

CORPORATE PARTICIPANTS

Zoran Bogdanovic, Chief Executive Officer

Michalis Imellos, Chief Financial Officer

QUESTIONS FROM

Edward Mundy, Jefferies

Ewan Mitchell, Barclays

Alicia Forry, Investec

Fintan Ryan, JP Morgan

Nico von Stackelberg, Liberum

Sanjeet Aujila, Credit Suisse

QUESTIONS AND ANSWERS

Telephone Operator

Thank you. As a reminder if you would like to ask a question, please press *1 on your telephone keypad, ensure your line remains unmuted locally. You will then be advised when to ask your question.

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

Edward Mundy, Jefferies

Morning everyone, three questions please. The first is on your I appreciate that you're not sort of explicitly quantifying it, but given the good momentum on Q4 and given the unchallenging weather comps in Q2 and Q3, I was wondering whether you could provide your level of confidence in hitting your medium term guidance of 5 to 6% sales and 20 to 40 bps in fiscal '20? That's the first question.

The second question is on Bambi, how are you using the business to leverage your portfolio to target a 24/7 beverage model, in particular are you seeing much cross merchandising from your existing portfolio and integrating That with Bambi and are you also widening distribution of Bambi products into new markets?

Then the third question is on Nigeria, you know a very good recovery in the fourth quarter, are all the price reductions now done and have you seen any competitor response post your price reset in PET?

Zoran Bogdanovic, Chief Executive Officer

Good morning Ed, thank you for the questions and I'll take them one by one. First of all on 5 to 6%, yes that's exactly what we are shooting for, driven by several strong reasons and drivers for our belief. As I mentioned several times, we know that we are going to cycle not very good weather that we had last year in Q2 and Q3, so what we are planning this year, as always, is just normal weather, we are not expecting anything crazy good and also we are not expecting that we are going to have, you know, disastrous weather, so just normal.

The second thing is this year we are having Euro Cup and a number of our market countries have qualified and we are having strong preparations to activate this

tournament as we have always proven that we know how to do that quite well and our marketing plans have been adjusted for that.

On top of that we also have a new wave of innovations that are coming this year, Q2 we are starting with Costa Coffee, so we are back in the Coffee category, that's important to note, as well as expansion of Coke Energy, various innovations that we are having both with product packages and flavours in Sparkling, in Water, in our Ready to Drink Tea, so a strong pipeline.

And the last point I would just say is that we are operating across our territories in a quite solid, positive environment. The economies in a number of markets across our market remains to be quite positive, maybe in a few markets there is a little bit of a slower growth, but we are still seeing that we are operating in a growth environment and that is also important to note. So all that blends to the fact that we are shooting for the 5 to 6% that we have talked about in June of last year.

Moving on to Bambi, now more than six months with Bambi in house we really see that this high quality, complementary, and innovative portfolio indeed is performing even better than our case was. And as you mentioned, Ed, in your question - exactly we do see that complementarity in cross promotions and cross merchandising working really well in various occasions all the way from the morning occasions with AdeZ our plant based beverage and then through snacking throughout the day. We have already been adjusting our various display equipment that can facilitate such cross merchandising and promotions and we will continue doing more of that, as we are also innovating and preparing new products with the Bambi portfolio.

We are also encouraged with what we see - we are definitely preparing ourselves to strengthen the Bambi footprint in the countries where this portfolio is already present, as well as to penetrate some of the new markets where Bambi is not yet present, but we have already preliminary - very positive, feedback on some tests that we have done.

So yes definitely we see that complementarity and we plan to leverage it definitely more going forward.

On Nigeria, with the investments that we have done both in glass and then from September in PET, this has resulted with what we expected, the acceleration of the growth, I would say even stronger than we thought, which really shows that our revenue growth management insights, analysis and decisions have really proved very valid and I'm also seeing that we have started this year with a very, very positive trading in Nigeria.

We do see a limited competitive reaction, but nothing that wasn't part of our considerations on what might happen. But now with the price premium that we have of approximately 20% per litre versus the competitors I really believe that with additional

activities, marketing investments that we are doing, you know, that level of premium is fully justifiable in the context of the Nigerian consumer is today.

So I'm quite positive about the prospect of Nigeria for the year, we are increasing capacity, we are strengthening, you know, our marketing plan, which I think separates us from others in the market. And also we are having a number of innovations that also Nigeria is going to see, so that gives me the confidence for a good strong year on Nigeria this year. Thank you Ed.

Edward Mundy, Jefferies

Very good, thank you very much. And just on my first question, I think you highlighted why you've got a high degree of confidence in your medium term 5 to 6% target on sales, but the 20 to 40 bps on margin, perhaps Michalis you could pick up on that one?

Michalis Imellos, Chief Financial Officer

Yes, look, specifically for 2020, our, let's say target, as we have said is a minimum of 11.2% EBIT margin, the 20 to 40 bps growth is more from 2021 onwards, on average, every year. So we reiterate the 11.2%, as the minimum target for 2020.

Edward Mundy, Jefferies

Very good, thank you.

Telephone Operator

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

Sanjeet your line is unmuted; please go ahead with your question. Please be reminded to unmute your line locally.

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

Ewan Mitchell, Barclays

Hi there, three questions from me. The 70 bps headwind from Lavazza in Q4, can you just give us a bit more colour as to when that will drop out and how we should expect your launches to kind of be tied in behind that drop out and the intensity that you're going with them?

Zoran Bogdanovic, Chief Executive Officer

Hi Ewan, thank you. Yes, so 70 bps because we had, in Q4, let's call it a 'Coffee-dry quarter' and also Q1 of this year will be such. And then in waves we are going to start to kick in countries. Starting in Q2 with the first wave and then Q3, Q4, so we will have more and more countries starting with Costa, so I would say that you will see a gradual increasing positive impact from Coffee through the year and then into the next year.

Michalis Imellos, Chief Financial Officer

Just to build - technically Lavazza on its own will be a year over year impact until the end of Q3 2020 because we will start fully cycling from, let's say, October 2020. But then as Zoran said, Costa will start kicking in from quarter 2, slowly, slowly in a number of markets.

Ewan Mitchell, Barclays

Sure, so just to clarify the non-compete will run until Q3, so those markets that you were with Lavazza you won't be able to launch Costa in them until then?

Zoran Bogdanovic, Chief Executive Officer

That finishes - that non-compete finishes, depending on the country either in April or May. So fully respecting that this is how we lined up also the country launches.

Michalis Imellos, Chief Financial Officer

And just to clarify Ewan, my point is that since we finished with Lavazza from the 1st of October 2019 it will take 12 months to fully cycle the discontinuation of Lavazza, it's nothing to do with the non-compete.

Ewan Mitchell, Barclays

Okay very clear. The second point was on opex, it declined by 80 bps this year as a percentage of sales and 50 of that looked like it was marketing spend. I appreciate we've got the Euro football this year, can you just give us an idea of where that might be versus last year and versus the Russia World Cup year and what sort of level we should expect on a kind of more normalised year going forwards?

Michalis Imellos, Chief Financial Officer

Yes, so as we said marketing expenses were down primarily because of cycling the FIFA World Cup investment and some other one offs. So into 2020 of course Euro 2020 is coming, we will invest there as well. So I would say that comparing them on a normalised level without, you know, the cycling of FIFA and so on we would expect the 2020 marketing expenses as a percent of revenue will be slightly up on 2019 versus the baseline, as a result also of the Euro 2020.

Ewan Mitchell, Barclays

Sure, and then 2019 would be a sensible year to kind of think of as a baseline?

Michalis Imellos, Chief Financial Officer

Yes, 2019, with the exception because of some small on-off benefits that we have, on the other side 2020 will have, call it one off, investments relating to the Euro because we don't have them in 2019. So all in all you would see a very small increase in marketing expenses in 2020.

Ewan Mitchell, Barclays

Sure thank you. And then the final one, innovation - could you just give a bit more clarity on how you're defining that and the 4.2% of volume growth that was driven by innovation can you just give us a bit of colour as to how you expect that to evolve as these innovations in Costa and Coke Energy and everything, sort of, come to bear more across your portfolio?

Zoran Bogdanovic, Chief Executive Officer

Yes, sure, so as I mentioned several times, innovation is really now a critical part of how we do business and that - when we say innovation, a very sizable part of that is new package formats. Second is various new flavours that we are doing in various categories and then come new categories and new brands.

So what we will be seeing as well this year is that we are materialising on various new formats that we introduced either last year, or we are going to see a new wave of formats this year that are part of also our key promo campaigns. So when you see last year we have now completely moved to sleek cans on our Sparkling portfolio. We have launched a number of non-returnable glass in the markets which trade in the retail modern-trade channel, not only in HoReCA.

We also increased the number of multipacks, for example mini cans that we have now in more and more markets. During Avengers and Star Wars promotions we had the dedicated cans and PET packaging behind that. We see excellent returnable glass innovation in Multon on Juices, sports bottle, kids bottle.

So this gives you a flavour of the things that we've done this year and we will be doing things along similar lines next year.

The second thing is that we see one important part of how we keep our brands relevant in the eyes of consumers is various new flavour combinations that we are doing. And we are leveraging those and we have more plans this year.

There is also a dedicated mixers line, you heard about Coke and Coffee, Schweppes is such a fertile ground where we are introducing a number of exciting flavours which consumers and our customers appreciate because of their mixability potential. We are introducing also a new Fuze Tea variant, both reformulation for having a zero variant, on top of new exciting combinations between the herbs and the fruits.

And Coke Energy, which only started last year, this year this is going to have a more sizable rollout across our markets. Overall the Energy category is very vibrant, dynamic with strong growth. We are also launching Predator in more markets, which is like a lower end, or more affordable segment of Energy. So now with four brands in the Energy we are so well positioned to target and shoot for every segment in the market.

Yes, so these are some of the most critical, I would say, buckets of innovation that either we've done last year from which we expect full benefit, plus a new wave that happens this year.

Ewan Mitchell, Barclays

Brilliant, thank you very much.

Telephone Operator

The next question comes from the line of Alicia Forry calling from Investec. Please go ahead.

Alicia Forry, Investec

Hi. Good morning, everyone.

I just wanted to ask about the implications of Costa on your existing business, for instance, in vending machines or convenience stores. Where you think the shelf space for those products is going to be coming from, and what can you say about the expected margins on Costa versus your existing portfolio? Should we see a margin mix benefit or not?

Secondly, the Italy beverage tax - I was just wondering if you could update us on your thinking about that, whether anything's changed and what assumptions you're putting into the FY'20 guidance that you've issued today with regard to that issue.

And then, finally, Coke Energy, how many markets is that in now?

Zoran Bogdanovic, Chief Executive Officer

Thank you, Alicia.

So, on Costa, first of all, to clarify that, I maybe understood from your question that maybe you are having in mind a ready-to-drink version of Costa, where I would say that that's only one of the product offerings that we will have. A much bigger part are beans in packages for in home use or for HoReCa use. On top of that, there are capsules for in home or at office machines, and then there is also the unique Express vending machines that Costa have that we will also be placing in the markets.

So, this is a 360 degree approach to coffee across all channels and with various product formats and types.

So, we do plan to be positioned in retail, in the coffee section as we really believe that there is a clear customer proposition. We are already in conversations with our customers, presenting the proposition and portfolio, and, on top of that, we are going to do, you know, additional secondary displays that will complement sampling activities that we'll do so that consumers can really have the opportunity to taste this high quality coffee.

On margins, look, Coffee, first of all, is a tremendously important category, so sizable, as I said in my introductory remarks. Also, I need to say it's very competitive and fragmented. That's why our priority over the next two or three years is to do a high quality job in building a strong business, and that's why, as we roll out in waves in this and next year, we are going to be also investing ahead of the curve. That's why we are not expecting this next year to already have, let's say, accretive impact from Costa.

So, I will expect that after a full second year, and then into the third year or so, that we will start seeing definitely impacts on the top line, and then accretive impacts on the bottom line.

But, to be sure, I do expect that, over years, Coffee is going to be an important contributor of our profitability as we build that business, but this is not, you know, a fast chase, it's not easy money, but it's hard work and building a quality business, and this is what we see as our competitive advantage and how we want to differentiate ourselves to be really recognised as a full service provider to our customers across the markets where we go.

Italy beverage tax - absolutely. We are fully into it, monitoring, having on our own as well as industry conversations, and it's not totally final yet. You have seen already, from the initial proposal today, that it has evolved, becoming more reasonable, and we will see what happens until really this becomes a law.

Irrespective of what happens, we have a capability. This is where our revenue growth management capability is a critical one, so that in every country we look at is an individual case, given also the competitive play, how do we adjust to any such taxation because then we are adjusting pricing because, of course, we are passing any such new taxation to consumers. But pricing is not the only element, but it is also through then adjusting pack sizes because we are respectful also of various price points that we want to have with our packages.

So, we are in full preparation, and I'm confident that, with various adjustments that we are going to do in the business, you know, we will be able to mitigate those and to continue with our growth trajectory in the new context. So, I'm pretty confident on that.

And then Coke Energy - At the moment, with 12 markets, we will be expanding further. It's early to say, but we've seen some very, very encouraging feedback from the first countries, both in trials, awareness, both with the Energy consumers as well as the Sparkling consumers.

So, our intention is to bring incrementality to the category as this trades in a very distinctive segment, does not compete with the rest of our Energy portfolio as well as ours, also, as you heard from James' remarks in the Coca-Cola company call, there is also a second version and formulation, so we will be seeing across markets which of the two best fits to the consumers, and we will leverage those to the maximum, and I really believe that there is going to be some very good traction in this year with Coke Energy.

Telephone Operator

The next question comes from the line of Fintan Ryan calling from JP Morgan. Please go ahead.

Fintan Ryan, JP Morgan

Good morning, gentlemen. Two questions from me, please.

Firstly, with regard to your input cost guidance outlook, could you breakout what, within the lower single digit per hectolitre case growth is coming from mix, than, I guess, like Costa Coffee and Premium Spirits versus overall raw material inflation? And, particularly, with regard to sugar, what are you seeing there in terms of the - what proportion of your COGS basket is related to commodity sugar? And then, given the recent spike in sugar prices, should we see this as a potential headwind into late 2020 and 2021?

And, in terms of the second question, just quickly, with regard to your interest cost, given the retirement of the bonds in 2020, what full year interest charge for 2020 would you be looking for? Thank you.

Michalis Imellos, Chief Financial Officer

Thanks, Fintan.

So, on the input cost, first of all, the guidance for 2020 is low-single digit increase. We have some different trends compared to '19.

So, in terms of sugar, we expect, in 2020, a mid-single digit increase, and that is coming from both EU sugar where we have enjoyed, for a number of years, some very favourable contracts, and now we are seeing prices edging upwards in the low to mid-single digit increase.

With us, when it comes to world sugar, depending on the period when our hedges have fallen and the open quantities that will be settled, we expect a flattish to low-single digit increase. So, that is what is driving, together with a small impact from mix, is driving the mid-single digit guidance.

We have good coverage when it comes to sugar. We are, in terms of EU, nearly fully covered. And, when it comes to world sugar, in terms of the two big countries, in Russia, we are pretty much fully covered. In Nigeria, we are more than half. So, we have some good visibility about this mid-single digit increase.

When it comes to aluminium, there we expect another benign year, a low-single digit increase. Rates, at the moment, look pretty good - flattish to low-single digit versus prior year.

And the commodity that will drive improvement in 2020 is resin. We expect a high-single digit decline in 2020 compared to '19. We already see favourable prices in the market, which are driven both by the supply and demand curve, but also the lower oil prices. And also, with ongoing lightweight initiatives, this is going to give us a tailwind to get to the high-single digit decline in '20.

So, those three are the primary commodities.

Now, when it comes to finished goods, we should expect a low-single digit increase as an impact overall in the mix. Let's not forget Lavazza is coming out, which is a positive. Costa will come in very gradually during 2020. Premium Spirits, okay, is a business that we see some volume growth. So, overall, this is not going to move the needle in terms of input cost per case, so we do expect a low-single digit increase overall in 2020.

You asked also going into 2021 - I think it's too early really. We have some hedges and some coverage in terms of sugar, but not, of course, in resin and little in aluminium. It's too early really to call 2021 as we are only at the beginning of 2020.

Now, on your second question about the interest cost - so, looking at 2020, we expect that interest costs will be at the levels that we experienced in '19, maybe slightly higher, and this small growth is going to come primarily from two factors; one is that interest income is getting lower and lower as negative interest rates hit and the mix of where our funds are kept is changing within the countries.

But the other factor is the fact that, as we grow capex, and therefore we grow finance leases within the capex spend, the interest cost of those finance leases are based on the new standard, the IRFS 16, and hit the financing cost. And, therefore, with the growth of capex and growth of finance leases, we have a corresponding growth also in the financing cost.

So, in summary, pretty much at the levels of '19, with a small increase coming from those two factors.

Fintan Ryan, JP Morgan

Great. Thank you. Very clear.

Telephone Operator

The next question comes from the line of Nico von Stackelberg calling from Liberum. Please go ahead.

Nico von Stackelberg, Liberum

Hi, good morning. I've three broad questions on Diet or Light Coke, free cash flow and ROIC, but let's do one at a time as you've requested.

So, on Diet Coke or Light Coke it appears to be in decline. Could you just tell me a little bit about the strategy, are you positioning it more for women like it is in western markets?

And can you just talk to me a little bit broadly about I guess the commercial plans for that variant please?

Zoran Bogdanovic, Chief Executive Officer

Hi Nico, good morning.

Nico von Stackelberg

Morning.

Zoran Bogdanovic, Chief Executive Officer

We have Coca-Cola Light or Diet Coke in several of our markets. And we have kept that variant of Coca-Cola in markets where it is very sizeable and where it really has targeted consumers. And we are also planning to bring some innovation in that part as well where inline like you've seen in some of the other markets globally with various flavours in the cans, we will be doing that as well.

So however, in the Zero and Lights across the majority of our markets our primary focus is behind Coca-Cola Zero and that's where we are putting the majority of our investment and our flavour innovations, etc.

However, just to close the loop on Diet Coke in the markets where we are and where we have a significant part of the business, we will be doing more things to also ignite that part as well.

Nico von Stackelberg

Okay, excellent. Thanks.

On the free cash flow I appreciate it's a bit early maybe to comment, but after the strong year this year do you expect it to grow year over year, can you give any sort of guidance at all for 2020 and any sort of one-offs to mind? Thanks.

Michalis Imellos, Chief Financial Officer

Yeah Nico, as you said early in the year. However, the objective with the improved profitability and a good management in working capital to be in the levels that we achieved also in 2019, which are very, very strong.

Nico von Stackelberg

Excellent. And then finally on ROIC, can you please provide the return on invested capital for the year? I mean I can calculate it, but actually what I was really looking for was the ROIC excluding Bambi just to get a feel for how it's developing. Thanks.

Michalis Imellos, Chief Financial Officer

Okay, it would be difficult to isolate Bambi, especially with the methodology that we follow, which is the capital employed as an average over five quarters. But I would say that our ROIC for 2019 is around the 14% mark.

Nico von Stackelberg

Excellent, thank you guys.

Telephone Operator

The final question comes from the line of Sanjeet Aujila from Credit Suisse. Please go ahead.

Sanjeet Aujila, Credit Suisse

Yes, hi guys. Just a couple of questions from me please.

Firstly on the balance sheet, Michalis, you've been talking quite a bit over the last year about re-leveraging to two times. You did a special dividend last year. However, if you do nothing through the course of '20 you still have a little bit of firepower.

I know you've hinted at bolt-on M&A. Is that proving a bit more difficult, or happening a bit slower than what you envisaged? And is that the way you envisaged to deploy the capital?

Michalis Imellos, Chief Financial Officer

Yes, hi Sanjeet. Yes, as you said in 2019 we closed just in the targeted range in terms of net debt compared to EBITDA, 1.54 times with all the debt we raised and the uses of cash that we saw in 2019.

So, going into 2020 we estimate that in order to reach the higher end of the 1.5-2X range we are looking at the firepower of anything between €500m to €700m and we do have a good pipeline of bolt-on targets which we are working through.

Now, clearly the timing you can never sort of fully control in these cases. However, we feel optimistic that in 2020 quite a bit of this firepower will be utilised. And with this plan we are going to be at the upper end of the 1.5-2X even if it is in 2021 - early 2021.

But that's the primary objective of how to utilise this firepower.

Sanjeet Aujila, Credit Suisse

And presumably that will be done with the cash sitting on the balance sheet today which is I think, as you alluded to, generating little income?

Michalis Imellos, Chief Financial Officer

That's correct. This firepower is by utilising cash that we already have plus cash that will be generated obviously within 2020.

Sanjeet Aujila, Credit Suisse

Got it. Thank you.

Telephone Operator

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

Concluding Remarks

Zoran Bogdanovic, Chief Executive Officer

Thank you for your questions and the discussion today. I would like to leave you with a few thoughts.

We remain laser focused on delivering this final phase of the 2020 commitments, while also looking forward towards the next phase of growth.

We continue to leverage our product portfolio and that portfolio is stronger, broader and more consumer and customer-centric than ever. With this portfolio we are able to address more consumer occasions than ever before as we strive to become the leading 24/7 Beverage Partner in our geographies.

In line with our improving portfolio, we are continuously strengthening our route-to-market and partnering with our customers to bring this 24/7 portfolio into the hands of our consumers faster and with greater efficiency. Our route to market is increasingly segmented to offer more customer service options, aiming to capture the full potential

of each individual outlet rather than just the channel. At the same time the broader portfolio requires greater sales force specialisation, with dedicated teams for premium HoReCa for example, and this is an important part of how we activate these great brands in the market.

The ability to be more granular in how we slice the market and how we go after the highest potential opportunities is improving every day by investments in digital capabilities. We are similarly investing in tools that enhance the productivity of our sales force, in connected coolers that can monitor both the performance and productivity of our chilled space in the market as well as serve push-notifications to consumers, and in Big Data and Advanced Analytics which is providing our teams with outlet-specific order suggestions.

And of course, we are also applying innovation to our manufacturing and logistics to expand our technical capabilities while ensuring productivity and cost savings. These are the investments that will allow us to accelerate progress, and it is through this that we can create additional value for our customers, and our shareholders too.

Thank you very much for your interest in Coca-Cola HBC and I look forward to speaking to you soon.

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