grow the topline. In the year, this resulted in comparable operating expenses reducing to 27.9% of revenue - a 30 basis-point reduction compared to the prior year.

Let me walk you through the key drivers.
Reductions in administration and warehousing costs led to a 50 basis points improvement as a percentage of revenue.

Sales and marketing expenses increased by 10 basis points. Direct marketing expense increased in absolute terms to support our new product and flavour launches, and was stable as a percentage of revenue.

We also incurred a significant one-off negative impact of 40 basis points, driven mainly by a bad debt provision in Croatia and the investment we have made in re-designing the revenue growth management framework.

As a result, we are pleased with the ongoing strong underlying performance of our OpEx as a percentage of revenue, especially in view of the growing sales and marketing investments that support our revenue growth management initiatives.

Profit and margin growth

Turning to operating performance, we are reporting comparable operating profit of 621 million Euros in the year, 103 million higher than in the prior year. This is the result of driving price/mix and volume, while managing input and operating costs, enhanced by the absence of adverse net foreign exchange movements. Historically, currency movements have been a headwind to profitability, impacting predominantly the Emerging markets segment.

Let me provide you with some more colour on the key drivers on a segmental basis:

In Established markets we benefited from volume growth, favourable price and product mix and lower operating expenses. These were only partially offset by the negative impact of higher input costs and adverse foreign exchange impact.

In Developing markets, improved volume, price and mix only partly offset the impact of unfavourable input costs and higher operating expenses due to the bad debt provision in Croatia. Excluding the provision, the Developing segment EBIT grew year on year.

The Emerging markets segment benefitted from higher pricing, mainly in Nigeria, and higher sales volume along with minimal net FX impact. These factors more than offset higher cost of goods sold and increased operating expenses.

Restructuring plans

As far as restructuring is concerned:

We incurred charges of 29 million Euros in the year, mostly in our Established and Emerging segments.

Restructuring benefits in the year from 2016 and 2017 initiatives amounted to 17 million Euros.

Looking ahead to 2018, we expect restructuring costs of approximately 11 million Euros with estimated annualised benefits of 8 million Euros from 2019 onwards.

The savings in 2018 from initiatives taken in 2017 and those that will be taken in 2018, are expected to reach 7 million Euros.

Growing operating cash flow re-invested in revenue-generating assets

Turning now to free cash flow, we generated 426 million Euros in the year, 5 million less than in the prior year. Cash flow generation was supported by higher profits and good working capital management, while we increased net capital expenditure by 46 million Euros.

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

Our capital expenditure as a percentage of revenue came in at 5.8%, within our target range of 5.5% to 6.5%, compared to 5.3% in the prior year.

In 2017, we accelerated investments in revenue-generating assets to support the momentum in top-line growth.

Financing cost

Let me now touch upon the financing cost improvement in 2017.

With the successful refinancing of the 600 million Euro November 2016 bond, our 2017 results saw a dual benefit:

- the bond interest cost improvement of 7.5 million Euros per year, and
- the cycling of certain new issue costs and the extra interest incurred during the overlapping period in 2016. These one-off costs amounted to 13.5 million Euros.

Overall net financing costs for 2017 amounted to 37 million Euros - a reduction of 26 million Euros compared to the prior year.

Our net debt to comparable EBITDA ratio stood at 0.8 times at the year end.

EBIT margin development

Before I conclude, let me walk you through our profit margin levers in the light of our 2017 results.

Firstly a reminder of the operating leverage formula. All else being equal, one percentage point of volume growth, yields approximately 25 basis points of EBIT margin improvement, while one percentage point of revenue per case growth, yields approximately 70 basis points of EBIT margin improvement.

Applying this formula to our results, our 120 bps EBIT margin expansion in the year can be explained as follows:

- 50 basis points of margin expansion from volume leverage – based on the 2.2% volume growth in the year
- 230 basis points expansion from revenue leverage – based on the 3.6% growth in currency neutral revenue per case in the year
- 10 basis point expansion from our cost productivity initiatives
- 100 basis point contraction from the combined impact of currency and input costs
- Somewhat unusually this year, we also have a 70 basis-point headwind from one-off costs (30bps in Cost of Sales, 40bps in Opex). These include a bad debt provision and our investment into the redesign of our revenue growth management framework.

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

Zoran Bogdanovic - Coca-Cola HBC AG – CEO

Operational review and strategy

Thank you Michali.

Overall, volume increased by 2.2%, an acceleration from the marginal expansion of 0.1% in the prior year. Additionally, all three segments delivered faster volume growth in the second half of 2017 compared to the first half. Furthermore, strong volume delivery from our markets, such as Romania, Serbia, Ukraine, Hungary and the Czech Republic, was an important component of overall volume growth. It is very pleasing to see these medium-sized countries thrive as their economies develop. Nigeria and Russia had tough operating conditions in the year, although their economies are forecast to improve.

Looking at the segments
In Established markets, volume grew by 1.1%, helped by a good summer. Water and Energy were the growth drivers, more than offsetting declines in Sparkling, Juice and RTD Tea.

Developing markets grew volumes by 2.8%, showing an acceleration in the second half, mainly due to an acceleration of volume performance in Poland. Volume growth was driven by Sparkling, Energy and Juice, partially offset by declines in Water, RTD Tea and Sports drinks.

In the Emerging markets, volume grew by 2.7%, with strong growth in Ukraine, Romania and Serbia. Russia and Nigeria volumes declined marginally. All categories grew in this segment apart from RTD tea.

Volume growth by category

Looking at our performance by category:

Our evolving Sparkling beverages portfolio is proving popular with consumers and we are seeing strong growth trends from new variants and flavour launches such as Coca-Cola Lime, Coca-Cola Zero Lemon, Sprite Cucumber, Schweppes Pomegranate and eight new flavours of Fanta. As a result of our efforts, Sparkling beverages volumes increased by 2.3% in the year, faster than the 1.2% growth rate we saw in 2016. All our markets in the Developing and Emerging segments delivered volume growth in Sparkling, with the exception of Nigeria. In the Established markets, we are putting extra effort behind Lights and Adult drinks. Therefore seeing Coca-Cola Zero up by 14% and Schweppes up by 10% in this segment is very encouraging. Having said that, the decline in Regular Coke is holding Sparkling volumes back in the Established segment.

Within the sparkling category and overall for the Group, Trademark Coca-Cola increased by 2.7%, with a 22% increase in Coke Zero. We also saw 5% uplift in Schweppes and 3% in Fanta.

We are also seeing growth overall in our Still drinks portfolio. Let me touch on the developments in the key categories.

Water grew by 3% in the year, with growth in Established and Emerging segments and decline in Developing.

Juice declined in the year by 0.8%, with mixed results in our markets. The Established segment declined, mainly driven by Ireland, where the decision to reduce distribution of concentrated formula drinks impacted volumes negatively. Nigeria had a difficult year following price increases. On the other hand, juice volume is back to growth in Russia.
Energy continues to be a strategically important category for us and we delivered another year of volume growth above 20%. Growth is supported by Monster, which increased volumes by 48.3% including the launch in Nigeria, and 40.6% on an organic basis.

RTD Tea remained weak with a decline of 7%. Romania, Hungary and Bulgaria, the countries where we will retain the Nestea brand, delivered volume growth, while other countries were in decline in 2017. We launched the FUZE brand at the start of 2018 in all of our markets apart from Nigeria. The early indications from the markets are very good, and we believe that the new launch will revitalise the category in the coming years.

Established markets - Focusing on innovation and value

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

In our Established markets segment volume was up by 1.1% in the year, mainly a result of Water and Energy drinks. Sparkling, Juice and RTD Tea were in decline.

In Italy volumes declined by half a percentage point. Excluding the impact of the delisting of the low-value water brands, which impacted comparatives in the first quarter, volume in Italy would have been stable on the prior year. While full-sugar Sparkling drinks have been under pressure for some time in Italy, our efforts in Lights, adult drinks, single-serve packaging and the hotels, restaurants and cafes channel are bearing fruit. For instance, Coke Zero, which now accounts for 16% of Trademark Coke in Italy, grew by 21% in the year.

Volume in Greece grew by 6% in the full year, driven by Water, Sparkling and Energy. The good summer, a good tourist season and an improving retail market helped, although macroeconomic conditions are still challenging. Water continued its positive momentum with growth in all four quarters. Low-calorie Sparkling drinks grew, with growth in Coca-Cola Zero, further helped by the launch of the new Coca-Cola with Stevia and no calories.

In Switzerland, volume declined marginally. Good performance in Water, growth in Coca-Cola Zero following the launch of the new zero sugar formula, and in Fanta with the slider bottle, were not enough to offset declines in Coca-Cola Regular and RTD Tea.

In addition to robust volume growth in Established markets, we achieved a 0.7% improvement in FX neutral net sales revenue per case. Favourable price and product mix more than offset the unfavourable channel mix.

Developing markets – A much stronger second half

In our Developing markets, volume grew by 2.8%, with an acceleration in the second half, mainly due to an acceleration of volume performance in Poland. Volume growth was driven by Sparkling, Energy and Juice, partially offset by declines in Water and RTD Tea.

In Poland, we started the year with specific commercial plans that would drive value faster than volume, as well as a significant pipeline of innovation in new variants, flavours and packaging. These initiatives improved FX-neutral revenue per case and volumes picked up as the year progressed, despite poor summer weather and a declining underlying NARTD market. We finished the year with 1.5% volume growth in 2017, and the very strong fourth quarter is extremely encouraging for 2018.

In the Czech Republic, volume grew by 6%, with all categories growing except for Water. Sparkling delivered high single-digit growth, driven by Coca-Cola Regular, Coca-Cola Zero, Fanta, and Sprite. Water declined by high single digits, despite the flattish fourth quarter, while Energy continued to grow, driven by Monster.

Hungary remains a strong market, where the consumer is very receptive to innovation. Volumes grew by 7% overall. Coca-Cola Trademark grew by mid single digits led by double-digit growth in Coca-Cola Zero, following the launch of the new formula, and by growth in Coca-Cola Regular. Fanta grew by double digits as well, following the launch of the new Fanta Slider bottle. Water grew by high single digits, helped by the good weather in the third quarter.

Overall in the segment, favorable price, category and package mix resulted in a 2.7% increase in FX-neutral revenue per case.

Emerging markets – Medium-sized markets driving growth

Volume in our Emerging markets grew by 2.7%, with strong growth in Ukraine, Romania and Serbia, which more than offset the marginal declines in Russia and Nigeria.

Volume in Russia declined by 0.3% for the full year, with positive momentum through the year, culminating in a good fourth quarter. It is good to see that Trademark Coke was up mid single digits, supported by Coke Zero which grew in the high teens. Mid-teens growth in Schweppes and mid single-digit growth in Sprite also helped to achieve low single-digit growth in Sparkling overall. Water was weak, declining at a low double-digit rate, boosted by particularly poor summer weather and competitive pressure. Juice volume returned to growth after a couple of difficult years.

Volumes in Nigeria declined by 1%. Three price increases, taken to offset the significant depreciation of the Naira, had an adverse impact on demand. We adjusted our PET package sizes to maintain price points relevant to the consumer, which helped to maintain volumes. We have further PET package launches planned in Schweppes and Juice. Stills grew mid single digits, with high single-digit growth in Water, but a double-digit decline in Juice.

Volume in Romania grew by 6%, with strong results across all categories. Sparkling grew mid single digits, with mid single-digit growth in Trademark Coke and Fanta. Schweppes grew in the low teens. Stills grew high single digits, with mid single-digit growth from Water and Juice. RTD tea continues to do well with mid-teens expansion.

FX-neutral revenue per case grew by 6.9% in the period, in line with our strategy to implement pricing initiatives in markets facing inflationary pressures and currency headwinds. It is pleasing to see that both category and package mix also supported value.

Looking ahead

In closing, we are very pleased with our performance in 2017. We delivered another year of strong growth in profitability and there is a good momentum in the business we can build on.

Looking at 201 8 we expect volume to continue to grow in all three segments, with the Emerging markets segment accelerating and Russia and Nigeria return to volume growth.

Our revenue growth management initiatives, which are designed to grow revenue faster than volume, have gained momentum. We will also take pricing actions in markets impacted by foreign currency depreciation. With relative stability in Nigeria and Russia, the contribution from pricing actions is likely to slow down in 2018. Overall, we are confident we can continue to improve FX-neutral net sales revenue per case in the year.

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

Taking into account our hedged positions and current spot rates, the adverse impact on EBIT from foreign currency is expected to be around 30 million Euros for the full year.

Finally, 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 revenue, supporting another year of EBIT margin growth.

Q&A

With that, I will now hand over to the operator, and Michalis and I will take your questions.

[Q&A transcript will be available on the Company's website on Thursday 15th February]

I want to thank you for joining us today and for all your questions that facilitated a good discussion. So, thank you very much.

I will leave you with the following thoughts.

We are very pleased to be delivering well against our 2020 strategic plan. The progress we have made is a testament to the dedication of our people to a strategy they understand and drive.

Looking forward, we are confident that the unique strengths of our business, combined with our proven strategy, position us well towards our 2020 objectives.

Thank you and we look forward to speaking with you again.