

CCH – Exane BNP Paribas European CEO Conference

Fireside chat Q&A transcript – 8 June 2021

SPEAKERS

Zoran Bogdanovic – Coca-Cola HBC AG - CEO

Ben Almanzar - Coca-Cola HBC AG – CFO

Gen Cross, Exane BNP Paribas Moderator

Questions and Answer

Gen Cross, Exane BNP Paribas Moderator

Thank you, Zoran. So I'd like to begin by asking a few questions of my own before we incorporate questions from the audience.

So to start with a topic that I think there has been a lot of interest in recently, which is inflation. So I think historically periods of very high inflation have seen a bit of margin compression at CCH and I was wondering if you can talk us through the factors that can give you the confidence that it will be different this time and give you the confidence that you can offset the cost pressures we've seen recently.

Ben Almanzar, Chief Financial Officer

Perhaps I can help there. Look, I can understand why the word inflation would raise concerns. You know this is a different company from the one we had a decade ago. So let me step back and provide you with a fuller picture of what it means for Coca-Cola HBC.

Key commodities for our business are sugar, PET, and aluminium. This year, we are anticipating mid-single digits increase in currency neutral input cost per case versus 2020. And input cost inflation in the low to mid-single digits is normal for our business when you consider the geographies where we operate. We are confident to manage it within the year using the various tools at our disposal.

For 2021 I am reassured by our strong hedging positions, covering more than 70% in PET, about 80% in aluminium and approximately 90% for sugar and sweeteners and that provides a cushion against market fluctuations year to go. That is why we have reiterated

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our guidance of that strong top line growth, with small EBIT margin expansion that Zoran referenced earlier.

Gen Cross, Exane BNP Paribas Moderator

Thank you, thank you Ben. I think you mentioned some of the hedges that you have in place, but could you say anything about the confidence that you have about what you can do to drive price mix to sufficient offset input costs as we look a little bit further out into 2022 as well as this year, or is it a little bit too early to say?

Ben Almanzar, Chief Financial Officer

Alright, so I already talked about how we're covered for 2021, so let's shift into next year. It is still too early, as you say, for the clear picture of 2022, especially with the current market volatility.

However, we're not waiting. We are focusing on three areas specifically, pricing, we have already selectively priced in more than a third of our markets and there are some more to come year to go. Secondly, driving the right mix of the most profitable categories and packs. And thirdly, remaining very disciplined when it comes to cost and productivity programmes within the company.

Gen Cross, Exane BNP Paribas Moderator

Thank you for that. Maybe if we can change tack a little bit and talk a little bit about the recovery in the out of home channel that you're seeing. Maybe if you could just share what you're seeing in terms of the speed and strength of that recovery in the markets where it has been earliest?

Zoran Bogdanovic, Chief Executive Officer

Yes, we do see that across all of our markets there is this progressive recovery enabled by easing of the restrictions. In the majority - in all of our markets out of home customers are open, however, still it's mostly terraces only. But we do see that now in several markets there is also the possibility that finally consumers and guests can go inside.

In line with that we do see that our volume of the small packages is increasing in line with this - finally repeating demand in this part of the trade. And in line with that it is also increasing our price mix, which is very encouraging to see.

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So even though the shape of the recovery remains unchanged, but because we do see that also vaccination rates are progressing finally better and faster, we do see that things are slowly getting where they should. And in line with that our trading also is encouraged and is boosted by that. so overall we remain, you know, optimistically cautious.

We did say that the second semester, so during Q3 and Q4, there will be a green scenario where we will see less and less measures and we do see that that's what is happening in the markets.

Over to you, Gen.

Gen Cross, Exane BNP Paribas Moderator

Thank you. And you've had through the pandemic quite a lot of success in kind of driving single serve volumes in the at home channel. As you see the out of home channel recovering, do you think you'll be able to retain some of that newfound single serve volume at home?

Zoran Bogdanovic, Chief Executive Officer

Yeah, while we do, as I said, we do expect this gradual recovery of the out of home as restrictions are lifting, at the same time we do expect that the at home channel will stay strong, accompanying the recovery of the economy.

So we do see that there have been some consumer shifts in the way, how people have strengthened and evolved some of the drinking occasions and moments in the at home channel. There are so many things that now happen at home. And we do feel that a part of that is going to stay and be stronger than it was pre-COVID.

This mostly relates to meals at home and socialising, but also more of the screen time, gaming, we know because of the hybrid way of working where people will not be going back to their offices as they were in the past, or not to the same extent, that also means working from home, that in itself is an occasion or drinking moment. So there is also additional significant opportunity for us to drive premiumisation in this channel.

And as you heard us mentioning, one of the key focus areas is multipacks of single serves that we are promoting - that we are trying to create a habit, because these products are bringing us higher revenue per case than larger packages. And these efforts have led to improved pack mix, in the at home channel, which in Q1 grew by 18%. And we do expect that these opportunities and trends will continue in the future.

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And the habit of drinking single serves at home, which is quite well advanced in some of the Western European markets is still not so developed in Eastern Europe and that is the opportunity that we have. Just for you to have the feeling in Q1 of 2021 our proportion of single serves, or small packs in the at home channel was 26%, so this just highlights that there is a lot of scope and opportunity for growth here.

Over to you Gen.

Gen Cross, Exane BNP Paribas Moderator

Thank you very much. Changing subject a little bit, I think a subject that is always of interest at CCH is essentially the balance sheet de-levers, is M&A. Maybe you could remind us of the kind of categories and the criteria you look at when you're screening for potential acquisition candidates?

Zoran Bogdanovic, Chief Executive Officer

Yeah, we used to say that it's primarily Water and Juice categories where we are looking for bolt-on. However, we have also seen with our concrete example of Lurisia that we have acquired some 18 months ago or so in Italy, that's an example at the same time of Premium Water. And also Premium Sparkling Adult drinks.

So that also demonstrates that we are looking for possible opportunities in the Adult space in Sparkling, but also now with Coffee, which is a new category where we play and where we really see a long-term play, we would be open for possible opportunities that might come also in that category.

So we are looking that there is a strategic fit, that there is a certain level of premiumisation and positioning that we see in the target. And also it has to be financially sound for us. We never expect that we need to underpay significantly, however we want a fair price. But the key criteria are that we do not overpay for things and we do what makes sense for Coca-Cola Hellenic shareholders.

Gen Cross, Exane BNP Paribas Moderator

And maybe staying with, you mentioned Coffee there as an opportunity for you and something you're interested in. You've got Costa Coffee in about 16 of your markets now, maybe you could share the long-term opportunities you see there in that category and how the rollout is going.

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Zoran Bogdanovic, Chief Executive Officer

Coffee is a significant opportunity, it's a sizeable revenue and profit pool in the market. It is estimated that at the distributor value, that's not at the shelf price, because at shelf price would be multiple value of the distributor value. So at the distributor value across our market we see it around €9bn of revenue pool. And our ambition in this category, which is just to mention very fragmented and it's very competitive. However, we see ourselves over the next four or five years reaching low-single digit to possibly mid-single digit market share. And that would be something that would be good progress.

Just as a reminder for everyone who might not know, our play with Costa in the Coffee category, is not only with cans which are ready to drink, actually that's a very small part. For us this means being present in all types of packaging, from beans, ground coffee, capsules, packaging for HoReCa, or out of home outlets, as well as Espresso Costa machines. And playing across all channels.

Just to highlight that in the 16 markets where we are so far, because of COVID we have primarily focused on the at home part of the market. But even so far, we are present in more than 1,300 out of home customers and for the remainder of the year this is going to be one of the focus areas where we will be ramping up also our focus and attention.

Gen Cross, Exane BNP Paribas Moderator

That's really interesting, thank you Zoran. And obviously you've got a rollout of Costa going on right now, so it's not margin accretive. But as you look, as you say at the long term, and once that business is at scale, is there anything you can share about what you expect the margin profile of that Costa Coffee business to be?

Zoran Bogdanovic, Chief Executive Officer

Yeah, Gen, you said very well - it is not profit contributing and margin accretive now because we have done and we are doing - we are front loading quite some investment in teams, in educating them, in creating technical service support and investing into equipment. So we really want to do a quality approach for Coffee, because as I said this is for us a long-term play, and we really want to do a good architecture to create our right to win.

So for that reason it will require a certain scale level for which we are sure that will come. And eventually in, I would say, three - more likely four to five years we do expect that this category will be margin accretive for us.

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Again, changing tack a little bit, but maybe we could talk a little a little bit about your ongoing digital transformation. What do you see as the biggest opportunities from all of the different aspects of digital transformation you're doing at CCH?

Zoran Bogdanovic, Chief Executive Officer

I'll start and Ben, please jump in as well. In the digital transformation there is the external part and there is the internal part. And I'll start with more importantly with the external part which is the connectivity and engagement with our consumers and customers.

In that space where we have accelerated last year because of the circumstances, our own business to business platform that we have, almost in all markets. But what happened last year is that it really accelerated the percentage of total orders that customers are doing through this platform online. And we have achieved some notable significant increases that we are achieving in that space.

And in parallel we have been quickly upgrading this platform to enable some additional functionality which is not order taking, but also ordering coolers, tracking them, and we will be doing more.

Another element is how we digitise route to market, where also it is about creating and establishing some of the e-marketplaces where we create an ecosystem where customers can order from multiple suppliers - sorry wholesalers, they can order from us. And we started with some of those platforms in Italy, Russia and Nigeria.

And then another area is we have really ramped up our visibility, presence, the way we do marketing communication with our omnichannel customers through their own sites. And I am very pleased to see how the results of those actions and improvements are driving additional sales.

A last point here is direct to consumer where we have our own company and part of the business in Switzerland. We have also done a minority stake in a company in Austria, which does direct to consumer deliveries. All that reflects our determination and commitment that we want to accelerate our investments behind digital platforms and technologies.

The last piece is that internally investments in digital are driving the way we work to enable continuous efficiency and productivity improvements, which is also an important part.

Ben if you have anything to add.

Ben Almanzar, Chief Financial Officer

Thank you, Zoran, I think you cover all of the basis. The only add would be that in March we successfully went live with S/4HANA. So we are one of those CPGs that are early adopters. And obviously we have a lot of big plans for the functionality of the system in as much as it allows us to see the business more in real time. It gives us the opportunity to simplify processes. Obviously, it is ready for the internet of things and big data, so very exciting for us. It was a very successful go live and we are looking forward to keeping on expanding the capabilities of that system, not only in the coming months, but also in the coming years.

Gen Cross, Exane BNP Paribas Moderator

Thank you. I think one of the markets that's been obviously a really strong performer is Nigeria recently and it is also one of the markets which I think is at the forefront of your big data analytics. I was wondering if you could talk us through how you're using that to drive that strong performance there and the plans to kind of spread that across CCH?

Zoran Bogdanovic, Chief Executive Officer

Yes, we are indeed very pleased with the performance of Nigeria, which last year had a strong performance and that's at the back of also quite a good '19. And this year trading has been really strong.

Now there is not only one thing that in Nigeria can be credited for that, it's a blend of RGM, of route to market. However to be specific about the question you asked, Gen, it is the - we again - when we started with the big data advanced analytics, we intentionally used Nigeria as our lead market, where through a comprehensive set of data that we have available for us, plus some of the targeted external data that we are now getting, this helps us to really extract much smarter insights on an outlet level.

And what does this concretely mean, is that this transfers into suggested order taking that our salespeople are getting when they come to the outlet, to the customer outlet, they are also getting a suggested order. And that gives, already better information, taking into account time of the year, are there any festivities, holidays, weather forecasts, all sorts of things.

And we do see where we have implemented this in part of Nigeria that this gives us the volume incremental versus the parts where we have not done it yet. And we will continue with further connecting that with price - sorry, with price promotions, both in the

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fragmented trade, which is relevant for Nigeria, but also in the rest of Hellenic we are rolling this out after this successful start in Nigeria.

So, if you will BDAA informs both how and what we are designing in revenue growth management. And then how we are also executing it in market through route to market capability. So those are interconnected, and they really now feed each other. And I really see that as one positive momentum that we intend to just invest more behind and not less.

Gen Cross, Exane BNP Paribas Moderator

Maybe if we could stick with Nigeria and talk about the route to market benefits, the improvement in route to market you've been making there. Are there significant distribution gains to be had in Nigeria, or is that mostly done now?

Zoran Bogdanovic, Chief Executive Officer

Oh, there are still opportunity gains - sorry distribution gains because our distribution levels of Coca-Cola trademark are the strongest. However, the opportunities still exist across a number of brands because it also depends on the regional competitive play.

So you are right, that is the opportunity, and that's why route to market change that we have actually started some four years ago, where we have significantly done a change in the aspect of how we go to market where we have employed and trained a number of additional people, who in a very structured way go to their own routes, visiting customers with a pre-determined frequency. There is much more capacity to do customer development, merchandising, promotions, as well as order taking.

The last piece that I would highlight is the fact that we have done a selection of more capable distributors, who also have bigger capacity to grow with us in parallel with the way we grow. And we have seen that this really makes a difference. So really now, those tighter partnerships with distributors really make a difference in the market coverage, the quality of that and the reach. So these are some of the critical route to market changes and benefits that I would highlight.

Gen Cross, Exane BNP Paribas Moderator

Thank you very much. I think at this point I'd like to open up the meeting to broader Q&A. so we'll begin with a question on sustainability. You outlined your very strong

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sustainability credentials. Maybe you would talk through some of your initiatives, particularly your project to in house, some of your recycled PET production?

Zoran Bogdanovic, Chief Executive Officer

Yes, first of all overall sustainability is deeply embedded in Hellenic and it's not an initiative. This is something that's embedded in every function and initiative, capex investment, etc. And therefore you know this continuous ranking on the Dow Jones Sustainability Index, every year it simply is forcing us, and we are raising the bar.

Now specifically on recycled PET, that is one of the areas, as a subset of the broader waste management and how we want to increase the circularity of our packaging, by recycling, by also working with countries and authorities in the collection systems, because that's all connected.

Now we want to continue increasing the percentage of the rPET that we have as a part of the total PET. Very often there is an issue with the feedstock and that is why we recognise the opportunity that gives us actually more benefits if we invest in house. So as we speak, we have done investment, actually last year, and we are going live now in June with the first investment and innovative technology with SIPA-EREMA, which is really a global innovative technology where instead of the pallets we are using hot washed flakes.

And in that way, through this innovative technology, we are actually - we are able to produce this and achieve a cost which is at parity to virgin PET. And that was an issue that rPET was at a premium versus virgin. So that's one element.

And the second thing is that through this new technology because there is one step less in the whole process, that helps us to also be more energy efficient by 30%. So it gives us a number of benefits.

Encouraged by this initiative in Poland we have already approved and started the first phases of the project in Italy, where we want to do that even on a bigger scale. So by the end of the year we will start with a new line in a reopened plant which was closed. So we are reopening an idle plant to create an rPET production facility that is more than €30m investment. And then we already know that the next one is going to be Romania.

So the game plan is that we want to create several hubs across our territories that will be able to produce the rPET in house at a competitive price and being more energy efficient. And that will enable us to increase the percentage of rPET in our packaging.

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Gen Cross, Exane BNP Paribas Moderator

That's very interesting, thank you, Zoran. The next question we have is actually for Ben. It's been around a month now since you joined CCH, I'm wondering if you can share your initial impressions and if anything has surprised you about the company since joining?

Ben Almanzar, Chief Financial Officer

Thank you, Gen. Look, I consider myself fortunate to have joined a business that is so well positioned for both the present and the future. Good distinctive advantages, including our unique portfolio of brands and category that accompany the consumer 24/7. The attractive geographies where we operate, that includes from highly developed economies, all the way to vast emerging markets like Nigeria and Russia and others with phenomenal growth potential.

I also inherited the lean and resilient operating model, resulting from many years of structural improvements on the cost base in the service of growth.

So in terms of the opportunities I'm particularly excited about the data journey, you know, for many decades our route to market and strength in execution has been a critical asset for us, protecting our market leadership. And now we're making that mould if you like even more formidable with the digital layer. So there's a lot to come in that area.

Also continuing to expand the revenue base, both organically and inorganically to deliver on that 5 to 6% growth ambition, currency neutral, whilst increasing margins.

And Zoran mentioned the sustainability agenda which we believe will be a feature of every business in the present and in the future and when it comes to ESG credentials we are ahead of the industry. And that puts us in an advantageous position to keep on winning with our customers and consumers.

Gen Cross, Exane BNP Paribas Moderator

Thank you very much, Ben. The next one is a little bit of a broader one. But as you talked about, Ben, the ambitious 5 to 6% organic growth in the medium term and if I look at CCH and the valuation of the company, what do you think the market is missing about CCH which is such that it trades at a discount given that good growth rate?

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Ben Almanzar, Chief Financial Officer

It's a good question, I've been asking myself the same thing. Look, I think this is a company that you need to get to know. And the reality is that if you only look at it superficially then it's very easy to conclude, well margins are lower than let's say the typical brand owners, like breweries or drinks companies - or spirits companies, or The Coca-Cola Company itself, clearly. It's also - it requires the manufacturing assets and so on, so therefore you can draw a very simplistic line and say that asset is of less quality.

But you guys are analysts, and you know much better than I do that what really counts is what kind of returns do you get and what is the trajectory of that business. And what I can say as an incoming CFO is that this is a top quality CPG company. And you know the capabilities that it has are phenomenal and the prospects that it has, simply because of the exposure to tailwind markets and categories, it also very bright.

So what the market is missing, that's for the market to determine, but that's what I see from my chair.

Gen Cross, Exane BNP Paribas Moderator

Thank you. Thank you very much. I've got another question on your Energy drinks business, again, another really strong performer recently. Maybe you could talk to us a little bit about what's driving that consumer adoption, because it's very broad based across geographies?

Zoran Bogdanovic, Chief Executive Officer

Yeah, so first of all I think that's visible that the whole category, I would say globally is doing well, but in our markets, it's been a growing category. And I'm very pleased that in that growing category we are growing faster than the category itself.

Five years in a row we have, you know, strong double-digit growth and that is driven by the fact that we have over the years in a very close collaboration and partnership that we have with the Monster Energy team, we have really made the proliferation of various brands that hit various price points for various segments of consumers. So you have the mainstream Monster, then you have on the upper end Burn, and then since last year in the affordability - more affordable energy segment you have Predator, which particularly does well in Nigeria.

The second thing is that Monster, one of the fantastic characteristics and capabilities that this team has is that they are coming up with fantastic innovations that constantly provide a boost and that has been a critical driver of the growth.

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Also, the second element is that we have been continuously investing in the equipment and coolers, year by year, giving it more space.

Third, is that there are a number of assets that we are leveraging quite well that are associated with these brands, like it's Formula 1, like it's motor cross racing, and this target audience loves that. So year by year some of the promotions are constantly raising the bar in how well they work.

And let me just say the last thing, the Energy category is expanding itself because it's getting to be blurred with some other categories. And it's getting some new drinking moments. There is now the Performance Energy subcategory and we have launched this new brand of Monster called Reign in Ireland. We have also launched in more than 10 markets Monster Espresso which is Energy and Coffee, an excellent proposition, very high revenue per case.

So that just illustrates how this category will be actually going forwards even expanding into other subcategories. And I am quite optimistic, and we all are that the Energy category for a number of the next years will be having a strong growth.

Gen Cross, Exane BNP Paribas Moderator

Thank you. I'm conscious we're running out of time, so I might have to squeeze this one in, but I've waited for this one to arrive. I mean we've got one minute left, maybe as much as you can say, maybe you could share your thoughts on the Coca-Cola Company's decision to IPO CCBA, Coca-Cola Beverages Africa. As much as you can say about that Zoran, would be appreciated

Zoran Bogdanovic, Chief Executive Officer

Yeah, not totally surprised. So they have announced that intention and I would follow that they will do eventually that. Even though that's 18 months down the road, a lot of things can happen. That's not an easy undertaking to be done. I think that requires lots of various things to be achieved. So really nothing much to say.

I would only highlight that this does not reduce Coca-Cola Hellenic's appetite for the opportunities that can be for us down the road when it comes to territories. I think there are other opportunities that we feel will be interesting for us. And we have the balance sheet, firepower and interest. But only when we really see that there is a proper strategic fit, as well as the fair, you know, valuation that can create value to Hellenic shareholders.

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Gen Cross, Exane BNP Paribas Moderator

That's really clear. And thank you, thank you so much. We've run out of time today for the today's main room presentation. I'd like to thank Zoran, Ben and Coca-Cola Hellenic for joining us today at the Exane BNP Paribas European CEO Conference.

Just as a reminder the next fireside chat will be with Energeia, Shell and Deutsche Post DHL tomorrow morning. I hope you have a really enjoyable evening and thanks again to CCH for joining us today.

Zoran Bogdanovic, Chief Executive Officer

Thank you for having us, thank you. Bye-bye.

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