CCH – 2020 Third quarter trading update
Conference call script – 11 November 2020

CORPORATE PARTICIPANTS

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Joanna Kennedy - Coca-Cola HBC AG - IR Director

Operator

Thank you for standing by ladies and gentlemen, and welcome to Coca-Cola HBC's conference call for the 2020 third quarter trading update. 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 some prepared remarks 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, November 11, 2020. I now pass the floor to one of your speakers, Ms Joanna Kennedy. Please go ahead.

Joanna Kennedy - Coca-Cola HBC AG - IR Director

Good morning everyone. Welcome to our third quarter trading update.

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

Although we have added a webcast facility to our call for ease of access, there will be no slide presentation today as per our usual practice for trading updates. We will start with some brief opening remarks from Zoran and then open the floor to your questions. As always, kindly ask your questions one at a time, waiting for us to answer one question before then moving on to another. The operator will keep your line open, until we have answered all your questions.

Finally, I must also remind everyone that this conference call contains various forward-looking statements. These should be considered in conjunction with the cautionary statements in our trading update press release, which we published this morning.

And with that I will turn the call over to Zoran.

Zoran Bogdanovic – Coca-Cola HBC AG - CEO

Thank you, Joanna. Good morning everyone. I sincerely hope that you and your loved ones are well and safe.

Let me start by reiterating what remains central, and that is our commitment to ensuring the safety of our people, customers, partners and communities.

I continue to be inspired by the resilience, agility and strong drive of our people, as well as the genuine care they have for each other and this business. This quarter has required continued rapid adjustment to the changing environment and the results that we have reported today, particularly the ongoing strong market share performance, are clear evidence of the strength of the business as well as the capabilities and contagious passion of the people who make it what it is, and I want to thank them wholeheartedly.

Coca-Cola HBC is a well-positioned and resilient business with a clear vision and purpose. Although we know that the recovery from the pandemic will not be simple or straightforward, we are encouraged by the significantly improved performance of our business during the third quarter. These results, as well as the agility that I have witnessed in the organization and the speed with which we have adapted gives me confidence that we will emerge stronger and smarter from this experience, able to leverage our scale to capture the growth opportunities ahead.

Let me now give you an update on our performance in Q3, including our progress on sustainability, followed by an update on our trading in October.

During the third quarter we have seen sequential improvement in revenue trends. Third quarter revenue declined by 30 basis points on a like-for-like basis, a notable improvement from the 1.2% decline in the first quarter and the 25% decline in the second.

Volumes grew by 1% in the quarter and were positive in both August and September. Two of our three segments were in growth with some of our largest markets showing strongly improved trading, in particular Nigeria up in the low twenties, Russia up low teens and Poland up high single digit.

Price/mix trends also improved markedly, down 1.2% compared to a decline of 4.1% in the first quarter and 7.7% in the second. The most important driver of this improvement was from better performance of single-serve package formats, in turn due to improved trends in the out-of-home channel. Single serve mix declined by 1.3 percentage points in the third quarter compared to a decline of 7.6 percentage points in the second.

We saw successive improvement in trading in the out-of-home channel. In April out-of-home volumes were down in the range of 70 to 90%, this improved to 25 to 50% in the months of May and June and during the third quarter reached declines in the high-single digits, showing significant sequential improvement. Overall, during the quarter, 80 to 90% of the outlets we serve in the out-of-home channel were open and operating, albeit at lower capacity than usual due to limited opening hours, outdoor restrictions, or table only service.

What is also supporting performance is the strong results from the at-home channel. We saw the at-home channel return to growth in July, and during the third quarter it grew by mid-single digits. We see that consumers are adapting to the circumstances and that at-home occasions such as meals, socializing, working, and screen time at home have grown in size, and that we are winning share here. Year to date we have gained 40 basis points of market share.

We are also seeing significant growth in e-commerce and there are several ways in which we address that. First through our own B2B platform where we have seen sizeable increases to online orders which has continued even after the lockdowns. Second through partnering with our existing omnichannel customers to increase our digital shelf space and visibility on their own e-commerce websites, and through working with newer digital only customers such as food aggregators to increase the beverage penetration in food orders. And finally, we have our own experience with D2C platforms in Switzerland which provides valuable learning opportunities in this rapidly growing part of the market.

Now let me take you through the main drivers of FX neutral revenue performance on a segmental basis.

Established markets currency-neutral revenue declined by 5.4%. Overall, volume declined by 8.6%. Within the segment we have seen most markets in the range of low to mid-single digit volume declines, while Greece has been an outlier, seeing volumes down double digit as their third quarter was heavily impacted by a decline in international tourism in the country. Italian volumes were relatively resilient, down mid-single digit, supported by growth in the at-home channel. We saw strong price/mix this quarter, up 3.5% driven by strong category mix as well as positive geographic mix and price increases in several markets.

Developing markets FX-neutral revenue declined by just 10 basis points. Overall, volume grew by 2.5%. The segment remains less exposed to the out-of-home channel and international tourism, of course, with the notable exception of Croatia.

Poland's performance has been particularly strong with high-single digit volume growth and share gains of 1.8 percentage points in Sparkling year to date. Along with volume growth, we have delivered a much improved performance on price/mix. As you may remember, price/mix in the Developing segment in the first half was impacted 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. Despite this, our effective work on promo management, as well as selective pricing earlier in the year in several markets, has allowed us to deliver better price/mix performance in the third quarter, down 2.6%, a notable improvement compared to the first half when price/mix was down 8.2%.

Emerging markets currency-neutral revenue grew by 4.2% like-for-like, with price/mix down 1.5% and volumes up 5.8%. This positive result was driven by strong performance in the two largest markets in the segment, Russia and Nigeria.

Russian volumes grew by low-teens. We have seen the non-alcoholic ready to drink category return to growth led in particular by Sparkling, where we have gained over 1 point of share year to date. Sparkling volumes were led by Trade Mark Coca-Cola and very strong growth in Schweppes which grew volumes by nearly 40%. Our focused work on building our revenue growth management capabilities in the market has enabled this positive result, allowing us to win in the market with affordable entry pack offerings while also benefiting from Adult sparkling premiumization opportunities.

Nigerian volumes grew in the low twenties, with very strong Sparkling volume growth. Outside of April and May we have seen consistent double-digit volume growth in Nigeria which shows that the strategic choices we made around pricing and route-to-market investment are working. We also see that the development of capabilities around big data and advanced analytics in the market is increasing our understanding of demand and ensuring strong availability of the right products, in the right place, at the right time. In Nigeria, where demographics and per-capita consumption leave so much room for growth, this ability is a critical enabler to unlock the long-term growth potential in the market.

We continue to see the power of the sparkling category in our performance. Sparkling volumes grew by 5.4%, with growth in Coke, Fanta and Sprite. Adult sparkling volumes were up by 10%, boosted by the consistent trend of growth in the socializing at home occasion. And Energy continues to outperform, with volumes up nearly 25% in the quarter.

Stills volumes declined by 9.9% like for like, a significant improvement from the 37% decline we saw in Q2. Our stills portfolio and especially Water, over-indexes to the out-of-home channel. This fact, which is normally a strength as it allows us to generate better revenue-per-case from Water and other stills categories, has had a negative impact on performance during 2020.

As we advance towards our vision to be the leading 24/7 beverage partner, we are always conscious that this cannot be achieved without the full integration of environmental, social and governance considerations into our strategy and practically everything we do. We manage this business for the long term, and that requires careful and balanced decision making around how we use resources. We continue to push ahead on our sustainability commitments. For example, even as we saw business activity increase, we also increased the proportion of renewable and clean energy which powers us by 2 percentage points compared to the prior year period.

We also continue to make significant steps forward in the implementation of our World Without Waste sustainable packaging strategy. As you may know, efficient and effective collection systems are crucial to delivering a circular economy on packaging, ensuring that no package has only one life and this year, as part of our commitment to collect 100% of our primary packaging for recycling or reuse by 2030, we have supported collection modelling studies in 9 of our countries to identify and advocate for the optimal systems for the efficient collection of beverage containers.

When it comes to October, we saw trading continue in recovery territory. Volumes in the month declined by 1.8%. Considering that we were cycling high-single digit volume growth in 2019 we were encouraged by this performance. However, it must be noted that we face an even higher comparator for the remaining months of Q4. Q419 volume growth was 8.3%.

We have seen recent increases in infection rates as well as government restrictions in some of our markets. We are constantly monitoring this situation so that we can manage our business to perform optimally in the evolving environment. While we recognise the uncertainties, at the same time we are also conscious of two positive factors: the first is that the fourth quarter is less driven by out-of-home performance and certainly less by tourism; the second is that at the moment not all of our volumes are impacted by these restrictions.
Let me give you a sense of the latter point. We could group our markets into four categories when it comes to policies on HoReCa:

1. Those with limited restrictions in HoReCa besides reduced capacity;
2. those with limited trading hours;
3. those which have regional closures of HoReCa; and finally
4. those with national closures in place.

So far, we see that over half of our volumes fall into the first two groups, ie with limited restrictions or some limit on trading hours. Now, moving on to the more heavily restricted areas. Ireland, Poland, Italy and Switzerland are within the third group, with regional closures of HoReCa and the Czech Republic, Slovakia, Greece, Austria, Hungary Slovenia and Lithuania are in the fourth, with national closures in place. The markets in the last two groups represent less than half of our total volumes in 2019, and of this nearly half is from markets with lower exposure to the out-of-home.

We are continuously monitoring the situation and the flexibility of our commercial strategy means that we remain poised to adjust our investments and approach to maximize our opportunities. This, together with our continuous focus on strengthening our capabilities, means that depending on what we see in our markets we can rapidly adapt by re-routing our sales force, adjusting our supply chain and our marketing spend to allow us to continue to win in this very dynamic market environment.

Finally, in the current environment cost control is crucial and having delivered extremely well against our initial plan to save €100 million of discretionary opex, we have announced today that we have increased this target by €20 million for the full year.

In conclusion, while alert to the risks of additional outbreaks of the virus in our markets we are also encouraged by the strong business results as well as the consistent growth we have seen in the at-home channel, which will be especially important for this final quarter. Combined with the increasing impact of our cost savings programmes we believe that this should allow us to deliver good profitability in a severely disrupted year

Thank you for your attention, I will now hand over to the operator, and Michalis and I will take any questions you may have

Q&A

[Q&A transcript will be available on company's website on Thursday November 12th]

Zoran wrap up

Thank you for your time today. While clearly there are uncertainties and challenges to come, we do believe that the rapid improvement we saw in revenue trends in Q3, in addition to the consistently strong performance on market shares, demonstrates the underlying strength of our business. This strength combined with the proactive approach we took to adapting to the new reality means we are in excellent shape for the future and for capturing the growth opportunities in our industry.

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.