

8 June 2020

Speakers

Giorgi Menteshashvili, Exane BNP Paribas

Zoran Bogdanovic, Chief Executive Officer

Michalis Imellos, Chief Financial Officer

Introduction

Hello, and welcome to day one of the Exane BNP Paribas CEO conference and today's large group meeting with Coca Cola HBC. During this call all participants will be listen only mode for the duration of the meeting.

However, following on from the introductory remarks, and the first questions from our analyst, we encourage you to contribute for submitting a question for the virtual question and answer session.

There are two ways you can do this. First, you can email your question to fireside@exanebnpparibas.com with Coca Cola Hellenic BC as the subject.

Secondly, you can submit a question via the Q&A panel in the bottom right of your Webex event panel if you're logged in via a desktop portal, or at the bottom of your screen if you are logged in via the app on your phone or tablet.

I'm now delighted to hand over to Giorgi who will be presenting today's session. Over to you Giorgi.

Giorgi Menteshashvili, Exane BNP Paribas

Thank you Sam. It's a great pleasure to be hosting Coca-Cola Hellenic Bottling Company today during our twenty second CEO conference. I'm delighted to be joined by Zoran Bogdanovic, Chief Executive Officer and Michalis Imellos, Chief Financial Officer of the group.

As you know, Coca-Cola Hellenic Bottling Company is one of the largest bottlers in Coca Cola group operating in twenty-eight countries across three continents.

After several years of strong FX-neutral sales revenue growth and margin enhancement, Covid-19 brought both some unique challenges and opportunities for the Group. We will explore some of these topics and beyond in today's chat.

Before I begin with some of my own questions, Zoran would like to begin with a short introductory presentation. Over to you Zoran.

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Zoran Bogdanovic, Chief Executive Officer

Thank you Giorgi. Good afternoon everyone. My name is Zoran Bogdanovic and I am the CEO of Coca Cola HBC. I'm joined today also by Michalis Imellos our CFO. I'm very pleased to be able to connect with you today virtually and looking forward to our conversation and of course, I look forward to meeting you face to face in the future once that is possible again. Next slide please Giorgi.

Forward looking statement

I'd like to start by giving you a very brief introduction to our business and after that Michalis and I will be pleased to answer any questions that you have. Next slide please.

A diverse and balanced country portfolio

Coca-Cola HBC is a leading bottler and strategic partner of The Coca-Cola company. We operate in twenty eight markets and have the exclusive right to manufacture, sell and distribute the brand of The Coca-Cola company in those markets.

We have worked together with The Coca-Cola Company since 1951, and our relationship is strong and enduring. While The Coca-Cola company manages the brands and the relationship with the end consumer, we manufacture sell and distribute these brands and have the relationship with the outlets which sell the products, who are our valued customers. Together with The Coca-Cola Company we developed a strategy for the portfolio, share data and insights and invest to drive revenue growth.

Our twenty-eight markets are spread across three continents and we report on our performance in three segments: Established, Developed and Emerging. The diversity of our markets gives us exposure to a range of different market growth profiles and economics cycles and we have a track record of success in a range of challenging economic and political environments.

Our territory has a population of roughly six hundred and sixteen million, which is expected to grow to nearly six hundred and fifty million by 2025 driven mostly by Nigeria.

In addition, when looking at the sparkling category in particular, many of our countries have significant headroom to increase per capita consumption. 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.

If we bring the average per capita consumption of Coca Cola HBC to the average EU level, we would double our volumes.

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We believe that the right products, in particular our newly evolved, 24/7 portfolio, combined with our commercial strategies, can help us unlock this potential. Next slide please.

Leading positions – opportunity for growth

We are fortunate to operate in a great industry. Commercial beverages have very strong growth opportunities in our markets. We are the clear number one in the sparkling category in our markets with fifty four percent value share in aggregate. In the overall non-alcoholic ready to drink industry we have twenty seven percent market share and within commercial beverages overall, there are categories where we have lower shares, such as energy, coffee and ready to drink tea, and where our brands, scale and capabilities give us the opportunity to expand our shares. Next slide please.

Strong, Broad, Flexible portfolio

Our brands give us a very strong, broad and flexible portfolio and the portfolio, which can truly serve the consumers 24/7, meaning across all occasions during the whole day, seven days a week.

The whole Coca Cola system has driven a significant increase in innovation of this portfolio, making it more consumer centric and increasing the pace of new launches of products, brands and package types.

We also have opportunities in entirely new categories. We launched Costa in May in three markets with seven more to come in July and Q4 in 2020 we will focus at first on opportunities in at-home consumption and we will then move onto the significant opportunities in the out- of-home market by working together with our customers, in cafes, bars, hotels and restaurants to launch Costa in those outlets when it is safe for them to open.

In addition, we also distribute premium spirits in nineteen of our markets, which gives us a significant opportunity to activate our portfolio as part of the trend for mixed drinks and cocktails. Next slide please.

Our 24/7 portfolio allows us to stay relevant for every outlet in every channel

These 24/7 product portfolio we now have is a unique asset and it is central to our region and long-term strategy for the company.

Our range of brands and categories allow us to appeal to a large group of consumers, across all occasions and all channels. And as I noted at the start, we have a significant opportunity to scale these brands across our markets. Next slide please.

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A recognised leader in the ESG

We are recognized as a leader in ESG. I'm proud to say that our progress has been reflected by the Dow Jones sustainability index, which has ranked us as Europe's most sustainable beverage company for the sixth time in seven years. We were also ranked second globally. Alongside this, we have the highest levels of rating in MSCI ESG, CDP water, CDP climate, and FTSE4Good.

We continue to push for progress in this area, and we intend to be as accountable on our sustainability targets as we are on our financial ones and you can find comprehensive reporting against our mission 2025 sustainability commitments in our integrated annual report. Next slide please.

Keep our people safe and customers served

Let me finish by saying a few words on the current situation. The challenges presented by the Covid-19 pandemic are unprecedented to our business and the communities where we operate. At Coca Cola HBC our priorities are first to ensure the safety of our people, customers, partners and communities. Second, to maintain business continuity and the health of the business through the crisis by decisive, timely and effective action and third to prepare for the opportunities that we know will emerge once recovery is underway.

I'm very proud of how our teams are responding to this crisis, particularly the adaptability, resilience and community spirit that our people have demonstrated. We entered this crisis from a position of strength, with sound business fundamentals and a very solid balance sheet. When the pandemic struck, we took decisive actions fully focused on keeping our people safe and customers served, as well as to cut discretionary costs and reprioritize investments. In short, we are managing the business to support our performance in the short term and to ensure we are well placed to move into the recovery phase as it develops.

And thank you for your attention and now, Michalis, and I would be happy to take any questions you have.

Giorgi Menteshashvili, Exane BNP Paribas

Thank you Zoran for the interesting overview. I'd like to start by asking a few questions of my own before I open up and incorporate some of the questions that will be coming from the audience. So, to start with, during your Q1 results call you mentioned that April will be the lowest point for the business during this crisis. Now that markets are gradually to reopen, what are your observations? How confident are you in the recovery of the business?

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Zoran Bogdanovic, Chief Executive Officer

Yeah, thank you. Indeed, as we said in that call that April will most likely beat that low point and that's exactly what we have seen. It was a difficult month for a number of reasons. All of our markets, except for Belarus, were in the lockdown. At least so, changes in the shopper behaviour, after the pantry loading that happened in March we have also seen that, you know, that faded away and went away as consumers inevitably became more conscious, realizing that this is going to last, so they became more rational in their buying, coming to the stores with the shopping list and focusing more on essentials for the households.

Also, we have seen the shift that people went from the big supermarkets and big retail outlets to neighbourhood and proximity stores. So, we also noticed that customers after this March kind of a panic mode started destocking and we've seen that with several customers and let's not forget also that in April we had this element of cycling the Easter.

So all of that resulted that April was at that low point with volume decline of twenty seven percent that we said, and revenue thirty seven percent. However, we have seen in May gradual opening of the markets. That comes literally week by week in, phases, slowly, part by part across the countries and that has impacted also our volumes in May, which still continue to be in the negative trajectory, somewhere in the kind of mid-teens negative.

However, a better or a smaller decline than April and that's a direct consequence of the fact that some of the out-of-home outlets started opening, people started going back. And for that reason, customers have also started reordering, which impacts the volume but also impacts the price mix because if you can imagine during March, end of March and April, out-of-home packages have been mostly hurt. And that's what we see now gradually happening ever since; this is also in June.

We are pleased to see that hotels are even starting to reopen even though it's too early to say what kind of impact this is going to have this month and also through the summer as I think all of us are collectively learning what this will have. And you also asked me about my confidence about the recovery of the business. I would really highlight that I have a strong confidence, because even with this crisis, I really see that relevance of our 2025 growth strategy is there, it only emphasizes some elements more like, for example, digital transformation that is embedded in there. That combined with our strong balance sheet and passionate, committed, agile people, I'm very confident that we will emerge from this even stronger and continue our growth trajectory that before this crisis we have had for several last years.

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Giorgi Menteshashvili, Exane BNP Paribas

Thank you very much. Maybe moving on to the price mix. Arguably, as the lockdown measures are slowly lifted across countries, arguably some of the consumer behaviour might stay there for longer, such as at home consumption, for example, social distancing. In this context, first question is, are you seeing improved performance in terms of price mix again in May? and more longer term, do you think that we should be maybe entering the era of lower price mix expansion?

Zoran Bogdanovic, Chief Executive Officer

Yes, look, in short yes, we saw in May an improved performance versus April.

Our ability to read going forward is, we learn from every day, every week. We do see that week by week it is improving, even though it is still in the in the negative area, as I said earlier, because of the significant impact of the package mix. However, we do see that in our revenue growth management area, we will have to re-emphasize the affordability area, where we will be paying more attention to critical magic price points, especially for our entry packages.

Also, the way we are doing promotions on which part of the portfolio, which is more concentrated on our at-home packages and promoting more of a single serve multipacks. Still, even in this situation we do see that there is opportunity for the part of the portfolio which offers premiumisation opportunities and this is where the mixability comes, more premium parts of the portfolio with our adults sparking beverages, which even during this crisis we see that these, I'd say at home socialization and socializing, resting at home, leisure at home is boosting.

And this is where also this part of portfolio has the opportunity. So we are having a holistic approach between affordability and premiumisation in our revenue growth management area.

And I believe, and I'm quite confident that this will help us navigate through this upcoming period, where definitely consumer sensitivity is bigger than in the past.

But the breath of the portfolio and more categories, I think is best suited to satisfy all possible drinking moments that happen during the day, especially now in this newly strengthened occasion which happens at home whether that's meals, or that's meantime, whether that's gaming, whether that's TV time or if you will, what we also saw happening this barbeque balcony or grilling at balcony. So, all these things are offering opportunities, where we can balance both affordability as well as premiumisation and yes,

I'm quite confident that we will be ready for that and that smartly we will be able to bring back to the positive trajectory.

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Giorgi Menteshashvili, Exane BNP Paribas

Thank you very much. At this point, I'll be opening up the meeting to the broader Q&A and we have already a number of questions submitted. So I will begin with a question around your exposure to the travel industry. How are you exposed to this and how you're affected by the crisis, obviously, and what do you see in terms of recovery of travellers and tourism in some of your key geographies?

Zoran Bogdanovic, Chief Executive Officer

Georgi, this is, this is truly still too early to say. We are all witnessing the fact that a tourism industry and travelling has been really hit quite hard.

However, we do see in, especially in some of the seasonal markets, like Greece and Croatia, that hotels already have opened or have a clear dates now throughout June for opening also in Italy end of June, July. So we do see that happening. Definitely we know that there is going to be less traffic, because also of measures that have been introduced to enable this social, physical distancing.

So intensity will not be there. We do estimate there is going to be more national residents staying in their own countries and car destinations might be those who will benefit more. But we also see that it is encouraging for example, to hear from Austria that Vienna bookings in the city itself are quite good for example, which is very encouraging. However, when we see that in some of the traditional tourist areas, which rely on people coming from abroad, they have a much lower rate of bookings.

So at the moment, it's a mixed bag of things. I think we need to be also realistic and say that this summer is going to be of a definitely lower traffic and intensity, but still it's too early to say and once everything opens, I think that with people staying in their own houses and also wanting to, to have some summer, I think we also might see some good effect, but to which extent, I think no one can say.

Giorgi Menteshashvili, Exane BNP Paribas

Thank you, that's very clear. Can we go over and discuss the differences by region in terms of expectations for recovery in some of your segments. And also, do you feel like that as a result of lockdown, do you think it's more of a one-off impact, or have you seen any longer-term consumer behavior changes that might last longer and could affect your business?

Zoran Bogdanovic, Chief Executive Officer

So, first of all, we, we do see that, first of all in terms of the behaviours, we do see that there are a couple of trends that clearly emerged. I mentioned this, everything that happens at home and also the various consumer surveys and

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customer surveys we do, we do see that there is much more activity, consumption happening at home. And as I mentioned earlier at-home, there are more drinking moments that happen and even post covid, it is visible that that's going to stay. And that gives us the opportunity to tackle this opportunity with portfolio. with packages, with the different categories, with different communication. And our teams are doing exactly that, adjusting our plans quickly to tap into that. We also see that E-commerce and anything digital has been booming during these days, last couple of months.

We see that what has happened is that people who have never tried online ordering have now tried it for the first time and convinced themselves that it works quite well. So, while those two have happened, I'm also pretty confident that in the out-of-home, in bars and restaurants, even though it might take some time this year, even possibly part of the next year.

However, I do believe that the habits of going back to the bars and restaurants eventually will restore, especially when the vaccine and proper solution for this virus will be found.

So, I'm pretty optimistic that in many of our Mediterranean countries, strong tourism countries and countries where bars, restaurants, cafe culture is strong, that we will eventually go back to see them doing that more often.

Giorgi Menteshashvili, Exane BNP Paribas

Thank you very much. I want to more specifically ask about the emerging market segment and more specifically, Russia and Nigeria with response to the lockdowns and the response to the covid-19, what has been different in these markets, compared to the rest of the world? And also, are you seeing any impact on consumer sentiment in these markets due to weaker oil prices?

Zoran Bogdanovic, Chief Executive Officer

Well, I'll start here and then if Michalis says something, maybe he can build, I'll kick it off and say that, first of all, similarity between Nigeria and Russia was that they were in the last wave of the countries that went into lockdown. And then, in case of Russia, they stayed longer there, especially they had their peak only May, mid-May, that that has affected of course, the consumption, our sales performance. And we do see that now, recently, Russia is also having conversation about easing as things start slowly to improve.

However, it's not yet there. In the case of Nigeria, Nigeria went into lockdown, but then faster went outside of it, even though we need to recognize that Nigeria, because it has many states, which have their own independence, make their own measures, we do see that a number of cities like Lagos, while they have done easing of the measures.

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Then you have, for example, Port Harcourt, which went into complete curfew and full lockdown. However, in Nigeria overall, we do see that people are back on the streets, small independent stores, on which Nigerian economy depends, they are back in the game in majority of the country and we see that also in performance.

However, in Russia, there is this case of combining covid as well as the impact that oil price has done, also the moment of the Ruble and that piece is something that affects Russian consumers and people and that is then visible in their shopping behaviors, which are becoming much more rational, much more choiceful, much more prioritization. Michali, anything to add from your end?

Michalis Imellos, Chief Financial Officer

Not really. Yeah, this summarizes pretty well, I think. Yeah.

Giorgi Menteshashvili, Exane BNP Paribas

Thank you very much. I would like to ask about your operational leverage. How much of your cost structure is fixed versus variable and maybe could you tell us of your hundred million cost savings that was announced during Q1, where will that be coming from, from fixed portion mainly, from variable portion?

Michalis Imellos, Chief Financial Officer

Yeah, Maybe if I take this one, so our COGS represent something like seventy percent of our cost base and out of that fifteen percent only is fixed because in there, we have primarily concentrate, which is variable with the revenue and raw materials, which is also variable with the cost.

So, for the rest of the cost, which is the opex and the DME, which is a thirty percent of our cost base. I would say around sixty percent of it is fixed and this one hundred million euro cut versus our original expectations, or our original plans, some half of it will be from DME and the other half will come from a number of discretionary expenses as we call them.

So primarily travel, meetings, some overtime that no longer will be needed, some vacancies which will not be filled as quickly as originally were planning and generally all costs will be considered from a zero base to really see what's the maximum extent that we can improve.

So, half of it is DME and the other half is those categories that I just mentioned.

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Giorgi Menteshashvili, Exane BNP Paribas

Thank you very much. I wanted to ask few questions. Could you please tell us more about your sustainability agenda? I know you touched base in the presentation, but what are the key priorities in your sustainability agenda if you could give us a few words on that?

Zoran Bogdanovic, Chief Executive Officer

Absolutely, so a number of areas are, I mean, in sustainability we have to cover and we pay attention to many areas.

But however, let me highlight that packaging, recycling and waste management is something that is probably one of the centre areas on which we continuously pay attention.

So, that's part of our joint commitment with The Coca Cola Company down to 2030 and, and this is also part of our sustainability commitments for 2025.

We are continuously increasing the content of recycled PET in our packaging also, with several of our brands in few countries.

Mainly we started with Water brands where we have a hundred percent of the packaging, which is done fully from rPET.

And with that, year by year, we are increasing the content.

Also, we are working very closely with governments and various stakeholders, industry partners, on waste and collection management systems, because only through a very effective management system, waste management systems in the countries, and collection systems, that's how we can get the high-quality feed stock to produce rPET, which we then buy.

We are also innovating ourselves in new technologies. This year we are doing something where we'd be able to produce the readymade pre forms from rPET in our plant in Poland. That starts towards the end of the year and we already have plans to do more of that across many other plants. So we take the whole topic of plastic and packaging extremely seriously. We are committed. That's why we have also this year and next year are executing the plan with which we are removing plastic packaging in all our packaging for multi packs.

That means a number of investments that we are doing across all countries so that we go from plastic to carton, and that's happening as we speak.

So these are, if I will highlight one area where we are most busy, I would not underestimate, but just say that we are continuously having progress in all our environmental indicators of Water, CO2 emissions, usage of electricity from renewable sources. So these are the key areas in the sustainability and if I may also, our community support is, we have a flagship program across Coca Cola

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Hellenic, which is called Youth Empowered, where we, together with partners, and investing time for the youth in getting them and preparing them to upgrade their skills as they are looking for their first employment opportunities, and we are very pleased to see how people who go through that program, acquire the skills, which are very useful for them to be even better positioned after they finished the universities to find their employers, of which we are also one of them.

But I'm extremely happy that also our suppliers and customers are partnering with us on this program and that's how we also support an affected piece of the society in many of our countries, which is youth.

Giorgi Menteshashvili, Exane BNP Paribas

Thank you very much. That's interesting indeed. We have more questions coming from the audience. Could you maybe tell us about your M&A pipeline and if you've seen any opportunities in the current environment, given that some of the players might have come under financial distress.

Zoran Bogdanovic, Chief Executive Officer

Yeah, well, I can say that we remain active in this area, we continue exploring what we believe would have a strategic fit and what would be both-on case. What we have highlighted both Michalis and myself also, in the previous call for our Q1 results is that our strong balance sheet, good liquidity, puts us in the opportunity that we can continue doing that and I can only say that some background work on several cases is ongoing.

And only when the combination of the fit and price happens, hopefully, that will enable that we can realize some of the opportunities. It's also visible that in our industry we didn't see that necessarily prices have declined because some of the attractive areas we can see that they are pretty much holding with their valuations. But in short, I can only say that leveraging our balance sheet, liquidity position, that we continue to be active and investigating and exploring a number of opportunities.

Giorgi Menteshashvili, Exane BNP Paribas

Thank you very much. I wanted to ask about the regulation. Now that a lot of governments have given a big fiscal stimulus in various geographies and also weaker oil prices in countries, such as Russia, and Nigeria might put government budgets under pressure. Do you see the risk that's regulatory agenda in terms of sugar tax and plastic tax might accelerate from here?

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Zoran Bogdanovic, Chief Executive Officer

Yes, I'll start. Michalis, please jump in if also you have something. Look, this agenda is going to stay very, very high.

However, we do see that because of this crisis situation, several governments did have ear and sensitivity, for the moment, realizing that that could put unnecessary burden on the economy. And we've seen an example in Italy where, even though it's still in the procedure. However, we do see, that most likely both sugar and plastic taxes will be postponed to next year.

We've seen a similar case, at the beginning also in Poland. So we do see that several governments have really demonstrated flexibility and understanding of the situation.

However, irrespective of that, we do see that that's going to remain a high agenda item for which, based on experiences that we had in a number of our markets when it comes to introduction of a sugar taxation or more and more as plastic, we do see that we have the approach, we have the learnings from those markets. We adjust our brand pack strategy, pricing, with combination of different new changed packages or pricing, also marketing approach. and I'm confident that even in cases, when that happens, we adjust our approach and this is usually in the year of introduction, there can be some impact.

However, we feel confident that there is always a solution. Let me, just also emphasize that we are trying to also always layout the case that there is a sensible approach to that. That it is not discriminatory towards other parts of the industries.

So that it's not purity only for, let's say, beverages industry. If the priorities of the regulator are those stated, then we see that through wider front these can be better achieved than just singling out one industry.

So, it's a combination of us having a constant dialogue and conversation to also show the impact and what are the best measures, and we completely stand with our commitment to do what is right and to adjust our course.

Giorgi Menteshashvili, Exane BNP Paribas

Thank you very much. I think it's very clear. I think we have time for one last question and I would like to ask you about your innovation pipeline and more specifically, has Costa coffee rollout been affected by any means with a covid-19?

Zoran Bogdanovic, Chief Executive Officer

Personally, with Costa, I think it just reinforced it. So, we started the, as I said, in the intro remarks, we started a couple of weeks ago with the first, three countries

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and now until July, we are rolling another seven markets and then by the end of the year another wave.

So, we see that coffee has excellent relevance, not only in crisis where there is more in home consumption. But overall, this portfolio with Costa, which we will do at-home, out-of-home, through ready to drink, pods, also with the Costa express machines, which are very well known.

So we will be doing all those across all possible channels and we continue at full speed. In the other area of innovation we already had the number of countries launching Coke Energy and Aquarius before the outbreak.

So, in those markets, we will be supporting in a wise and sensible way given the moment those new launches. However, the other ones we have postponed for next year, primarily so that we can make a proper impact and while learning going forward, this, that we don't do, maybe as many, however, we will be doing more prioritized ones which have a bigger scale and impact for the business, so that we can do that while pacing ourselves with the rate of complexity that this brings.

Giorgi Menteshashvili, Exane BNP Paribas

Thank you very much.

Zoran Bogdanovic, Chief Executive Officer

As a conclusion, innovation is going to stay, even in the future an important part of our growth algorithm.

Giorgi Menteshashvili, Exane BNP Paribas

Thank you very much. Unfortunately, we run out of time for today's Fireside chat. Thank you Zoran, thank you Michalis for a very interesting conversation.

And thank you Coca-Cola Hellenic Bottling Company for joining us today at Exane BNP Paribas CEO Conference. As a reminder the next fireside chats will be PPG INDUSTRIES and RENKOTIL INITIAL.

And I hope you enjoy the rest of your day, and any other meeting that you will be attending.

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