CCH – dbAccess 2019 Global Consumer Conference Fireside chat and Q&A transcript – 7 June 2019

CORPORATE PARTICIPANTS

Andrea Pistacchi, Deutsche Bank, Beverage Analyst

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

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

Fireside chat

Andrea Pistacchi, Deutsche Bank, Beverage Analyst

So good afternoon, everyone. I'm Andrea Pistacchi from the consumer team at Deutsche Bank. We've got Coca-Cola Hellenic here. It's my pleasure to introduce CEO, Zoran Bogdanovic; and the CFO, Michalis Imellos.

The format here is going to be that Zoran will do a presentation, a brief presentation on sort of the strategy update showing how Coca-Cola Hellenic is planning to sustain 5%, 6% top line growth. Then we'll have a few questions and then we'll open up it up to the floor for more questions. Zoran, the floor is yours. Thank you..

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

Good afternoon everyone. My name is Zoran Bogdanovic, and I am the CEO of Coca-Cola HBC. I'd like to spend a few minutes giving you an overview of the company and our opportunities as well as our strategy to 2025, which we laid out last week at our Capital Markets Day in London. After that, Michalis and me will be happy to take your questions.

The group in its current form was established in 2000 when Hellenic Bottling Company merged with Coca-Cola Beverages combining the former's 10 markets with the latter's 13.

But our roots go further back to 1951, when Anastasios Leventis established the Nigerian bottling company in Lagos. And of course, Nigeria remains one of our most exciting growth markets today.

We operate in 28 countries across three continents and report in the three segments that you see on this slide. This diversity of markets gives us exposure to a range of different growth profiles and economic cycles, and we have a track record of success in a range of challenging economic and political environments.

Our product range is also increasingly broad. Among the bottlers, we have one of the highest percentages of still drinks, making us well positioned to cater to a wide range of consumer preferences.

Our distinctive Hellenic culture is a critical differentiator and our capable, engaged and passionate people are committed to drive the business forward. We've got a deep and enduring relationship with the Coca-Cola Company that dates back to when the business was founded in Nigeria 68 years ago.

As strategic partners, we have been working together over the decades to delight consumers and meet customer needs with high-quality products and service.

The company has evolved into a leading, global FMCG business with a strong track record of delivering growth and value for all our stakeholders, while establishing itself as an industry leader in sustainability. Last but definitely not least, we are committed to and delivering strong financial growth and shareholder returns.

In 2016, we set out our ambitions to grow currency-neutral revenue in a range of 4% to 5% per annum; deliver 11% margin by 2020; improve our efficiency by reducing OpEx as a percent of revenue to between 26% and 27%, whilst investing in the business to the tune of 5.5% to 6.5% of revenue; and maintaining working capital less than negative $100 million.

Our progress against these targets has been very strong and has driven a 23% total shareholder return CAGR since 2015, which is industry leading. 2018 saw the 2nd year of currency-neutral revenue growth about the 4% to 5% range.

We have delivered exceptional margin growth and are on our way to taking margins back to levels last seen in the strong 2004 to 2008 period before the financial crisis.

Over the course of this plan, margins have recovered from 6.5% in 2014 to 10.2% in 2018, and we are confident of further progress this year. Working capital performance has consistently been triple-digit negative, and we have remained within our CapEx target with the pace of growth accelerating.

One benefit of all this for shareholders is the EUR 730 million special dividend we recently announced, demonstrating our commitment and ability to generate significant, sustainable returns to shareholders.

We are still working hard to deliver in full on our 2020 commitments; however, we also believe it is a good time to look ahead to the next stage of our growth story.

So let me start to lay out for you some of the reasons that we are so excited about the future.

We are the leader in the fast-growing and dynamic non-alcoholic ready-to-drink industry.

We are clear Number One in sparkling in 22 of 23 measured markets. Sparkling is expected to contribute a third of the total NARTD value growth in the next five to seven years, and we are very well positioned to capture that growth.

We also have strong positions in other exciting categories like energy and ready-to-drink tea, with clear opportunity to expand our share further. Finally, there are categories like plant-based beverages that we are just entering, but in which our scale and capabilities make us a formidable challenger.

As we look forward to 2025, you can see the accelerating growth profile for NARTD overall and for nearly every one of our categories.

This is one reason why we are so confident in the growth plan. And NARTD is only is the beginning, there are other lucrative revenue pools in commercial beverages in which we have clear opportunities thanks to our scale and portfolio.

Coffee alone is worth EUR 56 billion across our markets and is growing. With the addition of Costa to the Coca-Cola company portfolio range, we believe that is a great opportunity for us. And with the work we've already done in the category, we feel ready.

We have an attractive geographic footprint with favorable demographics. Our territory has a population of [616] million, which is expected to grow to nearly 650 million by 2025. In Nigeria, which alone accounts for 200 million people today has a very young population with more than 50% younger than 19.

In addition, if you look at sparkling in particular, many of our countries have a lot of headroom on a per capita consumption basis, which presents a significant opportunity for us.

A big part of this opportunity is our presence in emerging markets like Russia and Nigeria, but even some of our established markets such as Italy have sizable room for growth to reach at least the European average.

There is one fact that keeps me focused on the scale of the opportunity, if we bring the average per capita consumption of Coca-Cola HBC to the average EU level, we will double our volumes. We believe that the right product and commercial strategies can help us unlock this potential.

This combination of countries creates a unique balance for us. We have exposure to fast-growing markets, a strong presence in the profitable and cash-generative established markets, and we benefit from the portfolio effect of exposure to different economic cycles.

We are proven operators in volatile socioeconomic conditions, and over the last few years, have successfully overcome significant foreign exchange depreciation in two of our largest markets.

The 24/7 product portfolio we now have is a truly unique asset. Our products cater to a growing range of taste and preferences with a wider choice of healthy options and premium products. When I reflect on my 20-plus years with the Company, the change in portfolio is impressive.

As an example, in 2001, 90% of volumes came from Sparkling. Today, that is only 70%. Last year, in particular, saw a step change in the pace of innovation in the portfolio through the introduction of new products, flavors and brands, which are increasingly driving our growth.

New launches throughout 2018 drove volume growth of 4.4% in the year. Our sparkling portfolio has evolved with the proliferation of zero sugar and light variance, more convenient packs and broader innovation in flavors.

We have significantly increased our focus on the lucrative adult sparkling segment, leveraging the jewels within our portfolio and accelerating profitable revenue growth.

Energy, as a category continues to grow rapidly. With Monster and Burn, we have two of the leading brands in this exciting category. We have just launched Coke Energy and Predator is being launched as we speak.

We have also added premium offerings in water and juice, launched a new ready-to-drink tea brand with FUZETEA and entered new categories like a plant-based beverages with AdeZ.

We're also benefit from the highly complementary premium spirit category, which helps us to unlock the potential of our portfolio, particularly in the HoReCa channel. And finally, as I mentioned earlier, coffee is a huge opportunity and one in which we have developed expertise over the past few years in a number of our markets.

This range of brands and categories gives us an undisputed 24/7 capability to appeal to a larger group of consumers across all occasions, whether it's a coffee first thing in the morning, a Coke break, water or sports beverage during a workout, FUZE Tea when you are relaxing at home or Schweppes, Kinley or Royal Bliss as mixers at the bar with a premium spirit supplied by us.

And really the exciting thing is that this broader, truly 24/7 flexible portfolio has only recently taken shape, and we now have the opportunity and plans to scale it across our market.

Because we understand, which consumer occasions contribute most to industry revenues, we are able to prioritize those occasions to drive faster profitable growth among the total commercial beverages revenue pool. This lies at the heart of our future plans.

Following a thorough review of our industry dynamics, our operations and capabilities, we have created an ambitious plan with a clear vision. The vision is to be the leading 24/7 beverage partner.

I have spoken about our portfolio and the 24/7 opportunity it gives us. And I also laid out the importance of our relationship both with the Coca-Cola Company and our customers.

As we look forward, we've got absolute clarity about how we can and will leverage our 24/7 beverage portfolio to be the leader in our industry and partner for the growth with our customers and the Coca-Cola company.

This vision will be enabled by five growth pillars, which are supported by our core capabilities. Given the available time, I'm going to focus on the first three of these pillars here, but the other two, which are to cultivate the potential of our people and to earn the license to operate are crucial elements of the plan and you will find more information on those from the presentation I gave out at our Capital Markets Day in London last week.

The first of our growth pillars is to leverage our 24/7 portfolio. When we take into account our rate of innovation, new product launches and reformulations, we have a product range that we can deploy across high-value occasions and channels to create value.

I want to emphasize the point that a broader portfolio gives us the relevant products across all the drinking occasions around-the-clock and the right to win in the priority ones.

We have very clear strategies behind each one of our categories. As we expand our offering outside of Sparkling, it becomes crucial that we understand together with Coca-Cola Company exactly what we want these categories to achieve.

In Sparkling, being an undisputed leader, we are driving overall category value growth. In Water, Juices and Tea, the goal is to premiumize and expand. Energy is a very category with an accelerated growth profile, which we think is just starting, and here we will expand and innovate as you've seen with the Coke Energy launch in three of our markets so far.

And finally, it's worth being clear on the role of both premium spirit and our current coffee portfolio where the focus is on unlocking growth for our total beverage portfolio in the relevant high-value channels.

Capturing the opportunities in the NARTD market is not just about a strong portfolio but also being able to reach every outlet and consumer through the appropriate customer and channel. So how do we ensure that we have the commercial capabilities to win in the marketplace with these customers?

Our second pillar is to win in the marketplace with customers. Just as our portfolio is now more consumer centric, our sales approach is becoming more customer centric while at the same time evolving to provide a broader 24/7 portfolio to an even wider range of customers.

We are now able to use increasingly sophisticated market and customer insights to create category strategies, which unlock growth across various channels and create joint value for both our customers and us.

When we create value with our customers, growing their revenue and profit from selling our products, we are able to grow our share with those customers and continue reinvesting in category growth. This ability to create a positive spiral of joint value creation is absolutely crucial.

We have the scale and proven track record to deliver excellent execution in the marketplace. Our 15,000 salespeople are the frontline of our business, visiting 1.2 million active stores we cover across our 28 markets.

This scale is complemented by the work we are doing to improve our commercial capabilities and empowered by technology and data to create insights, which enable us to segment the market and go after consumer occasions in a highly targeted way.

The third pillar is to fuel growth through the competitiveness and investments. Now this slide is on the core capabilities, which I'm going to come to. I just want to mention a few words on the growth competitiveness and investments. And we do have a strong track record of driving efficiency and savings.

Since 2015, we have taken a lot of cost out of the business, but there are always smarter and smarter ways to operate and actually become more efficient, which will allow us to accelerate investments for growth into areas like cold drink equipment, production and logistics infrastructure, customer service and capabilities of our people.

Combined together, these five growth pillars and our ability to execute against them should deliver another step-up in performance. We will build on the success of the last three years with another period of growth in our revenue and profitability.

We've recently proven our ability to deliver industry-leading growth, and we plan to maintain this pace, which represents a step-up in performance versus our 2016 to 2020 plan. Our planned target annual organic currency-neutral revenue growth of between 5% to 6%.

Having already grown margins by 270 basis points since the start of the plan from 7.5% in '15 to 10.2% last year, we aim to achieve our 11% EBIT margin target by 2020 and to deliver further margin expansion of between 20 to 40 basis points beyond 2020. This will take us to the highest level of margin in the history of the company.

In addition, we plan to fulfill the sustainability commitments I've outlined and keep over employees engaged. On employee engagement, I'd like to highlight that we measure ourselves against the benchmark of the highest performing companies in the industry.

And let me close by briefly reminding you why we think we can deliver this plan. We are a leader in an exciting growth industry in which we have been operating for nearly 70 years.

We have developed the broadest, most flexible portfolio, which allows us to capitalize on fantastic growth opportunities in high-value occasions and channels. Our territory is balanced and encompasses some real exciting markets with powerful structural trends.

Since 2016, we have driven efficiency in order to invest behind growth and drive cash flow. Our recent success has delivered a strong balance sheet, which gives us flexibility to expand through acquisition of bolt-on, locally relevant brands in Stills, but also to make more significant moves should right opportunity present itself.

We have a history of delivering shareholder value above the industry average and we are determined to maintain this performance. Thank you, very much for listening. And Michalis and me will be happy to take your questions.

Andrea Pistacchi, Deutsche Bank, Beverage Analyst

Thank you, Zoran. I will kickoff with two or three questions. Firstly, you mentioned that you're open to geographic opportunity so I will just take this quick opportunity to ask you about CCBA, and then we'll move on to strategy and organic questions.

The CCBA refranchising process has been going on for quite a while. The Coca-Cola Company has extended it further. At some point, it should happen of course. From your point of view, what do you think Coca-Cola HBC could add to CCBA? What will you bring to CCBA that makes you a potential credible acquirer?

And at the same time, when you're negotiating, when you're considering acquiring a territory, what sort of things are you looking at? And, whether maintaining a good balance between DMs and emerging markets – is that always an important consideration for you?

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

Well, it's a multi-angled question there. So let me take it slice by slice. First of all, we have very clearly said that we are open to territorial expansion when the right opportunities might arise. That type of conversation always starts from The Coca-Cola Company.

And we clearly said that – and that's part of the answer, why we believe that to any potential such opportunity, what we could bring. It starts with a financial firepower that we have, because markets, and especially emerging ones, really require ability and capacity to invest.

Secondly also what we bring and what gives us confidence is the depth of the talent bench. That's very important. We see that from our current business and any considerations about any further expansion, financial means have to be complemented with talent – financials are not enough.

And I'm really pleased and happy that talent pipeline, versatility of talent is there, which we can deploy. On top of that, we believe that the way we collaborate and work effective with Coca-Cola Company also proves there is a high level of trustworthiness both sides and in our business that's very important.

Lastly, our strength in our core credibility, which are critical to succeed and win in the marketplace and the way we are constantly investing behind them I believe shows our commitment, seriousness, discipline and focus. So these are some of the elements that I think we can bring to the table to any opportunity that can come whenever in the future.

Andrea Pistacchi, Deutsche Bank, Beverage Analyst

And the point about developed markets, emerging markets, maintaining that balance that's a key -- that's -- I mean that's been a key aspect for you, the investment case, I assume that very much remains the case?

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

Yes, it is. And we do emphasize that, that blend of the market is something that we appreciate. We see that as a very beneficial exactly for all those cycles and profiles that I talked earlier. So to cut the long story short, yes, we see that as important, and we see that is something we really cherish and preserve.

Andrea Pistacchi, Deutsche Bank, Beverage Analyst

So, moving to organic things. One of the key planks, one of the pillars of your strategy is winning in the marketplace. Now having strong commercial capabilities has always been in your DNA, you've talked about this today.

What is new in this evolution of your strategy in terms of commercial capabilities that you weren't doing before? Maybe if you could also flesh out an example or two of how you're doing this differently?

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

Absolutely. So first of all, I would like to highlight one of core capabilities that today is really one of the prioritized ones behind which we seriously invest and channel our efforts and resources, and that's Big Data and Advanced Analytics.

If we had this conversation two or three years ago, we wouldn't be mentioning that because from last year, we have started a committed journey of how we build that capability.

And as we do more, building the team inside – a few months ago we first time hired data scientists, we identified translators, we are investing into systems that can support that.

And also hiring a highly qualified expert person who leads the whole BDA (sic) [BDAA] in the organization. So we are really putting pieces together for a journey that as we learn more, we see how this informs also the necessity of improving and evolving other capabilities concretely.

We see that with Advanced Analytics insights that we are getting through that work, how that impacts, for example, revenue growth management. We are having now different type of information, insights, understanding, analysis, much better to bigger granularity, data dissecting that we did when we started with RGM three, four years ago.

We've seen from the pilot in Nigeria, how Big Data Advanced Analytics is informing, how we need to adjust our route to market.

So that's what makes the difference is how data, and we, together with Coca-Cola Company, have enormous quantity of data. It is how do you put better meaning of that and how do we put that to better use for segmented execution; whether it's for how we do effectiveness of price promotions, our forecasting accuracy, which impacts out of stock, which impact inventory levels. So we see that that's really what makes a difference in how we win in the market tomorrow.

Andrea Pistacchi, Deutsche Bank, Beverage Analyst

On innovation, you've said 2018 has been your strongest year ever in terms of innovation pipeline you had. And you've also said that if anything you'd expect this to accelerate, to get better.

So, what gives you this confidence? And, what is different at Coca-Cola Hellenic, and from your point of view at Coca-Cola and in the whole system in terms of the innovation process today compared to a few years ago? And then, if you could give us a bit of insight maybe into what innovation we're likely to see on a multi-year view?

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

So what's different is that I need to give big credit to Coca-Cola Company team because maybe five years ago we wouldn't be as excited as we are today knowing how big the pipeline is out there from which now, the task is to prioritize well in phase instead of just going after everything that's available, which would be completely impossible.

So the breadth, the depth of the pipeline is one thing, it's very rich. We've seen that from numerous innovations that we have done last year. Last year only we launched across our territories more than 1,000 SKUs.

However, what we also learned is that innovation just for the sake of innovation is not enough. There are two things that I see how we work with Coca-Cola that are important.

Why are you doing innovation and what is the purpose of everything you do? How are you closing any white space that we have in the portfolio? Or how we are strengthening existing?

Example, how with innovation we are ramping up more our Adult sparkling segment, which offers so much premiumization and opportunities in the market. So clearly, knowing why we are going after it and focusing that innovations need to deliver a clear value.

Second thing is the discipline of phasing and also killing those products in the portfolio, which are not performing so that we can create the oxygen for those new products. So for these 1,000 that we launched last year, more than 800 plus we have eliminated from the market.

So that discipline is critical, and we exercise that through very well structured, disciplined routines that we have between ourselves and the Coca-Cola Company. So what comes in front of us?

So some of that should be also a little bit element of surprise. However, the portfolio is becoming broader, more premiumization, more small packs, which are creating more value, and next year also together entering into new category together, into Coffee. So that's also part of the innovation.

Andrea Pistacchi, Deutsche Bank, Beverage Analyst

Can you give a little bit of color maybe on Coffee? You said you were showing the numbers, I mean, huge potential category. You're already distributing coffee in some markets or you have the expertise there?

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

Yes. So first of all, number one, absolutely a great category, huge value. Even though it's quite competitive, there are many players, however, the category is so big. Secondly, the fact that Coca-Cola Company has bought Costa, we believe it's an absolutely great move.

It's a game changing move, which requires huge focus. It will require lots of hands-on work, discipline, investment, and we are happy to leverage all the learning that we have from almost three years being in the coffee distribution in several of our markets. We learned a lot.

We've learned that, that category requires certain dedicated expertise and skills, which are specific for that category, which is not just another category. And that's why we see that 100-meter run – or better to say marathon that we will start together. We are not starting from zero.

And we will leverage together those learnings that we have, the teams that we have, and I believe that's a start of a beautiful journey that is not done for one or two years ahead but really for many years ahead. I will just caution here that in the first years, there is going to be patience and focus because that requires lots of investment, work to really yield the proper results.

Andrea Pistacchi, Deutsche Bank, Beverage Analyst

In the long term?

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

Well, in the years to come, but it's not only that explosion happens in year one. We want to do it right, not just for the sake of ticking the box and rushing. Yes.

Andrea Pistacchi, Deutsche Bank, Beverage Analyst

Let's see if there's any questions from the floor? We have one here.

Unidentified Participant

You have spent some time on energy in the presentation and as part of being a smaller part of your sales. You mentioned you've launched Coca-Cola Energy in four markets.

Are you going to launch in the rest of the markets? What has been the initial reaction? How are you going to make sure that you are not cannibalizing with Monster? Are you pricing it differently? Different distribution channel? Can you give me a little bit more color on that?

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

Yes. So we are now 2.5 months with Coke Energy in three markets, Hungary, Romania and Ireland. Initial first feedback from consumers, customers, our own people has been above expectations I have to say.

Also first selling, we are also seeing very encouraging first repurchase and retrials. So from that point of view, it's very pleasing to see how it started. Early, but I'm telling you what so far we read.

Second, it's quite unique positioning. We don't believe it's going to compete with Monster. First of all it's double the price, so it's double premium. It's parity with Red Bull, and that's where we believe it should be. As a product proposition it's, as a formulation, it's also different.

It doesn't have Taurine, it has unique Coca-Cola taste, which makes it unique. And yes, we do plan to roll it out also into other markets. We definitely see that, that's a segment which we can capitalize on, and we are quite excited about it.

Great testament to that is to see that already some customers in some of our markets have proactively approached us to ask for the product, as they want to list it. And that's always a great sign when customers are proactively keen to do that.

Unidentified Participant

Yes, so the Coca-Cola Company obviously has the Explorer, Challenger, Leaders philosophy behind its brands.

I'm guessing many of your emerging markets in particular, all you really want to do is just fill up the truck with Trademark Coca-Cola and just sort of sell that because that's where you'll make the most money.

So how easy is it to get the incentive system right between you and the Coca-Cola Company such that it's in everybody's interest to push the Explorers and the Challengers in the right way so that it becomes a collaboration rather than a sort of heated argument?

And within that who drove the decision as to which 800 of the 1,000 SKUs to cut and which 200 to keep going? Was that entirely your decision or entirely their decision, et cetera?

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

Well, emerging markets make no difference in Explorers and Challengers. It's not an option, but it's a necessity to be in variety of categories. Most emerging market we have is Nigeria.

If you go to Nigeria, if we would be slow and if we wouldn't go in other categories, we will be seriously late, because the market is developing so much that the competition in other categories is there. So that's why two years ago, when we started with Energy, which was at the time small – it's growing like crazy.

Juice portfolio, still drinks – water, we've been there before. So we are examining other opportunities as well. You've seen very well Coca-Cola Company has acquired Chi, which also is dairy plus similar type of product. So it's a necessity that we have to be there.

Similar as in other emerging markets where in line with the joint ambition to be total beverage system, total beverage companies we have to do that. On the 800, it's a joint -- it's a result of our joint discussions and analysis, that's what we do together.

Many of those we initiate because if we see that there is not enough turnover, profitability, we simply put that on the table and those kind of decisions, even though we can make them, but in an effective partnership, they happen through joint discussions and reviews because that also requires if we eliminate something, the list, okay, what's the next thing that we do? That has to be part of our joint conversation and that's what happens in real life.

Unidentified Participant

Can I just follow up on that? So without giving details of ones coming in the future, but the Explorers and Challengers that are out there at the moment, which brands and which markets would you be most excited about?

Zoran Bogdanovic, Coca-Cola HBC AG, Chief Executive Officer
Personally, I would like to highlight plant-based beverage AdeZ, which, on one side we are exploring, at the same time, we are Challenger to Alpro. It's a great product.

We are learning a lot because we are first time in kind of a milk-ish category. We learned that it's not just another category. Types of consumers, vegans, vegetarians, flexitarians – all this is new to us.

So personally I'm very excited about that because it shows our ability to really go into areas that when we started listing and talking to customers they were surprised that we are really going into something like this.

So I would take that as one example, which I think is really for me exciting and inspiring to see that we can literally go in various segments of categories in the market.

Unidentified Participant^

Can I ask whether there is a either a formal or informal mechanism to share information with other bottlers? I'm thinking specifically the thing that strikes me is when you had the rebranding of Trademark Coke and there are all sorts of different versions of the cans in different markets and across territories.

When that sort of thing happens, is there a way of communicating with other bottlers and learning best practice? Or does it just sort of have to go through Coke because there aren't really formal connections?

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

Primarily these types of decisions are done by The Coca-Cola Company because it's a brand identity, it's a character and DNA of brand and look and feel is part of that, and that is in the domain of The Coca-Cola Company decision making.

And various parts of the world have empowerment to make their own decisions based on consumer belief, various parameters, that's why some markets go into full red, some are still with let's say more black. So that has nothing to do with us bottlers connecting and information sharing. That's purely Coca-Cola Company and they make that decision with all available information.

Andrea Pistacchi, Deutsche Bank, Beverage Analyst

I'll ask one last question for Michalis on the targets. Strong innovation pipeline, you've stepped up commercial capabilities, but the world is a pretty volatile place, now seems more than in a while.

So what gives you the confidence in these new targets you've of set out? But more than that what's underpinning them in terms of assumptions on macro, on input costs, on FX?

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

First of all in terms of the macros, we have made some assumptions about similar industry and market growth when it comes to Europe.

We see some acceleration in Russia and in Nigeria, which is normal compared to the crisis that they went through with low oil price in the last five years. And of course, an assumption from there for us to gain some share against this.

We also expect and assume that the next five years will not see another significant crisis to the magnitude that we saw after 2008 and also again with Russia and Nigeria and the big effect depreciation that we saw there two or three years ago.

So from that respect, FX and to some extent input cost will be slightly better than what we saw previously. Still a headwind of course because we operate in emerging markets. There is high inflation, there is currency depreciation, but not as big as that what we saw in the last five years.

And from then on, on the cost side, we do expect a benign efficiency flowing through, nothing like the restructuring that we did in the previous years where we needed to reset the cost base.

So all in all, from a top line perspective, the fundamentals of how we grow our margins, category mix, improvement, pack mix improvement, a bit of pricing, all of it is there, not as pronounced as previously in the last five years.

We talked about an acceleration in volumes, we expect now the volume growth to revenue per case to be 2:1 as opposed to 1:1 previously.

So with all that we see margins continuing to grow, but not as fast as what it was in the previous five years. So from an the average of 70 bps, we go down to some like 20 to 40 bps. And we feel that this is a comfortable algorithm with a top line growth and all the investments to deliver this growth.

Andrea Pistacchi, Deutsche Bank, Beverage Analyst

Perfect. Thank you very much. We're out of time, so we'll leave it there. Thank you very