

**CORPORATE PARTICIPANTS**

**Zoran Bogdanovic, Chief Executive Officer**

**Michalis Imellos, Chief Financial Officer**

**QUESTIONS FROM**

**Edward Mundy, Jefferies**

**Fernando Ferreira, Bank of America Merrill Lynch**

**Sanjeet Aujla, Credit Suisse**

**Nik Oliver, UBS**

**Ewan Mitchell, Barclays**

**Andrea Pistacchi, Deutsche Bank**

# CCH – 2019 First quarter trading update

## Conference call Q&A transcript – 2 May 2019

### QUESTIONS AND ANSWERS

#### **Telephone Operator**

Thank you. If you would like to ask a question, please press \*1 on your telephone keypads and ensure that your telephone line is unmuted locally. You will be advised when to ask your question.

The first question comes from the line of Edward Mundy, calling from Jefferies. Please go ahead.

#### **Edward Mundy, Jefferies**

Hi, morning gents, the first question is around the special dividend. Should we interpret the special dividend as essentially less appetite for M&A, or transformational deals? And you know how far could you stretch the balance sheet from a net debt to EBITDA perspective without losing investment grade?

#### **Zoran Bogdanovic, Chief Executive Officer**

Good morning Ed, thank you for the question. In short, the special dividend does not reduce our appetite and our eagerness for the right opportunities and possibilities that we could have in the M&A area, whether those are a bolt-on, or if along the way there would be any appropriate - transformational deal as you referred to it.

So in short, from my side, just to clarify that this does not eliminate our focus and work that we are having in this area. I will hand over to Michalis to clarify the other parts of your question.

#### **Michalis Imellos, Chief Financial Officer**

Hi Ed, just to build on Zoran's response, from a technical perspective, as we said also in our February call, by the end of the year, after all the anticipated uses of cash, including bolt-on acquisitions and the special dividend, we will be around two times net debt to comparable EBITDA. And this leaves us with enough

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flexibility to temporarily go beyond this range, while at the same time maintaining comfortably investment grade rating.

And indeed we would consider doing this for the right exceptional transformational M&A opportunity that obviously would create value for the company and its shareholders, with the intention to get our leverage back towards the two times levels, after such a potential transaction.

And you know I would really like to emphasise that such a stretch way beyond the two times would only be considered for such an exceptional opportunity if it was to come, not in the ordinary course of business.

### **Edward Mundy, Jefferies**

Very clear, thank you, and my second question is around the confidence of seeing faster growth for the remainder of 2019, I think you flagged the 150 bps owing to Easter timing and also the Brown-Forman discontinuation. I appreciate the summer was very, very hot last year and you also had the World Cup, I was wondering whether you could share some of your thoughts as to why you're confident on faster revenue growth for the remainder of the year?

### **Zoran Bogdanovic, Chief Executive Officer**

Yes Ed, that's true, while we do cycle World Cup, which was primarily Russia, last year we did say that we benefitted from very good weather in parts of our territory, which was the whole kind of North and more West part of our territories. However, South and East actually did not have good weather, especially July last year. So that's why on one side we are cycling, on the other side it actually is an opportunity.

On top of that we do have - I'm very confident with the plans, initiatives that we have for the period ahead of us. We are embedding and increasing distribution, rate of sale of a number of innovations that we have launched last year and that was happening in the course of Q2, Q3. And that is materialising and has a rollover effect.

On top of that also this year is not going to be shy of new innovations that are happening in our - across our markets. You probably know that as well as in some other territories we have been launching for example Coca-Cola and Coffee, we

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are also one of the first markets that started with Coke Energy. And there are a number of other flavour and pack innovations that we are doing in many of our markets.

On top of that I'm really encouraged with the strong marketing plans that we have for these, especially two critical quarters ahead of us. And on top of that our continuous work that we do on route to market enhancements in many of our markets that increases our capability and capacity to deal with increased portfolio across our territories, that gives me confidence that we are going to see accelerated revenue growth versus Q1 so far.

### **Edward Mundy, Jefferies**

Very clear, thank you.

### **Telephone Operator**

The next question comes from the line of Fernando Ferreira, calling from Bank of America Merrill Lynch. Please go ahead.

### **Fernando Ferreira, Bank of America Merrill Lynch**

Morning everyone, thanks for the questions, I have a few as well. The first one on M&A, can you talk a bit about what Bambi will add to your capabilities in Serbia, and also if you're looking at other adjacent businesses like that in other countries as well?

### **Zoran Bogdanovic, Chief Executive Officer**

Good morning Fernando, related to Bambi, I'd like to emphasise that this case is - we need to look at the Bambi acquisition as a unique case which blends strong, excellent, unique portfolio in Serbia and why we are doing that in Serbia itself, where our market position is quite strong with 70 plus share in Sparkling and 40 plus share in the whole non-alcohol ready to drink.

So this is where we have recognised that through combining those two complementary portfolios we see an opportunity to drive further healthy growth,

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leveraging and exploiting complementarity across several occasions, where our portfolio and the Bambi portfolio actually play so well, from the breakfast and then snacking on the go, snacking at home, this is where we see the opportunity.

What Bambi also gives us in Serbia is stronger leverage and opportunity to serve better the fragmented trade and HoReCa parts of the market, because Bambi has a very strong distribution network, coverage of more than 16,000 direct customers.

On top of that this gives us also the opportunity to have chilled distribution, which we didn't have so far in the country, because Bambi does have a chilled distribution network as their products also need to be delivered during summer in a preserved condition. And that gives us, as you may appreciate, the possibility to think now also of the beverage solutions in the country that we couldn't do so far.

And the last point, if I remember well, I said this is a unique case and we should look at it in such a way - all our M&A exploration and work is related to beverage opportunities and this does not reflect a shift in our strategy of where we do see bolt-ons going forward, but rather as a unique case for this particular market.

#### **Fernando Ferreira, Bank of America Merrill Lynch**

Very clear, thank you. And a second question maybe for Michalis on the balance sheet. If you were to eventually reach a net leverage above the two times for that exceptional deal you mentioned, are there any potential divestments that you can have within CCH's current business?

#### **Michalis Imellos, Chief Financial Officer**

Hi Fernando, yes, look I guess you are implying now how a potential transformational M&A deal might be structured. And of course there are many, many different options that we might have. You know by definition we are not, as we've said many times in the past, we are not in the business of potentially selling different territories and so on, but clearly you know when it comes to a context of a big deal, you know potentially things can be discussed in the way that such a deal can be structured.

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### **Fernando Ferreira, Bank of America Merrill Lynch**

Great, thank you. And if I may just a last one on the trademark Coke brand, can you talk about the rollout of the new flavours and Coke Energy across your territories and if you can share some early results there please?

### **Zoran Bogdanovic, Chief Executive Officer**

Yes, actually first of all let me just remind you that last year one of the reasons why we have very strong performance of the overall Coca-Cola trademark is because there are many avenues of innovation that are happening for the trademark, from lights and zero, expansion and reformulations that are happening, as well as many new flavours that we have launched last year and that we will also be doing this year, which create continuous relevance of the brand with consumers, with customers and we see that working very well.

In that context also we are very excited and inspired with the pipeline that has also bought us Coca-Cola Plus Coffee, as well as Coke Energy that we started in Romania, Hungary and also in May we have started in Ireland.

It's too early to sell - sorry, you see I'm thinking about selling - it's too early to tell because it is early days. However, the first feedback from the markets, from customers, is actually very promising. And I personally feel quite optimistic and confident about potentiality of such innovation, because in a perfect way they combine the strength of the brand with additional functionality that is given to consumers across various occasions.

Does that answer your question?

### **Fernando Ferreira, Bank of America Merrill Lynch**

Yes, very clear, thanks Zoran.

### **Telephone Operator**

The next question comes from the line of Sanjeet Aujla calling from Credit Suisse. Please go ahead.

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### **Sanjeet Aujla, Credit Suisse**

Yeah. Hi, guys. Just on the timing of the special dividend, you know, I guess why now, and is it the right interpretation that any potential transformational deal might just take longer?

### **Michalis Imellos, Chief Financial Officer**

Hi, Sanjeet.

Look, the timing is purely driven by the fact that, you know, the Board has just made a decision to propose this special dividend to the Annual General Meeting in June. It's not linked in any way with any other uses of cash.

We said back in February that we will be utilising our own spare cash, and debt that we will be raising this year from the market in five groups, I would say, accelerate our general capex investment in the business - we have an accelerating trend starting in the last couple of years - and with particular focus on revenue generating investments, and that is coolers, new technology for innovation, production lines, logistics and so on.

Secondly, selective bolt-on acquisitions with strong local equity. We started with Bambi and, as we said, there are other considerations also in the pipeline with good possibility to materialise.

The progressive organised dividend policy continues. We also have some buy-backs that we are doing to prevent dilution, and that is quite significant for 2018 and '19.

We are nearly completing the programme, and that's just under €200m worth of buy-backs.

We have just announced a special dividend today. And, clearly, as we said and reiterated, both Zoran and myself, we are open and we have a flexibility also to look at a transformational M&A if and when this comes forward by the Coca-Cola Company, and, of course, makes strategic and financial sense to our business.

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### **Zoran Bogdanovic, Chief Executive Officer**

And, Sanjeet, if I may add, you can appreciate the that in a number of opportunities that we are exploring in the M&A area, this is not something that we necessarily rush just for the sake of speed because the critical element is that there has to be proper strategic fit, and there has to be a proper and fair value. And that's why also we have the responsibility for our shareholders to balance them both, but in no way, in no way this special dividend, I want to enforce, does not reduce our firepower to do the right things for Coca-Cola Hellenic in the respect of any possible M&A.

### **Sanjeet Aujla, Credit Suisse**

Got it. Just to follow up, Michalis, are you able to just share an update on currencies and input costs at this stage of the year?

### **Michalis Imellos, Chief Financial Officer**

Yes, so back in February we said that, based on the spot rates at the time, and assuming a further depreciation of the naira to the dollar, to the levels of 380 from the current 360, we were seeing negative impact of around €50m for the year.

Things have progressed pretty much in line with what we were seeing back in February, maybe only slightly better on the Rouble front, and clearly the depreciation that we were expecting for the naira has not yet happened. The elections are behind us. There is ongoing stability to the currency. So, that is clearly good news.

However, due to the seasonality of the results in Nigeria, what is now important for the FX impact to our results from Nigeria is Quarter 4 because that's the next seasonally material quarter.

So, what is important is to see what the naira will be in Quarter 4 this year to be able to, let's say, bank these improvements to the €50m that obviously will happen if the naira stays at 360.

So, so far so good. We stay at around €50m based on where the rates are and the levels of hedging we have, and, potentially, we can have some good news from naira if things remain as they are today until the end of the year.



**Sanjeet Aujla, Credit Suisse**

Got it. And, just to follow up, Zoran, on Nigeria - can you just elaborate a little bit on the route to market changes you're making there? You talk about increasing direct outlet coverage, so I'd just like to learn a bit more about that.

**Zoran Bogdanovic, Chief Executive Officer**

Yeah, sure, Sanjeet.

So, in Nigeria, what we've been doing now for almost more than a year and a half is that we've been structurally changing and enhancing and strengthening our route to market in a way that gives us better capacity and capability to directly cover our outlets which, of course, we have segmented based on the outlet performance and potential.

So, that means that we have people in the market who are directly visiting outlets, doing customer development, relationship building, introduction of new products, activating promotions, etc.

And then, on the other side, we are working with a selective number of distributors who have also the capacity and capability to serve the business in a faster and more capable way, where also we are having our own customer development programmes where our teams are working with those distributors, helping them building their own capability when it comes to warehousing, logistics and other aspects of the business.

So, that brings us closer to the market, increases our ability to respond, react, or to penetrate new initiatives much faster in a much broader and scalable way based on our segmented approach what in each of the outlet segments needs to happen.

Also, in that context, we have also evolved our sales organisation structure because I have mentioned a few times that, in Nigeria, while it's one country, actually, because of its demographics, social economic differences; there are actually several markets in the country itself. That's why we have reorganised that there is a broader Lagos, and so the whole team, which is focused on Lagos and surrounding area, because this is the most competitive and most dynamic market in Nigeria.

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And then there is the rest of Nigeria where there are many other differences, and this is the second part of the team. And we do see that, in such, more focused organisational set up, this gives us also a more focused, faster and responsive way to deal with challenges that we have and opportunities that we have in each part of Nigeria.

### **Sanjeet Aujla, Credit Suisse**

Great. Thanks.

### **Telephone Operator**

The next question comes from the line of Nik Oliver calling from UBS. Please go ahead.

### **Nik Oliver, UBS**

Good morning. Thanks for the questions.

Firstly, can I ask one on margins? You've talked about another step up in margins this year. I think, at the full year stage, you guided to at least 40 basis points, of expansion. Does that still hold and how should we think about that in terms of phasing H1 versus H2?

### **Michalis Imellos, Chief Financial Officer**

Hi, Nik.

So, yes, we said in the previous call that we see another year of margin expansion in 2019. Not as fast as the 70 basis points we saw last year. Indeed, 40 basis points is a good minimum that we would expect to hit this year in terms of margin growth, and we stand by this.

Now, in terms of the phasing, we expect that Half 1 growth will be a lot slower, if any, compared to Half 2, and that's because we have a number of one-offs that we cycled in the first half, and some good news that are happening in the second half.

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So, in the first half this year, first of all, we are cycling the good news from the bad debt creation - bad debt provision elimination last year and also the partial recovery of the debt, which was a positive line last year, so, a negative for Half 1 this year.

We also have the sugar tax in Ireland which started in April and May of last year, and that means that, if you look at this year's first half, we have a significant boost in the revenue from the pricing that was taken to cover the sugar tax, but, obviously, no impact on the gross profit. So, that's bad news for six months of our EBIT margin this year, whereas, last year, we also had it from April, May.

We also cycled the Brown Forman discontinuation of the distribution contract in Russia, and that has also a negative impact this year in the first half, which normalises after April this year.

And, in the second half, we have some good news which is going to boost the margin growth. On one side, you recall that we are cycling a relatively slow Quarter 3 last year in terms of revenue per case, and also we are going to have a small positive impact from the consolidation of Bambi in the second half.

So, these are some reasons, structural reasons, why we expect to see a much, much slower progress in terms of margin in the first half compared to the second half. But, on a full year basis, we reiterate that we can see a minimum of 40 basis points, expansion, into 2019.

**Nik Oliver, UBS**

Okay, that's very clear. Thank you.

**Telephone Operator**

Please be reminded, if you would like to ask a question please press '\*1' on your telephone keypads and ensure that your telephone line is then muted locally.

The next question comes from the line of Ewan Mitchell calling from Barclays. Please go ahead.

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### **Ewan Mitchell, Barclays**

Hi guys. Thank for the questions.

First one is on Nigeria and the good volumes you saw there this quarter. Can we expect that to continue?

And, building on that, the price architecture and these volumes, how should we be thinking about that in terms of the profitability within Nigeria?

### **Zoran Bogdanovic, Chief Executive Officer**

Thanks, Ewan. Yes, we should expect to see volume progression in Nigeria.

I, personally, believe that this Q1 was a very good start, and I expect, given today's visibility and adjustments that we have done, programmes that we have, team strength that we have, I really expect nothing less than along the lines of what we've seen in Q1.

Also, the price pack architecture that we have done serves a balanced purpose to be able to competitively respond with the most affordable proposition as well as the most premium proposition that we have in the category of Sparkling Beverages.

So, in glass, we have excellent affordable propositions that actually such pack types should have as a purpose, but, at the same time, in our PET packages, we do maintain and preserve our premiumness that we want to have leveraging, you know, one of a kind and strong marketing programmes that we are doing in the country.

So, it's a balanced approach which we are doing in a segmented way.

I would just add one more comment, which helps us in the profitability sense, is the hard and strong work that has happened over the last few years in terms of also doing the cost optimisation and the reduction in Nigeria because the circumstances of the country economy, the whole market dynamic, are such that, simply, have pushed us even more, and the team has done an excellent job in doing significant improvements in our cost base, which is helping us to be more competitive and also to affect positively our profitability levels in Nigeria.

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### **Ewan Mitchell, Barclays**

Thank you. That's very, very clear.

My second question is on Russia and the strong volumes there you saw, particularly in Energy. Where are you in terms of capacity? How is that developing? And is that something that Coke Energy might be looking at next? And how will that roll out, proceed?

### **Zoran Bogdanovic, Chief Executive Officer**

Yeah. Russia continues with a strong growth and, specifically, your question on Energy, Energy is a very important part of that development where there is - there is another quarter where Energy, in Q1, in Russia, has been growing almost 45%, where we are leveraging and utilising a two brand strategy with both Monster and Burn. The team is doing an excellent job in increasing distribution, in activating this vibrant category which has a strong potential.

Also, Coke Energy, yes, I would say, simply, that Coke Energy is an opportunity across the board. It's just a matter of the timing and phasing. When is the right time to start with that? So, I would really see that also happening in Russia. I just couldn't say specifically when is the timing, sometime this year or next year. That depends on, you know, all other plans that we have in the market and that we will be reviewing and discussing together with the team.

### **Ewan Mitchell, Barclays**

Thank you.

### **Telephone Operator**

We have no further questions on the phone line. Apologies. We do have one question coming through.

The next question comes from the line of Andrea Pistacchi calling from Deutsche Bank. Please go ahead.

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### **Andrea Pistacchi, Deutsche Bank**

Yes. Good morning. I have two, please.

First one is on Bambi. Do you still expect Bambi to close in Q2? I think the numbers that you put in the press release of sales of around €80m, and a margin of around close to three times your margin, so close to 30%, are these sort of numbers, €80m sales and 30% margin, what we should be sort of incorporating for the first 12 months or are there any distorting factors which may affect this?

The second question is about the shape of your growth this year. You said you're reasonably confident that you can accelerate growth for the rest of the year and probably grow ahead of your medium-term target. When you think about the shape, by division, in the light of Q1, is there anything different compared to what you had indicated at the Full Year in terms of regional expectations?

### **Zoran Bogdanovic, Chief Executive Officer**

Thank you, Andrea.

On Bambi, we do expect that all the regulatory approvals across the countries should be obtained during Q2. So, we are pretty confident that that will close in that timeframe as we initially highlighted. So, we don't see anything that would be a barrier to that. Obviously, we are still working on that, and that's in process, but with this estimate.

The second thing is on the numbers that we highlighted on Bambi. Those are the numbers, and we don't see anything that would impact those numbers. We do see that particularity in the territory with Kosovo, the team has done. We see an excellent job in mitigating that particularity that happens in the trading conditions between Kosovo and Serbia, and the team has done an excellent job, and, as we see, they are progressing in line with expectations.

On the other one, as we said, across all segments, there is nothing major that we would say is going to be dramatically different. Definitely, we do expect that Emerging markets will have this kind of volume performance around mid-single digits, or even stronger driven by Russia and Nigeria. But, as well as other countries, in the Developing segment, we did say that we do see this year more of a balanced revenue generation between the volume and price mix. And also in the Established, we do expect a growth year because also expectation is that Italy

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performance, not only in Q1 but also the previous quarter, is going to continue and that that is going to be an important contributor to the overall segment performance in this year.

### **Michalis Imellos, Chief Financial Officer**

And just two small technical points, clearly we will be consolidating Bambi this year as of the completion date, so we expect to have six months' worth of the results in our 2019 Full Year Results.

And the margin is more around the 25% mark rather than the 30% which, probably, you were pointing towards.

### **Andrea Pistacchi, Deutsche Bank**

Perfect. So, you should be, this year, approximately consolidating maybe around €10m of EBIT from Bambi? Is that fair?

### **Michalis Imellos, Chief Financial Officer**

Exactly. Roughly, that might be the right ballpark, yeah.

### **Andrea Pistacchi, Deutsche Bank**

Thanks.

### **Telephone Operator**

We have no further questions coming through on the phone lines, so I'd like to hand back to your host for any concluding remarks.

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### **Zoran Bogdanovic, Chief Executive Officer**

Thank you.

Thank you all for joining our call today, and for your questions and discussion of our first quarter performance.

We have a clear roadmap for top-line growth and continued margin expansion, which is underpinned by the strategic initiatives to drive that.

We continue to partner with our customers and strengthen our route to market to capture the growth opportunities in every channel.

I look forward to sharing more progress with you in the coming period.

Thank you very much.

### **DISCLAIMER**

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