CCH – 2020 Half-year results
Conference call script – 5 August 2020

CORPORATE PARTICIPANTS

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Title slide

Operator

Thank you for standing by ladies and gentlemen, and welcome to Coca-Cola HBC's conference call for the 2020 half-year results. We have with us Mr. Zoran Bogdanovic, Chief Executive Officer, Mr. Michalis Imellos, Chief Financial Officer, and Ms Joanna Kennedy, 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 and 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 Wednesday, August 5, 2020. I now pass the floor to one of your speakers, Ms Joanna Kennedy. Please go ahead. Thank you.

Joanna Kennedy - Coca-Cola HBC AG - IR Director

Good morning. Thank you for joining the call today to discuss Coca-Cola HBC's results for the first half of 2020.

I am joined today by our CEO, Zoran Bogdanovic and our CFO, Michalis Imellos.

Zoran and Michalis will present our results to you and following that we will open up the floor to questions. As always, we will ask that you ask your questions one at a time, and that you wait for us to answer each question before you ask the next one. Rest assured we will keep your line open, until we have answered all of your questions.

2. Forward looking statements

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

3. Operational review and strategy

Thank you, Joanna. Good morning everyone and thank you for joining the call for our first half 2020 results. Michalis and I are pleased to be able to give you an update on how the company has performed through this period, as well as how we are adapting the business to capitalise on the range of opportunities that we already see emerging.

4. Safety, resilience, agility

Some things have not changed since we spoke in May. Most important of these is our commitment to ensuring the safety of our people, customers, partners and communities. I am proud of our record on that front. I am also proud of how our teams have maintained business continuity through the crisis under challenging conditions. And of how we have been able to support our communities, be it through volunteering our time, making financial contributions or providing products and protective equipment to those in need. It is incredible to see the resources that people draw from during times of crisis. We know that this doesn't come without sacrifice, and I'd like to offer sincere thanks to all of our people, as well as those working on the frontline, serving their communities, who have all made such an extraordinary effort through this time.

Through the efforts of our people, our supply chain has been fully operational every day since the start of the outbreak and all our production facilities continue to be open. Our salespeople have been continuously serving our customers, with our route-to-market, be it physical or digital, adapting to the environment.

It has been particularly encouraging to see the performance on market share. We have gained or maintained share in Sparkling and non-alcoholic ready to drink in the majority of our markets. We see that share performance has improved notably in several of our markets during this period and we will take this opportunity to maximise our advantage.

What is clear is that Coca-Cola Hellenic is a well-positioned and resilient business prepared to adapt and emerge to take on new opportunities. We entered this crisis from a position of strength, in terms of our portfolio, market execution focus, our customer relationships, our partnerships with the Coca-Cola Company and beyond. We have spent years building and investing behind the capabilities which will power us through this period. These capabilities centre around our expertise in managing our large key accounts, on Big Data and Advanced Analytics, around revenue growth management and route to market which is increasingly omni-channel, blending both physical and digital connections to our customers and consumers. The crisis will have a temporary impact on our earnings and cash flow, but our strong balance sheet is more than adequate to see us through to the opportunities which await.

Importantly, our culture is an asset here. We all know the cliché about culture eating strategy, and I have to say, now having been through such a difficult period as the CEO of this business I can confirm it. Our culture of adaptability, which embraces change and challenge, will continue to be a crucial factor.

When I see the speed and innovation of our response and how our people are genuinely caring for each other and this business, I know that we will be in a strong position to capitalise on the opportunities in the 'new normal'.

Also, our organisation is dynamic and evolving so that our structure follows our strategy and its execution. With an increasing number of external opportunities, the importance of ESG topics and regulatory agendas, as well as continuously driving high performance and strengthening our talent pipeline, enlarging both the scope and pace of running our business is critical to better support our customers, outpace the competition and win in the market.

In order to increase the organisational capacity and capability to do exactly that and to drive faster business growth, we have created the role of Chief Operating Officer. Naya Kalogeraki, currently our Group Chief Customer and Commercial Officer, will take up this new and critical role from next month.

5. Encouraging signs as markets reopen

As you'll have seen in our release today, for the first half, currency-neutral revenues are down 14.7% year on year. If we split that period into the two quarters, you'll see Q1 was down 1.2% and Q2 down 25%, so you can clearly see the impact of the pandemic between the two quarters.

But in reality, there are three quite distinct periods in this half year reporting period, and as we did at Q1 we are going to present you with the information which we believe will give you the best understanding of both our handling of the crisis and an up to date view of what we're seeing.

Let me start by reminding you of the shape of the first 6 months of the year.

- We started 2020 with strong momentum following good acceleration of growth at the end of 2019. We saw this strength continue in January and February.
- The month of March was a transition month when, in waves, the countries in our territory entered lockdowns, so that by the start of April every one of our countries (except Belarus) was in lockdown with a large negative impact on our revenues, which fell 36% in the month of April.
- During May, our markets started taking their first tentative steps towards easing and this process continued through June and the start of July.

This easing has brought better results.

We have seen our revenue improve sequentially from a decline of 36% in April to a decline of 18% in June and 5% in July. Performance has been driven in particular by improving trends in the away-from-home channel, along with stronger sales in at-home channels.

Now I want to urge some caution on how you think about these numbers when forecasting the rest of the year.

There is still a great deal of uncertainty on the nature, duration, extent and effectiveness of social distancing and other measures as we emerge from the withdrawal of lockdown across our territories. We are planning for the continuation of safety and social distancing measures in our markets for the foreseeable future, or until a pharmaceutical solution is widely implemented. We are also expecting a weaker consumer environment and the tourist season to be negatively impacted this year. And of course, there is still the risk of an impactful second wave of the virus. Overall, as you would expect, we are continually and very closely monitoring the evolving trends, however, at this stage, we still do not believe it is prudent to provide guidance for 2020.

Drawing from experience across the broader Coca-Cola system, however, our current base-case is that we have left the worst of the pandemic behind.

Let me now dig a little deeper into those top-line numbers to give you a better understanding of our performance during the period.

6. Out-of-home leading the recovery

First on channel performance.

This improved performance since the lows in April has been most notable in the out-of-home.

While during the weeks of the lockdowns we experienced volume declines of 70-90% in the out-of-home channel, during the months of May and June this improved to declines of 25 to 50%. During July this has improved further with declines in the range of 10 to 40%.

Our out-of-home business remains a key competitive advantage. We have remained by the side of our out-of-home customers through the crisis by helping them to build capabilities for operation in the new reality as they prepared and started to open. We have done this by providing equipment for new hygiene needs, supporting them in re-starting their businesses, building trust with their consumers and managing traffic. Our ability to segment our customers means that we can do this efficiently, shifting our investment to the outlets which will gain relevance. Overall, our partnership with these customers allows us to support their growth, ensure flawless execution and that we do not lose a single day of opportunity as they have started to open again.

We have also seen improved performance in the at-home channel. While we had seen some customer de-stocking in April, with declines in the low teens that month, since then we have seen an improvement in trends reaching low single digit declines in May and June, with a further improvement in July to mid-single digit growth. Shopper behaviour though has continued to be cautious with weaker consumer sentiment versus the previous year in most of our markets. Proximity shops, eCommerce and discounters continue to be the relative winners.

7. Sparkling resilience

Through all of this we are pleased to see the resilience of the Sparkling category. Overall, in the first half of 2020 we have seen Sparkling volumes, excluding energy, decline by 4.5%. This resilience is visible across our markets, as is the leadership of Trademark Coke as consumers are drawn to tried and tested brands that they trust. Within all of this, the better relative performance of low- and no-sugar variants is also a consistent trend.

Energy has done even better than Sparkling, with volumes up 6.7% in the first half. And this trend is consistent across markets with all three segments in growth.

The Stills part of our portfolio, however, has been weaker. This reflects the fact that we over-index to the out-of-home channel in this part of the business. This fact, which is normally a strength as it allows us to generate better revenue-per-case from Water, has negatively impacted performance during the lockdowns. We have also witnessed some weakness in the underlying Water category after the March stock ups as well as increased competition as lower priced players are growing.

<u>8. Single serve mix recovering from April lows</u>

Selling high-value single-serve packages has been a priority at Coca-Cola HBC for many years. We have had a strong track record in improving single-serve mix.

Single-serve mix is negatively impacted by the crisis because these single-serve package formats are closely linked to out-of-home consumption occasions which are not possible under lockdowns. Consequently, as out-of-home consumption has started recovering since April, so has package mix and therefore price/mix. We expect this improvement to continue.

However, improvement in package mix does not need to come only from out-of-home consumption. There is also an opportunity to increase penetration of these package types in the at-home channel and consumption occasions, which represents a premiumisation opportunity for us. The habit of drinking single serve at home, which is quite well advanced in some Western European markets, and particularly in the US, is much more underdeveloped in Eastern Europe. We are focusing in particular on multi-packs of single-serves which work for the at-home channel and in particular for building on opportunities in the socialising and meals at home occasions, which is where we are focusing our marketing and promotion plans. These packs are also well suited to the shopper who is focused on hygiene and have price points relative for smaller-sized baskets.

This is one example of our revenue growth management capabilities being a critical growth catalyst. This, along with our new learnings, will allow us to adapt to the changing environment, getting the right pack at the right price for the consumer while ensuring that we generate the best value possible from every case we sell.

There are also going to be opportunities for premiumisation around brands and products, such as Coke Energy in the premium part of the energy category, or further expansion into Adult Sparkling.

Affordability is also becoming more important. We have a lot of experience and capability at adjusting package sizes to meet important price points for the consumer while maximising our revenue. One key area of focus is on affordability in the entry level package format in our markets. Over the previous years we have expanded our offering of smaller, affordable yet high revenue per case multi-serve package formats which allow us to reach critical price points in a margin accretive way.

Our strategy around promotion is another way in which we can manage affordability. By ensuring that we are investing promo spend on the brands and packs that matter the most, we can deliver affordability to the end consumer while furthering our commercial strategy.

9. Established markets

At a country level, performance in the second quarter has been heavily influenced by two main factors.

- First - The severity and length of the lockdown and the pace of easing of restrictions.
- Second - The exposure of that country to the out-of-home channel.

For our business there are some clear themes between the segments.

Most of our Established markets locked down early and severely and have been cautious in easing. Also, as we shared at Q1, the majority of countries in this segment have more than 40% of their revenues from the out-of-home channel.

In the first half, Established markets currency-neutral revenue declined by 21.1% with volumes down 19.0% and price/mix down 2.6%.

Volume declines across the segment ranged from 12 to 25%, reflecting each individual market’s out of home exposure and handling of the pandemic.

10. Developing markets

Our Developing segment as a whole derives less of its revenues from the out-of-home channel, and some of the largest markets, such as Poland and the Czech Republic had more contained outbreaks and shorter lockdowns which has supported performance.

Overall, in the first half, Developing currency-neutral revenue declined by 16.4% with volumes down 8.9% and price/mix down 8.2%. Price/mix in the segment was impacted by the pack and channel mix deterioration and by the strategic decision we made before the outbreak to have less contribution to growth from pricing this year after several years of strong price/mix development.

11. Emerging markets

Our Emerging segment has demonstrated the best performance in the Group. This reflects both the relative resilience of Nigeria, which has continued to see growth despite the outbreak, as well as strong market share performance and a lower contribution from the out-of-home channel in Russia.

For the first half, the Emerging segment saw currency-neutral revenue decline by 8.4% with volumes down 4.1% and price/mix down 4.5%, the latter being a reflection of the relative acceleration of Nigeria, whose revenue per case is lower than most countries' in the segment.

12. Costa

We have now launched Costa in the first six planned markets, and while it's very early days, we're encouraged by the early customer feedback and enthusiasm for this high-quality coffee. We believe we are uniquely placed as a Coke bottler when it comes to coffee since we have benefited from the past experience of selling a full portfolio of coffee in several of our markets for the last three years. This experience, and the capabilities that we have developed gives us the opportunity of targeting all channels across our markets with Costa Coffee, with a range of product and package offerings including whole beans, roast and ground coffee, coffee capsules, RTD coffee, and vending barista quality coffee via Costa Express machines. We have started with these launches primarily in the at-home channel, but in the future will proceed to roll out Costa Coffee in the out-of-home channel also.

It's clear that innovation remains central to strategy at CCH and in the Coca-Cola System. However, we are also being very mindful of the current environment, and so in some cases we have decided to postpone launches until conditions are more favourable. But in others, where they are highly relevant, we have moved ahead. This approach also meets our customers' current focus on faster rotating products.

Costa is a very good example of a launch that is highly relevant in this environment. As well as our continued expansion of our Adult Sparkling propositions, most recently in Russia and Italy. And, of course, our launches of relevant package formats to suit new consumer occasions emerging these days.

Going forward, acting on our learnings, and in full alignment with The Coca-Cola Company, we will adopt a more disciplined approach to innovation, investing behind winning, scalable innovations while also illuminating underperforming and unprofitable brands and SKUs.

13. ESG – more important than ever

ESG has, if anything, become even more important in light of the coronavirus pandemic.

We are proud of our record here, and that our work is also recognised by strong ratings on the major benchmarks.

However, we must, and we will, continue to push for progress in this area. This means working with real purpose and intention towards meeting our World Without Waste and Climate Change commitments and being as accountable on the delivery of our sustainability targets as we are on our financial ones. It is also an area on which I am going to personally be spending more time in the future. Thank you for your attention. And I'm now going to hand over to Michalis who will cover our financials in more detail.

Michalis Imellos - Coca-Cola HBC AG – CFO

14. Financial review

Thank you Zoran, and hello everyone.

In line with our practice, unless specifically stated, 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.

15. Impact on yoy growth

Before I start with the financials, I would like to draw your attention on two technical factors that impact the year-on-year like-for-like volume and revenue performance and should help you with the understanding of our results and your modelling for the rest of the year. You can also see further disclosures on these in our press release published today [Notes 1 and 16].

First, an accounting change: effective from early May this year, we adjusted the accounting treatment of our Russian Juice business, due to a legal entity restructuring that took place. While previously this business was accounted for as a joint operation, it will now be considered as a joint venture, leading to a different consolidation methodology that will no longer recognize the financials of this business in the group P&L, except for our share in its net profit as one line in our P&L above EBIT. Without this accounting change (that is, on a like-for-like basis with the first half of last year), the H1 volume and currency-neutral revenue growth would have been 80bps higher compared to the figures reported in this release. As you see on the slide, this accounting change will have an even bigger impact on top-line in the second half of the year, as it will apply on the full 6 months of the period. As you can also see, the impact on EBIT is not material.

Second, the acquisition of Bambi in late June last year benefitted our first-half volume and currency-neutral revenue growth by 130bps. Clearly, effective from July this year, we are cycling the full consolidation of the Bambi business in our results, and therefore there is no impact on the "organic" performance.

So, taking into account the two factors I explained earlier, on a like-for-like basis, the organic currency-neutral revenue declined by 15.1% and volumes by 9.7%.

16. Financial performance- revenues

For the first half, on a reported basis, we saw currency neutral revenues down 14.7%, as volumes declined by 9.2%, and price/mix was down by 6.1% year-on-year.

The impact of foreign exchange translation on revenues was negative by 70 basis points, driven mostly by unfavourable movements of the Russian Rouble, which resulted in a reported revenue decline of 15.5%.

17. Cost control supports margins

We have taken advantage of every opportunity to control our cost base. The work done after the financial crisis to make our cost base more variable has helped us to mitigate the impact of the volume deleverage.

Careful management of commodity costs, combined with the hedging of the majority of our transactional FX exposure and a low oil price backdrop have allowed us to benefit from lower input costs, especially on PET resin, while preserving our cost of goods sold from FX volatility. As a result of this, currency-neutral input cost per case was down by 8.1% in the first half of the year.

When it comes to FX, we had a 15 million Euro currency headwind to our EBIT from currency depreciation. This FX impact is mainly associated with the weakening of the Russian Rouble versus the US Dollar.

Our gross profit margin closed flat year-on-year, but this performance is positively influenced by the year-on-year reclassification of certain raw materials credit settlements, which helped margins by 80bps. This change had no impact on absolute Gross Profit or EBIT for the first half.

For the rest of the year, and given our hedge positions, we continue to expect that the negative impact of currencies when netted with the significant gains from lower commodity costs, leaves us close to our original expectations for the year.

Moving to OPEX. As you know we acted immediately to make significant cuts to discretionary expenditure, finding 100 million Euros of cost savings in 2020 versus our original plans by reducing marketing, seasonal labour, consultancy and contracted services, travel, meetings and events, and by putting in place a general recruitment freeze. This quick action has helped us to control OPEX, which declined by 7.8% compared to the prior year period. Considering that volumes declined by 9.2%, this is an excellent demonstration of how we were able to absorb a significant part of the volume deleverage impact.

18. EBIT and Cashflow

As explained earlier by Zoran, volume, package and channel mix deterioration were the three most impactful factors of revenue deleverage, which drove comparable EBIT down 35.8% and comparable EBIT margins down 230 basis points to 7.4%.

Financing costs increased by 3.3 million Euros compared to the prior-year period, due to higher overall gross debt on the back of last year's successful refinancing.

Free cash flow was an outflow of 38.5 million Euros in the first half, in line with our expectations and revised plans. Lower operational profitability as well as a deterioration in working capital as a result of lower payables outstripping improvements in inventory and receivables balances drove free cash flow down, which was partly offset by a reduction in capital expenditure of €19.3 million.

While we have reduced capex, we continue to support and invest in the business for the long term, as the majority of this reduction is more of a deferral than a cut in nature. We are also pleased to see our working capital days improving by just under 3 days in the first half on a like-for-like basis, pointing to a healthy underlying working capital management amid the crisis.

The second half of the year is seasonally stronger than the first in terms of free cash flow generation. That said, we expect this year's free cash flow to decline faster than the operating profit year-on-year, driven also by the deterioration in the working capital balance, partly offset by this year's reduced capex.

Our solid balance sheet and available liquidity leave us well-positioned for any range of scenarios for the rest of the year and into 2021.

19. Emerging segment more resilient

Turning now to the key financial drivers on a segmental basis.

Zoran has already described the top-line impacts, so let me focus my comments here on margins.

In our Established markets, comparable EBIT declined by 56.1% with comparable EBIT margin declining by 410 basis points. The main driver of this was negative operating leverage given the revenue declines.

In Developing markets comparable EBIT declined by 65.0% and comparable EBIT margin declined by 480 basis points to 3.7%. The larger margin decline in the Developing segment compared to the Established segment is due to the larger decline in price/mix seen in this segment for the reasons described earlier. Price/mix decline has approx. three times more adverse impact on margins compared to that from volume declines.

The Emerging markets' comparable EBIT declined by 11.1% and comparable EBIT margin declined by 10 basis points to 10.6%. The net impact of the Bambi acquisition, the accounting change at Multon, and the raw materials credit settlement year-on-year reclassification account for 240bps of favourable impact.

20. Strong Balance Sheet

Let me also provide you with an update on our balance sheet.

Our net cash position at the end of July stands at 1 billion Euros. This is after meeting the last 563 million Euros repayment for our 2020 bond maturity, as well as paying out the €0.62 per share ordinary dividend in July.

As you may remember, we raised additional debt in 2019 at attractive rates. This has allowed our balance sheet to be a key enabler as we entered the crisis. And our balance sheet continues to be strong.

We have over 700m Euros of our Commercial Paper facility unutilised, as well as the untapped 800m Euros Revolving Credit Facility in place. Our next bond maturity is not until November 2024 and our expectation is for another year of solid positive free cash flow generation, albeit significantly below our business-as-usual annual levels. As the case has always been, we have no financial covenants that would impact our liquidity or access to capital.

In short, our balance sheet and available liquidity will continue to allow us to manage our way through the crisis while investing appropriately in the business.

21. Q&A

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

----- Q&A------

22. Zoran's wrap-up

Thank you all for your time and attention today. Let me just highlight that we are managing through this crisis with determination, focus and flexibility, and we have our sights fixed firmly on the opportunities that are appearing. We are adapting to the new reality, and we have the capabilities, people and culture to do that. We intend to win in our high potential industry and to grow with our customers as the leading 24/7 beverage partner. I strongly believe that Coca-

Cola Hellenic will emerge even stronger and smarter from this crisis, able to leverage our scale to capture the growth opportunities ahead.

Let me extend my good wishes to you and your families, and all of us at Coca-Cola HBC sincerely hope you stay safe and well. We look forward to speaking to you all again soon. Thank you.