

CCH – 2018 Third-quarter trading update Conference call script – 8 November 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 Coca-Cola HBC's conference call for the 2018 third-quarter trading update. 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. We will have a brief update on 2018 third-quarter trading and then we will open the call to questions. 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 conference is being recorded today Thursday, November 8, 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

Good morning. Thank you for joining our call today to discuss Coca-Cola Hellenic Bottling Company's third quarter trading update.

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

Before we get started, let me remind everyone that this conference call contains various forward-looking statements. These should be considered in conjunction with the cautionary statements in our trading update press release, which we published this morning.

Although we have added a webcast facility to our call for ease of access, there will be no slide presentation today as per our usual practice for trading updates. We will start with some brief opening remarks from Zoran and then open the floor to your 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.

Let me now turn the call over to Zoran.

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Zoran Bogdanovic - Coca-Cola HBC AG – CEO

Third-quarter highlights

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

We delivered a solid revenue performance in the quarter, with FX-neutral revenue growth of 4.5%. The volume component of the growth was strong, up 4.2%, with good delivery in the Developing markets and the Emerging markets, coupled with a stable performance in the Established markets. The contribution to volume growth from our recently launched sparkling products was particularly pleasing, as was the development in transactions, which grew faster than volume in all three segments, helping us drive value growth faster than volume.

FX-neutral revenue per case improved by 0.3% in the quarter, an expected temporary slowdown on recent trends, which I will come to in a minute. Currencies had a negative impact, so on a reported basis, net sales revenue grew by 2.6% compared to the prior-year quarter.

Let me now take you through the main drivers of volume and revenue per case on a segmental basis.

Established markets volumes were broadly stable in the quarter, following the 2.2% increase in the prior-year period when volumes benefited from an exceptionally warm summer in Italy and Greece. Sparkling beverages performance was relatively weak, particularly in Italy; however, we are pleased to see that within the category, our low- and no-calorie sparkling brands and our adult propositions continue to do well. Coke Zero advanced by 13.5% in the quarter, and Schweppes, by 7%. Water, Ready-to-Drink Tea and Energy also grew well.

Volume in Developing markets increased by 11.3%. Our actions to continuously improve our execution capability in the market, coupled with good weather in most of the countries during the summer and the continued favourable economic environment in the region, resulted in growth in all countries in excess of mid single digits. Poland was the stand-out performer with mid-teens growth, maintaining the momentum we saw in the first half of the year.

Emerging markets volumes increased by 4.1%, with good contributions from all markets. In Nigeria the consumer continues to be under pressure; however, the flexibility we have to adjust the brand, price and pack architecture allowed us to address affordability needs and adapt to strong competitive pressure, ultimately growing volumes by mid single digits. In Russia, the improving underlying NARTD market, helped by the warmer summer, underpinned our growth, while the environment remains intensely competitive. As anticipated, we saw a moderation in the very strong pace of growth from Romania, Ukraine and Serbia, which were all cycling high growth rates in the prior-year period.

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Turning now to price and mix

As expected, the FX-neutral revenue per case growth of 0.3% was lower than the growth rates we have reported in recent quarters. Therefore, I would like to take a few minutes to explain this. The reasons for this moderation are varied and relate predominantly to the Emerging and Established markets.

In the Emerging markets, we cycled the substantial price increases of 2017 in the second quarter of 2018, with no benefit in the third quarter. In addition, we saw faster growth in the Organised Trade in Russia and adapted to competitive pressure in other countries in the segment. The discontinuation of our distribution of the Brown-Forman premium spirits products in Russia also impacted the segment negatively, given the substantially higher price per case for spirits compared to NARTD beverages.

In the Established markets, higher Water volumes and more intense promotional activity drove the lower FX-neutral revenue per case – mainly in Italy and Greece.

In the Developing segment on the other hand, we improved price/mix growth from 0.9% in the first half to 2.5% in the third quarter, as we benefited from price increases in certain markets and better category mix.

Having implemented our planned pricing actions in October, we expect a recovery in FX-neutral revenue per case in the fourth quarter.

Now turning to the categories

In the first two quarters, in line with our strategy to expand our beverage choices, we launched a number of new categories, brands, flavours and packages to meet our consumers' changing needs and preferences. In the third quarter, we focused our efforts on increasing distribution and repeat sales of these innovations.

AdeZ plant-based beverages, Smartwater and Honest Tea, which represent the new categories and brands, continued to grow, albeit from a low base, and flavour innovations such as Coca-Cola Zero Cherry, Fanta Zero Lemon and Grapefruit made sizable contributions to volumes. In total, we sold 31.5 million unit cases of new products, flavours and packages, representing 5.1% of our volume in the quarter. In addition to this, we continue to evolve our recipes and reduce our sugar footprint, in line with our commitment to reduce the amount of sugar per 100 ml of product by 10% by 2020.

We are pleased to report a successful quarter for Sparkling beverages, which grew by 4.7%. Within Sparkling beverages, the low and no-calorie variants grew strongly by 25.9% in the quarter, while full-sugar variants also grew by 2.1%.

Still drinks growth was 2.2%, with mixed performances from the key categories as you will have seen in the press release.

Let me just say how pleased I am with the execution of the FUZE Tea transition. In only three quarters, FUZE Tea has revitalised the category, and already achieved 0.4% growth in the third quarter. In light of performance so far, we are now optimistic that the RTD tea category can achieve growth in its first year of transition from Nestea to FUZE Tea.

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In conclusion, we made good progress in the third quarter and as we execute our planned pricing plans, we expect to see an acceleration in the pace of price/mix improvement in the fourth quarter. We are encouraged by the performance in October, and we look to the full year confident that 2018 will be another year of good growth in both revenue and margins.

With that, I will now hand over to the operator and Michalis and I will take any questions you may have.

Q&A

[Q&A transcript will be available on the Company's website on Friday 9th November]