

CCH – dbAccess Global Consumer Conference 2021

Presentation Q&A transcript – 9 June 2021

CORPORATE PARTICIPANTS

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Ben Almanzar - Coca-Cola HBC AG – CFO

Mitch Collett, Deutsche Bank Moderator

Questions and Answer

Mitch Collett, Deutsche Bank Moderator

Zoran, thank you very much. It was a great overview of the business and where you are today. Before I start asking questions, I'll just reiterate that if anybody wants to ask questions you can put them in the portal, and I'll read them out anonymously. We've got a few already, but don't be shy, you can add them in. I'll ask the ones we've already got and also a few of my own.

So just perhaps to get us kicked off, Zoran, you mentioned that you had seen improved trading at the end of Q1. And I think you also said that you've seen things improve since. We're now two months into the second quarter, can you give some additional colour on how you're seeing COVID restrictions ease in your main markets? And to what extent is that driving a recovery in away from home sales?

Zoran Bogdanovic, Chief Executive Officer

Yes, we do see that there is definitely a gradual recovery, enabled by the easing of the measures. In all of our markets, away from home customers are today open. However, still in a good number of them, even the majority, it's only terraces that can work for bars and restaurants. However, there is now progressively more markets that also allow indoor socialising, consumption and dining.

And we do see, in parallel with that, that also our business is reacting, both reflected in the volumes as now ordering from the away from home channel is happening, refilling the stocks, reordering, as well as the package mix, because we do see that our small packages are in revival. So all in all encouraging things to see across the markets.

On one side we are very encouraged with trading that we see in April and May as well in Q2; however, we really remain cautiously optimistic as it really - it's critical to make it sustainable that vaccination levels need to really reach good levels, based on the learnings from other global

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markets and also making sure that do this right, that we don't allow some new variants to emerge and impact us.

But, so far, from today's visibility as we highlight, that Q1 would be a red scenario, Q2 yellow, and then that we would see that Q3 and Q4 would be more of a green scenario. From today's visibility we do see that happening in line with that estimate. And that's encouraging.

Mitch Collett, Deutsche Bank Moderator

Understood, it's good to know. I guess a follow on to that is you talked about how although single serve has been heavily impacted by away from home being under pressure and you've just said that you're starting to see that come back as away from home recovers, you've also had a lot of success at getting single serve packs into that at home consumption occasion. Can you talk about the initiatives you are leading to try and make that a permanent shift in at home consumption, given the higher profitability you tend to get on single serve packs?

Zoran Bogdanovic, Chief Executive Officer

Yes, to be honest we also before COVID - we were focused on single serves in general and that is why we have been year on year making progress in single serve as a part of our total revenue mix.

Specifically now for the at home channel, we have further intensified and broadened a number of actions that we are doing across the retail outlets, which are aimed at targeting various drinking moments that exist in the at home channel. For that reason expansion and proliferation of our multipacks of single serves is a very important part. Then combining those with various cross categories, both with food items, as well as with alcohol, Premium Spirits items. One is for the meals at home, as the largest occasion that exists in the at home, the second one is the socialising, and this is where such mixability blend is working very well.

Also in various flavour innovations we would primarily start with our single serves to create bigger demand and interest from consumers. And we are expanding the number of packages. We have enhanced over the last two or three years the look and feel of our cans, migrating them now everywhere to these sleek cans, which produce really a good booster of interest. Also glass formats that we have for in home consumption. So that every such type can better fit and find its complementarity in various occasions, so that it is not only big packs.

Just for everyone to know, single serve in our total at home channel is 26%, but what I would highlight and close my answer with, is that it's very encouraging to see how single serves have been - single serves in the multipacks that we consciously are driving, in Q3 of last year they were 5% growing versus last year, in Q4 they were growing 13% and in Q1 this year they were growing 18%. And I see huge opportunity ahead of us to continue driving that, especially in the Central and Eastern types of market. Thank you.

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Mitch Collett, Deutsche Bank Moderator

That's great. Maybe we should pivot to another topic that's top of mind at the moment which is input cost inflation. I know you've got guidance for this year, and I also know you actively hedge, but can you perhaps - and maybe this is a question for Ben, talk about what you're seeing in terms of input costs, the strategies to mitigate any pressure you're seeing? And added to that an update perhaps on the pricing environment you're seeing in your key markets when you're trying to pass on some of those input cost pressures?

Ben Almanzar, Chief Financial Officer

Yes, absolutely, thank you. So to put things into context, you know, our key commodities for us are sugar, sweetener, PET resins, and aluminium. And what we're seeing for 2021 is an expectation of mid-single digit inflation year on year for these input costs.

If you think of our business, you know low to mid-single type of inflation input costs, when you consider the geographical footprint, it is not unusual, and this is something that we're confident that we can manage in the year. What gives me additional confidence is some of our hedging positions that we have in PET about 70%, in aluminium about 80%, and when it comes to sugar over 90%, that provides a cushion for the near term.

But clearly that only buys us time, it doesn't solve the problem. So what we're doing, back to your point on pricing, is that's one of the levers that we are activating. And today more than one third of our territories have implemented selective price increases.

The second thing is that we continue to drive the right mix. As Zoran mentioned, revenue growth management is something that is very important to our operating model and those capabilities are well deployed within our businesses. And we continue to do that very actively.

And the third leg that I will add into the answer before concluding, is that we remain also very disciplined when it comes to cost, cost management, and making sure that we continue to drive the right productivity programmes within the company.

Mitch Collett, Deutsche Bank Moderator

Thank you, that's very clear. I think I should probably try and bring in a couple of the questions from the floor. So the first one, I know it's a tricky topic to comment on, but the question relates to CCBA and maybe if that's something you can't comment on, perhaps you can talk about your broader M&A ambitions. You gave some colour about the types of assets you're interested in, but perhaps - are you seeing a suitable pipeline of potential transactions that fulfil your acquisition criteria?

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Zoran Bogdanovic, Chief Executive Officer

In short, yes Mitch. We have nothing much to comment on CCBA, I think the announcement of the Coca-Cola Company is pretty clear. I think the direction is clear. It's an 18-month journey to get to this IPO, you know, if anything would happen there that would divert it from that course of direction, you know, we would be interested to evaluate that.

However, as I said at the last investor call, that does not impact the appetite and potentiality and the firepower that we as Coca-Cola Hellenic have and that we want to do in the space of well-chosen strategic fit acquisitions. Whether, as I highlighted, in the bolt-on couple of categories - across a couple of categories where, as we speak, we are having several evaluations that we internally are excited and we hope they come in the near future to fruition.

And also in the geographies, we are open, if and when The Coca-Cola Company, as a part of their re-franchising, will bring to the table. And I'm actually quite hopeful that there are some very good opportunities for Hellenic down the road to engage in.

Mitch Collett, Deutsche Bank Moderator

Understood. And you talked about local brands, or geographic expansion, would I be right in thinking that it's either local brands in your existing markets, or geographic expansion as part of the Coke system, or would you do local brands in new markets that aren't associated with Coke?

Zoran Bogdanovic, Chief Executive Officer

No, it's a blend of exploring primarily some local brands in existing geographies, and - so it's not or there is and between the things, so one doesn't exclude the other one. So we are juggling with both.

Mitch Collett, Deutsche Bank Moderator

Okay. And then another question from the floor relates to sustainability. And the specific question is do you have any plans to move to paper based, versus PET packaging? I appreciate that's a specific question, but perhaps if you can talk more broadly as well about the challenges in realising your ESG ambitions and packaging is obviously one of the areas to focus on. But also whether you think your ESG work can give you a competitive advantage when it comes to actually selling your products?

Zoran Bogdanovic, Chief Executive Officer

Yeah, an excellent question. And look packaging now is the hot topic and we are investing an increasing number of resources, innovation, funding, behind this. To start and answer

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specifically on the question on paper, the answer is yes. I don't see that this is going to fully migrate or substitute plastic, I really think this will not happen.

However, as we speak in this quarter we are testing commercially now, for the first time in the market, a paper bottle for Adez plant based that 18 months ago we were looking just as an innovation prototype, but now in Hungary we are doing the real test where the whole bottle is from paper and it's in the market. And actually as a matter of fact I have it here with me, that's how it looks and that's now in the market, so fully from paper.

So definitely we see that there is going to be more and more things coming up and it is solutions, possibilities, innovations, our partnerships with various start-ups and universities, various organisations, are just giving us more and more opportunities.

That is why I am personally optimistic that every year we will be seeing more opportunities that will help us to drive our portfolio towards more sustainable packaging prototypes and that along these lines is also our in house accelerated investments behind recycled PET, €8m in investments in Poland, now a €30m investment in Italy. The next one is Romania.

So that demonstrates our commitment of really taking more of this into our own hands as the limitation very often is the feedstock availability and the price. And these types of things help us to increase the capacity behind this at competitive costs, similar to virgin, and more energy efficient, because this innovative new process is 30% more energy consuming efficient.

So out of the whole ESG, I could talk on more things that we are doing, however for the stake of focus and the interest of time I really highlight the sustainable package as an illustration of importance and where we are investing a critical and increasing number of time and resources. Thank you.

Mitch Collett, Deutsche Bank Moderator

That's great. And I think this is a question for Ben, but I'll leave that up to you. You talked about revenue growth management and how you can implement that to offset cost pressures. I know you very successfully use revenue growth management in markets like Russia and Nigeria, to drive revenue growth. Can you perhaps talk about which parts of your business, which geographies perhaps have further to go in terms of implementing revenue growth management to your benefit?

Ben Almanzar, Chief Financial Officer

Let me start with the answer, I'm sure that Zoran can complement it as well. First of all the revenue growth management capabilities are in all of our markets, so that's the first thing. That journey was started at Coca-Cola HBC probably about four or five years ago and now it is a very well matured capability, where we look at not only levers like pricing, which tends to be a blunt tool, but also mix, package and all the other elements that we can bring in in order to make the categories more accessible and targeted to our customers and consumers.

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So we see that as a key driver of growth, it has been for us in the past, it is for us in the present and it will continue to be in the future as well. Because, you know, as we talk about - Zoran referenced the changes that we're making, things like cans, new packaging, like for example paper based and so on, that opens up always opportunities. In the same that it does - how we drive the single serve for at home consumption and in other channels as well.

Mitch Collett, Deutsche Bank Moderator

Can I ask you a question about Coffee? You're in 16 markets now, I think you said you're going to be in 28 by 2023. To what extent did the pandemic and the reduction in away from home consumption act as a constraint to your Coffee rollout, can it therefore accelerate from here? And if you're successful in getting to your low to mid-single digits share, at what percentage roughly of Coke Hellenic's revenue do you think Coffee could represent eventually?

Zoran Bogdanovic, Chief Executive Officer

COVID impacted the rollout to a minor - well to some extent, but not in a significant way. We originally, before COVID was in anyone's mind, we planned to rollout, as of May, and we did start as of May, because that category has tremendous relevance in the at home consumption. So we only readjusted plans which were balanced between at home and out of home that we primarily directed them to the at home parts of the market last year.

However, now, while keeping the focus at home, we are now also ramping up our progress in the away from home market. But even so far, we already have exceeded 1,300 customers across our territories, which I'm extremely pleased about. Very encouraged by positive feedback from customers and consumers, primarily about how they find it to be a high-quality coffee. And we have done the consumer research comparing it and contrasting it with the likes of Lavazza, Illy, etc, and we are very, very pleased to see how consumers are perceiving it and customers like it.

So, you know, definitely Mitch now when we are also getting into the recovery, I do see that Coffee - this will also do well to Coffee.

And in terms of the percentage, listen, I think that over a couple of years Coffee from last year, where it was, you know, barely a couple of million euros of revenue, we see that this is going to be somewhere in our mix low single digit to mid-single digit type of - part of the revenue mix over four to five years.

Mitch Collett, Deutsche Bank Moderator

Got it, I think we're pretty much out of time, but maybe I'll try and close with one last question and you have your medium-term targets for revenue growth and margin expansion of 5 to 6% revenue and 20 to 40 basis points of margin expansion.

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But at the same time you have this expansion into adjacencies, many of which perhaps have slightly different economics to your core soft drinks business, how important are Energy drinks, Coffee, even the expansion into things like Hard Seltzers to driving that 20 to 40 basis points of annual margin progression that you're expecting?

Ben Almanzar, Chief Financial Officer

I can help with that answer. They are important indeed. So essentially when we think about the future, we think about how our geographical footprint will continue to advance. We have Emerging Markets that are growing faster than other parts of the market. And we have other parts of the category where we operate, like we said, Sparkling, Adult Sparkling, Energy and Coffee they will be big drivers of that growth. And that goes into the mix clearly.

At the same time, we have a number of investments that we're making, as we said the whole part around sustainability, around growing Coffee, but also about continuing to digitise the enterprise and our route to market and our execution. And all of those are big themes to make sure that we land in that algorithm of the 5 to 6% top line growth currency neutral and 20 to 40 basis points expansion when it comes to EBIT.

Mitch Collett, Deutsche Bank Moderator

Thank you. Well I think that's a good place to finish. So Zoran, Ben, thank you very much on behalf of Deutsche Bank and also everybody listening for your participation today. I hope to be able to see you physically in person soon.

Zoran Bogdanovic, Chief Executive Officer

We hope so too, thank you very much, Mitch. Thank you all for listening and joining. Thank you. Bye-bye.

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