CCH – 2021 Third quarter trading update
Conference call script – 3 November 2021

CORPORATE PARTICIPANTS

Zoran Bogdanovic – Coca-Cola HBC AG - CEO

Ben Almanzar - Coca-Cola HBC AG – CFO

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 2021 third quarter trading update. We have with us Mr. Zoran Bogdanovic, Chief Executive Officer, Mr. Ben Almanzar, 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, November 3, 2021. 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 everyone. Welcome to our third quarter trading update call.

Today, I am joined by our CEO, Zoran Bogdanovic and our CFO, Ben Almanzar.

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. I will start with some 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. We have about an hour for the call today which should leave sufficient time to facilitate a good discussion.

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.

In Q3 we continued to make progress on our Growth Story 2025 strategic pillars.

- We are prioritising and fully resourcing the strong brands in our 24/7 portfolio, both those that will deliver today and the ones with the highest potential for the future, such as Coffee.
- We are continuing to develop and augment valuable route-to-market capabilities, adding precision to how we segment our customer base with digital tools.
- And we continue to press forward on all our sustainability commitments, including setting a milestone commitment last month to achieve net-zero emissions across the whole of our value chain by 2040. In the context of the global climate situation and the COP discussions this week in Glasgow, this is a critical step. It is the continuation of a journey that we have been on for more than a decade and will be vital for all our futures, not just for our business.

Of course, while ensuring we are investing for the future, we have remained focused on the opportunities to capture growth in our markets, and I'm proud of our execution this summer.

Q3 FX-neutral revenues grew by 17.1% with volumes up 13.1% and price/mix up 3.5%.

We are particularly pleased with the performance relative to 2019, which we believe is the most relevant benchmark for any company impacted by the COVID-19 pandemic. On that count, we have shown a notable recovery.

Q3 FX-neutral revenues were ahead of 2019 in all segments and showed a sharp acceleration on a two-year basis compared with where we were in the recovery during H1.

This is in line with the scenarios we painted for you at the start of 2021, which were for a 'red' Q1, 'amber' Q2, moving into 'green' during second half. This performance puts us on track to achieve the guidance we set at H1 of a strong recovery in FX-neutral revenue and a 20-30 basis point EBIT margin expansion in 2021.

Channel performance

Excellent execution during the summer season ensured that we, and our customers, captured the growth opportunities available. We were able to rapidly adapt our route-to-market to the new reality. For example, in Italy where we anticipated, and then saw, good tourism trends from locals in coastal regions and therefore put more capacity into those routes, or in Greece, where tourism ended up being better than expected and we were able to seize the opportunity, ramping up production at short notice to meet the increased demand. In these cases, and countless others, our agile teams were able to ensure our customers were ready and supported. As a result, Out-of-home volume grew by 20% in Q3, reaching 10% above the levels of 2019 in the quarter.

While capitalising on the rapid recovery of the out-of-home channel, we have seen healthy growth in at-home consumption. In Q3 we have accelerated share gains in this channel and overall have seen at-home volumes up 10%, reaching 17% above the levels of 2019. The routines we have all created in our homes during lockdown remain quite sticky and we continue to focus on capturing value share in the most lucrative of these occasions. This is a key contributing factor to the strong results we reported today.

Share gains are not only a measure of success for us as an individual company, it's also a reflection of the value we are able to create for our customers. Coca-Cola HBC is the number one generator of incremental value for our customers in non-alcoholic ready to drink segment in our markets. During the last measured period, which was H1 2021 we delivered nearly €250 million of incremental retail value to our customers. This also makes us the second largest creator of value for our customers in overall FMCG, and in several markets we are the number one value creator in that larger category also. This is a testament to our joint value creation model and close partnership with our customers.

We continue to invest behind Digital commerce, with the goal of building leading tools and capabilities in this rapidly growing space. We are seeing strong results from our B2B *Customer Portal* where we have been investing to transform what was a functional order taking platform into a user-friendly, digital experience for our customers. As a result, we have seen our *Customer Portal* usage increase significantly, with it now accounting for a high-single digital percentage of total orders for the company. At the same time in e-retail, we are seeing revenue growth in the high double-digits with one of the fastest growing sub-channels being Food Service Aggregators.

Sparkling performance

Sparkling volumes grew by +13.1%, a strong performance, especially given the tougher base from Q3 2020. Versus 2019, Sparkling volumes are up by high teens. It is notable that the fastest growth is coming from our areas of strategic priority, showing that our actions are working and that this business has a reliable, sustained growth engine. Low/no sugar sparkling grew by +54.6%, while Adult sparkling grew by +27.5%. These two subcategories now represent over a quarter of the total portfolio, or over a third of Sparkling.

Price/mix

Q3 price/mix grew by 3.5%, with pricing taken in Poland to pass on the sugar tax contributing 1.7 percentage points of that.

Again, when trying to understand the trends, it is best to look at this performance versus 2019, since 2020 had a lot of volatility between the quarters driven by the lockdowns.

Price/mix accelerated in Q3, when compared to 2019 performance, by over two percentage points. This is true for every segment, as well as the group. The key drivers have been an acceleration in pricing, as well as improving package and category mix.

Given the inflationary environment we are operating in, this ability to drive price and mix is critical to ensure we continue to make progress delivering EBIT expansion in line with our growth algorithm. The revenue growth management capabilities that we have built over many years together with the Coca-Cola Company, are the most important tool to achieve healthy price/mix expansion. We are encouraged by the ample headroom we still have in category and package mix, where we believe we can continue to drive improvement for years.

When it comes to pricing, we will always do this in a carefully considered way, taking into account the range of insights and analytics we have available and always with a view to creating value for our customers, consumers and the business. Of course, we would never take an action that could risk the long-term health of our position in the market. However, pricing is an important component of managing the current environment where we are seeing input cost pressure from aluminium, sugar, PET resin and other commodities used in manufacturing. In 2021 we have priced in over 95% of our markets without a negative impact on volumes, and we plan to continue to take further appropriate actions on price in Q4 and 2022.

Our other tool when managing cost pressures is to continue to focus on productivity opportunities and strong OPEX discipline. We have a strong track record of flexing our cost base to manage challenging environments and the current one is no different.

Diverse geographic footprint

Moving on to our segmental performance.

The Emerging segment continues to show the strongest top line growth, with FX-neutral revenue up 26.1% in Q3, or up 31% versus 2019 on a like-for-like basis. Within the segment, our largest markets are showing the fastest momentum.

In Nigeria, where we saw volume growth in the mid thirties, we are benefiting from the underlying strength of the NARTD market, but crucially also continuing to grow ahead of it, and gaining share. Our segmented execution is ensuring that we have the right products and offers in the right place, while capacity and route-to-market investments are allowing us to meet the strength of demand. At the same time, smart pricing as well as strong category mix is improving the value equation in the market.

Russian volumes accelerated during Q3, up by mid-twenties on a tougher base. The Russian consumer environment remains healthy, and we have also benefited from a summer of good weather in the market, as well as local tourism as fewer Russians chose to travel abroad this year. Russia also continues to be one of the fastest growing markets when it comes to e-commerce, and we are seeing rapid adoption of our B2B platform in the market across our channels.

The Developing segment grew FX neutral revenues by 11.8%, with volumes down 1.9% and price/mix up 14%. Performance continues to be impacted by pricing put in place to offset the sugar tax in Poland, which came into effect in January.

Developing segment price/mix made good progress in Q3. If we strip out the pricing for the sugar tax, then segmental price/mix was up 4.0% and we can see that the pace of expansion versus 2019 accelerated in Q3.

Volume performance also improved markedly in Q3, closing the gap versus 2019 in the quarter with volumes 0.6% ahead of the pre-COVID levels. This performance is all the more notable given the anticipated volume declines in Poland which is the largest country in the segment.

On Poland in particular, as you know, we have passed on this tax in full and are seeing volume declines in line with our expectations. Strong performance from low/no sugar variants, up 28% in Q3 versus 2020, and up 82% versus 2019, shows that our dual pricing strategy, which we put in place to help offset the tax, is working well.

Moving to the Established segment, FX-neutral revenue grew by 9.8% and is now 3.9% above 2019 in the quarter. Our Established segment countries have the largest exposure to the out-of-home channel and increased foot traffic, the partial recovery of tourism, and our targeted and successful execution to capture these opportunities, drove strong performance.

Inflationary environment

Let me now say a few words about the rest of the year.

We are cautiously optimistic about Q4 and expect another solid performance in the quarter, albeit moderated by localised lockdowns in various geographies. A robust topline, combined with effective management of input cost inflation in 2021, gives us strong confidence in achieving the 20-30 basis points of EBIT margin expansion we guided during first half.

Looking to 2022 and beyond, while uncertainties remain in our markets, we have high confidence in our portfolio, route to market, commercial strategy and the agility of our people. We believe that these underlying strengths will continue to allow us to promptly adjust our investments and approach to maximize our opportunities.

Thank you for your attention, I will now hand over to the operator, and Ben and I will be happy to take your questions.

Q&A *[Q&A transcript will be available on company's website on Thursday 4 November 2021]*

Zoran wrap up

Thank you all for your time. We believe that the results we announced today underline the fundamental attractiveness of our markets and industry, as well as the strength of our business and people.

While clearly there are uncertainties and challenges to come, we are all well prepared to continue to adapt, and to capture the considerable growth opportunities we believe are ahead.

We look forward to speaking to you all again soon.

Thank you.