# CCH – 2021 Full year results
# Conference call Q&A transcript – 22 February 2022

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**Sanjeet Aujla - Credit Suisse**

**Simon Hales – Citi**

**Mitch Collett - Deutsche Bank**

**Yubo Mao - Morgan Stanley**

**Edward Mundy - Jefferies**

**Fintan Ryan - JP Morgan**

**Charlie Higgs - Redburn**

**Mandeep Sangha – Barclays**

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***Questions and Answers***

**Zoran Bogdanovic, Chief Executive Officer, Coca-Cola HBC**

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

**Operator**

Thank you. As a reminder, if you wish to ask a question please press star and one on your telephone keypad and wait for your name to be announced. To cancel your request, please press the hash key. Once again, to ask a question please press star and one on your telephone keypad. Our first question comes from the line of Sanjeet Aujla from Credit Suisse. Please ask your question.

**Sanjeet Aujla (Credit Suisse):** Morning Zoran, Ben, Joanna, a couple from me, please. Firstly, Zoran, are you able to reflect on potential impact from any sanctions there might be in Russia on your business? Particularly if it comes to production and supply, what sort of contingencies do you have in place there? And maybe, Ben, I think you commented a little bit on transactional FX outlook. But how hedged are you there for the year ahead?

And my second question is just on the commodity cost component. If we were to get a further step-up in commodity through the course of the year, how would you think about incremental pricing to help mitigate that? Thank you.

**Zoran Bogdanovic:** Thank you, Sanjeet. Let me just say a few things that I think are worth noting with this geopolitical situation that we are experiencing the last couple of weeks, and especially the last couple of days. Firstly, I think it is good to note and remind that both Russia and Ukraine have been strong contributors to growth last year. And I am very pleased that to date they have been also showing very good performance this year. So, first of all, there is no impact so far from this situation.

Impact is reflected more in the sense of the rouble as well as the energy cost, and that has been part of informing our guidance that we have shared this morning. Also, how that will evolve if the situation deteriorates, will put us more on the lower end of the guidance or if we see that the situation might ease, as even today, we see that there could be a variety of scenarios ahead of us.

Additionally, having past experience from a number of crisis situations and not so long ago, 7-8 years ago, kind of a similar situation that was there with Russia and Crimea, I just want to say that leveraging that experience and knowledge, we have assessed various possible scenarios for which we have precise contingency plans, and we are ready to activate any of those plans, depending how the situation will evolve. Those are holistic plans which are dealing with all the elements and angles of supply point, production, operating, financial aspects, as well as people's safety and protection aspect. I just want to reassure that we are fully on top of it.

One more thing, if I may, is also to say that I just want to highlight versus the last time there was a similar situation, I just want to reinforce that Hellenic is in a much stronger position with a broader portfolio, strong capabilities, strong team, and very well performing, all corners of Hellenic. So just want to close on this topic, which I thought might come as a question, of course, just to say that we are as ready as one can be to deal with the situation however it turns.

Before Ben answers the part that you said, Sanjeet, I will just say on the incremental pricing, yes, depending how the situation evolves on commodity pricing, etc., possible additional pricing beyond our plan, yes, it is an option. Our teams are continuously monitoring and observing the situation, competitive dynamics, everything, and this is where our strong RGM capabilities and toolkit come into play. And yes, additional significant pricing through a targeted approach is an option.

**Ben Almanzar:** Thank you. Let me pick up and build on Zoran's point to give some more colour around the guidance and the implications of scenarios that we are looking at, to give you a sense of the kind of assumptions that would steer us towards the upper end, for example. We will see an easing of input cost inflation and moderation of energy prices. This will ideally happen in the first half, but if not, definitely throughout the second. We will see a de-escalation of geopolitical tensions on the Russia-Ukraine border, allowing for the rouble to strengthen on the back of the strong underlying fundamentals that we see in the Russian economy. Conversely, the lower end of that range will imply a further deterioration in the commodity environment. That COGS per case that we are currently expecting to increase at the top-end of high single-digit will creep into double-digit territory.

And we are currently anticipating FX headwinds to be less than in 2021. We are well hedged on the rouble for the first half of the year, which gives us some confidence. But if we see worsening in the region and tensions turning into conflict, this could add further risk to the FX guidance. For either of those scenarios, we would expect to see the EBIT growth at the lower end of the range.

**Sanjeet Aujla:** Very clear. Thank you, both.

**Simon Hales (Citi):** Thank you. Morning, Zoran. Morning, Ben. Morning, Joanna. Two for me as well, please. Zoran, you mentioned, obviously, the pricing you took in 2021 and in Q4, but that pricing you said, I think, didn't really have an impact on volumes in particular in the year. Is that your base case assumption as you look forward into 2022 and embedded in your organic revenue guidance, if you like? And given we have got obviously widespread inflationary pressures on the consumer, do you think there is a greater risk that we see greater volume impact from pricing this year? That is the first question.

And then, secondly, can I just go back to the geopolitical situation? Obviously, you have talked about the fact you have got a range of scenarios that you are potentially planning for from a production standpoint. What I am just wondering, I think you source your concentrate from Ireland and France for use in Russia and the Ukraine. How do you get around that if there are restrictions on those imports? Have you been building up inventory in the markets in advance? Can you produce locally, if you need to, that sort of Coca-Cola concentrate?

**Zoran Bogdanovic:** Thank you, Simon. On the first question related to pricing, in short, yes, our base assumption for this year is what we have experienced also last year, is that the pricing would not have, or if there would be an impact, it would be a minimal impact from the whole pricing plan that we have for the year. And I am saying that, because I think there is a very well-orchestrated plan exactly as it was done in 2021, which really takes into account various elasticities, price points, competitive dynamics in each of the categories within each unique market. And this is where we are carefully blending price moves in the more premium part of the portfolio, but never neglecting and paying lots of attention also to all the affordable options that we have in the market, as we are very conscious of the state of the consumer. And we know that we are in the environment where inflationary increases and price increases from various categories and players are happening, so we are very, very mindful of that. But last year is a good testament to the right approach as this should be done, and that is the reason why we have such an in-going position for 2022.

For the second question, part of the contingency plans that I said is also the concentrate supply that we have been working with the Coca-Cola company team, and those things are in place as well. In case we would not be able to source from Europe, alternative supply points have already been arranged and they are standby, on top of the fact that we are sitting on a very good level of current stock. So alternative supply points would include those from Africa as well as from Asia, and this would not be the first time we would be activating those, and we know that that can work quite well.

**Simon Hales:** Brilliant, that is really helpful. Thanks, Zoran.

**Mitch Collett (Deutsche Bank):** Morning Zoran, Ben, and Joanna. My first question is on Egypt. I think you reiterated that it is 30 basis points diluted to Group margin. Could you comment on what level of revenue you got in Egypt in 2021? I think we have EGP7.4 billion for 2020. Presumably, that recovered somewhat in 2021.

And then my second question was on elasticity, again. I think, Zoran, you made a comment about how it was very different by occasion, channel, and package. Can you comment on where you see elasticity being higher or lower and how that has helped inform your pricing position? Thank you.

**Zoran Bogdanovic:** Thank you, Mitch. I love the question on Egypt, as we are super excited with the addition of Egypt into our portfolio. Let me just remind that from the moment the transaction has been done, and it has been in January, we have set up the integration team from our Group across the functions that is working with the counterparts from the Egypt team, and all of that is progressing very well. As you said, we estimate that the impact from embedding Egypt into our business will be this 30 basis points in EBIT margin.

As the whole closure of their numbers and financial statements is still ongoing, I think it is more fair to say that we will give you a more informed and proper update at our half-year results. And this is when we will be able to give you more flavour on this exciting market.

On the elasticities, absolutely correct. We do see that on our single-serve packages this is where our elasticities are lower. And on the opposite side, with some of the multi-serve packs, this is where our elasticities are higher and this is what we take into account in terms of the pricing, but not only through pricing but also through our pack architecture that we are doing. Because even in the multi-serves what we are doing in a number of markets is that we are introducing those smaller entry packages which are helping to hit the right price points. And we have seen that that has been driving household penetration because consumers are finding those offerings as relevant ones. And then through promo strategy on those bigger packages, we are ensuring that also those frequency packages are also responding and are in tune with our elasticities.

I hope, Mitch, this gives you some flavour on that.

**Mitch Collett:** Yeah, that is very helpful. Maybe just if I can follow-up on Egypt, could you give 2019, if you can't give 2021?

**Zoran Bogdanovic:** Sorry, what do you mean 2019?

**Mitch Collett:** Could you perhaps give 2019 revenue for Egypt, so we can understand how 2021 [inaudible] –

**Joanna Kennedy:** We will follow up after the call.

**Mitch Collett:** Okay, understood. Thank you.

**Yubo Mao (Morgan Stanley):** Morning, Zoran. Morning, Ben. Thanks for the questions. Firstly, can I ask about marketing spend? You finished 2021 at 2% of sales. Now, given the uncertainty we now face, should we expect that to catch up to the pre-COVID level as you indicated previously, and can you perhaps give some colour on where you will be focussing on that marketing dollar?

And a second question on Costa. I think you have mentioned a target of low-to-mid-single-digit market share for 2025. Is that across all the country markets, and what are the key variables that you have to get right to get there? Thank you very much.

**Zoran Bogdanovic:** Hi, Yubo. So, if I understood, you asked with the first question, because the line was little bit cracking, was on marketing spend, behind which things it is going to go. Did I get it right?

**Yubo Mao:** That is right.

**Zoran Bogdanovic:** Exactly, yes. So, marketing spend follows our strategic priorities. They start with categories. Behind those that I always reiterate as sparkling – supporting innovations that we are doing in sparkling, primarily in the space of low and zero sugar variants that we are introducing across all brands in sparkling. Further on, behind energy. Of course, Costa requires more marketing investments.

And as we also have experienced to a degree last year, and we hope that this will continue as markets reopen, part of our out-of-home recovery and season plans, this is where a number of our marketing spend is going so that we are fully ready not only for the season but already for the pre-season. And then, bearing in mind that we have strong joint value creation calendars with our retail customers – by that, I mean modern trade, organised trade customers – this also consumes a good part of our marketing spend between a variety of promotions and activations that we are doing with those customers.

And then I need to ask you, Yubo, if you can just confirm your question on Costa? It was exactly what?

**Yubo Mao:** Yes, sorry. I think on one of the slides, you are mentioning the target for low-to-mid-single digits market share by 2025. I was just wondering, is that across all the country markets that you have?

And related to that, what are the key variables or key priorities you need to get right to achieve that target?

**Zoran Bogdanovic:** Clear. Low single-digit to mid-single-digit target is as a blend of the whole category because the €9 billion value of distributor value is the value across all of our markets. However, with Costa, we start from different starting positions in some of the markets. For example, Poland is our strongest market because there was already good legacy business that Costa had; has largest number of coffee shops. In parentheses that is not what we are doing, but obviously, the consumer awareness, knowledge of the brand, brand strength in Poland is stronger than in the markets where we are starting from zero.

So, this range of share will come as a result of the fact that we will be having different share positions over time in different markets. But one common red thread is that I do expect that our share position will continue improving in every single market.

**Yubo Mao:** Ok, thank you very much.

**Edward Mundy (Jefferies):** Morning, Zoran, Ben, and Joanna. Two questions, please. The first is really coming back to your statement that you have taken pricing in 95% of markets with no impact on volumes. I think you very helpfully shared with us that part of the revenue per case is price and probably a quarter is category, and a quarter is pack. I guess the question is, of that half that is price, how much of that is actually headline pricing and how much is actually better promo effectiveness?

And then the second part of the question is, do you think there is going to be a similar blend of drivers per price and mix going into 2022 of those three elements, price, category, and pack? That is the first question.

And the second question is coming back to your point that B2B is now 8% of total orders, up from 2% in 2020. Could you talk to what is the most developed market that you have got and how much of total orders is B2B within that market?

**Zoran Bogdanovic:** Thank you, Ed. On the price mix, headline pricing was an important contributor last year. I would estimate that around 50% of our price mix improvement came from pure pricing, and that is headline pricing. And then the remaining came through package mix and category mix.

And then I just need to remind that in our case, as you see very strong growth of Russia, Nigeria, Ukraine, there is always a portion of the negative geographical mix. But coming back, what I understood is your question was about headline pricing. Yes, that is what we have been doing. That is what I referred to in all markets but two markets. And also, headline pricing is part of our plan for 2022.

Ed, does that answer properly what you had in mind?

**Ed Mundy:** It does. I guess, the question is, to what extent will category and pack mix also be important drivers going into 2022 in addition to headline?

**Zoran Bogdanovic:** Ah, yes. Okay, sorry, I missed that. Yes, it will be because when you see last year in our emerging markets, Out of Home had a very good performance. However, developing, and established markets have still been double-digit minus versus 2019. So, from today's visibility, this is where we also expect that developing and established markets will hopefully properly operate, and that will help us to drive our package mix with single serves that will perform better. And I also expect that category mix also will be again a positive one, as we do expect sparkling and energy and coffee, which is accretive to our price mix, that those will be also a tailwind to the whole price mix that we plan. Yes.

**Edward Mundy:** Thanks. And the second question around your B2B platform, which was 8% of total orders, up from 2%. Can you talk to which developed market [inaudible]?

**Zoran Bogdanovic:** Yes. So, I am so much into pricing that I forgot about B2B. So, I would highlight Russia as a very strong representative market that demonstrates how fast we are adapting and accelerating. In 2020, Russia had a low single-digit percentage of orders done through our customer portal. That now has exceeded 30%, or around 30% of all orders in Russia are coming through our customer portal, which is tremendous because we are talking about, I think, 40,000–50,000 already being there. So, Russia leads the way.

However, other markets – and I can say now customer portal being active in 26 of our markets, everywhere, we see that they are ramping up and accelerating. But Russia, to come to the essence of your question, is the one really showing and leading the way.

**Edward Mundy:** Great, thank you.

**Fintan Ryan (JP Morgan):** Good morning, Zoran, Ben, Joanna. Two questions for me, please. Firstly, actually directly following on from Ed's last question there, I am wondering, in terms of the impact you have seen on your overall transactions from your digital B2B platforms, have you also seen any notable improvement in product mix or in the assortment and the revenue per transaction with the customers that are fully aligned with your B2B system?

And then secondly, just with regards to your Wabi digital platform, I think you said that that is now online in Nigeria and Russia. What are your plans for the expansion of that particular service, and how will the rollout of that be accounted for in your P&L in terms of the third-party volumes that go through the platform?

And then secondly, just as a follow-up to the question in terms of, I think you said that you would expect the volumes within the established and developing markets to get back to 2019 levels this year. Did I understand that comment on the call right? And what would be the main deltas in terms of the volume recovery in your established and developing markets for 2022? Thank you.

**Zoran Bogdanovic:** Thank you, Fintan. On online, yes, we do see a little bit of a different structure of sales in a positive sense. We do see more of single-serve packages being sold through online; interestingly, also, low and zero sugar variants also being sold to a higher percentage than through the regular channels. And I think this also comes from the fact that as we cooperate and partner today with online sites or brick-and-mortar customers or pure-play e-retailers, there is a targeted approach that really takes into account intelligence of the site, segmented consumer, and shopper base. So, we really see how our teams that are working with customer teams are leveraging that. And I think that these kinds of results are a great testament to those insights put into relevant communication on sites that drive the results.

On Wabi, yes, intentionally putting Wabi together with The Coca-Cola Company team, we took Wabi to two of our largest markets, two very different markets, exactly for the purpose that we can learn fast. So while we are ramping up, and as I said, there is a quite good early take-up, and how we are driving GMV from month to month and expanding the customer base. We also capture learnings every single month, which helps us to continuously evolve the platform.

And yes, we do plan to extend that further, having in mind that we will also be adjusting that platform to the circumstances of different markets. Because, for example, to operate in Italy, where the market structure is quite different than Nigeria or Russia, we are actually preparing a version of that platform which will be suited for the Italian market. But I will be glad to say more on that probably already on the next call.

And then on established and developing, very good, you have given me the chance to clarify. We do expect the developing segment volume will pass the 2019 level, whereas established, we see that it will go towards that trajectory. It might not yet reach the 2019 level. So, in our plans, is that it is going to still be a bit below the 2019 level.

**Fintan Ryan:** Great. Thank you. Very clear.

**Charlie Higgs (Redburn):** Good morning, Zoran, Ben, Joanna. I hope you are well. My first one is on Nigeria, where we have had two very strong years in a row. I was wondering if you could give a bit more colour on the sugar tax that was implemented there at the start of 2022. And just looking forwards, is there any reason that Nigeria should not continue on this very strong double-digit growth trajectory?

And then my second question is on reusable packaging, where the Coca-Cola Company now has a target of 25% by 2030. Could you maybe just give some thoughts on that and how it would apply across some of your markets? And then also maybe a bit of the early learnings from the DRS schemes launched in Slovakia and Latvia, please. Thank you.

**Zoran Bogdanovic:** Thank you, Charlie. So, sugar excise tax in Nigeria, so it came back. It was already there a number of years ago, so it came back with the latest bill, and it is valid for 2022. As a reminder, it is 10 naira per litre and even though it is effective from 1st January, the actual mechanics of how it will be collected is still being worked out. However, we are fully already accounting for it, and we are taking it into account from 1st January. Needless to say, that as with any other such taxation in any other country, we are passing it on through our pricing and this 10 naira per litre is appropriate 6% price increase on average for the impacted portfolio. And impacted portfolio is around 85-87% of our portfolio because it is practically everything excluding water. I hope that is clear and I do not see that this tax should have any significant impact on the momentum that we see in Nigeria.

On your question of should we expect double digit, yes, we should. We always say that Nigeria, fundamentally, is a double-digit growth market with absolutely tremendous potential. Yes, sometimes you never know in Nigeria whether something happens and then there is maybe a year where there might be a slowdown, however, from today's visibility, we do not see anything coming our way. We do expect that this year's performance will be a double-digit one. I do not expect that it's going to be at the level like 2021, which was really, really strong; however, that it will continue providing strong performance, yes, that is our expectation.

Moving onto your second question which was about the recent announcement from The Coca-Cola Company on the 25%, yes, fully not only aware but this came also through global alignment and consultation and discussion because we are all in this together. So, all our plans short-term, as well as those that we will develop to ensure that we reach that goal, are done together in conjunction with The Coca-Cola Company team. And a number of things are already embedded in even this year's plan as well as next year's plans. This also includes a number of various trials and pilots that we are doing in several of our markets that include various either refillable or even package-less solutions.

So, a lot is going on with this. That is our big priority and one of the reasons that we have, end of last year, also launched our Coca-Cola HBC venturing challenge was specifically behind sustainability and packaging area where we have invited start-ups to give us or submit their ideas so that we can see those with which we could partner, and that will help us advance this agenda that, again, as I repeat, we do fully align with The Coca-Cola Company team.

Charlie, does that answer your question?

**Charlie Higgs:** Yes, that is great. Thanks, Zoran.

**Mandeep Sangha (Barclays):** Hi, good morning, Zoran and Ben and Joanna. Thank you very much for taking our questions. My first one relates to margin leverage. Historically you did share a margin leverage where you said that 1% of volume growth led to 25 basis points of margin expansion, 1% of price mix growth led to 70 basis points of margin expansion. Obviously, that has changed historically over years due to utilisation, etc. Could you maybe share more an updated margin leverage flow-through at all?

My second question relates to an earlier coffee question. You have mentioned that you hope to launch Costa Coffee across all of your markets by FY23. Could you maybe share the phasing of that and how much you think could come into FY22 given out-of-home restrictions are easing this year? You also mentioned that you see it as €100 million worth of revenue over the next couple years. Is that still the case and how do you see that acceleration happening as markets reopen? Thanks very much.

**Zoran Bogdanovic:** Yes, so Mandeep, yes, just briefly on that margin leverage thing, to say, I think that this 25%, 75% that we have been providing, that was quite some time ago. So, I think we have evolved, where I would say that - and Joanna and the team will come back exactly how much it is - but from top of my head, I would say that for sure, that ratio is more balanced. It is not so polarised as it was in the past so, I think that, definitely, it is more balanced but where exactly the line is, Joanna will come back.

On coffee and Costa, our ambitions with Costa, but overall coffee play, coffee play is a big bet for us, and we are very determined on it. So, the fact that out-of-home part of the market will continue with reopening and operating this year versus last year, is an opportunity for us. I am very encouraged with the fact that already last year, we have penetrated and recruited around 4,000 away-from-home customers and we will continue doing that this year, especially, knowing that Vergnano, as a very premium proposition, is primarily focused behind the out-of-home customer.

So, when I mentioned earlier that our low single digit to mid-single digit share ambition by 2025 in the market of €9 billion, that gives you the indication of what is the range we are shooting for by 2025. So, definitely, a year-on-year acceleration that we are seeing.

**Mandeep Sangha:** Thank you very much. Yes, very helpful. Thank you.

**Alexander Gusarev (VTB Capital):** Greetings and congratulations for strong results. I have very quick couple of questions. The first one, can you just approximately elaborate about the Egypt market, how much of its possible contribution in your total volumes we should expect for this year?

Second question is it is really hard to quantify or to comment on this, I know, because you have been asked a couple of times, I assume. But how is the current geo-political situation going to possibly impact your operations in Russia and Ukraine in more details, if you could comment on that? Thank you.

**Zoran Bogdanovic:** Thank you, Alexander. So, briefly on Egypt, as I mentioned, we will come back with more light on Egypt once everything has been done and dusted. So, we will do that in the next calls. I need to apologise, Alexander, I lost you on the second part of the question. Can you just please repeat that?

**Alexander Gusarev:** Sure. So, the second question was about the Russian-Ukraine, if you possibly could approximately quantify how much the geo-politics could impact the operations separately in Russia and in the Ukraine?

**Zoran Bogdanovic:** Yes, so, as we said earlier, depending how the whole scenario, how this will unfold and in which direction, we really monitor that situation. As we said, if the currency deteriorates further, then it would really put us in the lower end of our guidance that we provided today. And, of course, if there is a significant deterioration, then we would need to provide an update on the following call, which we hope will not happen. However, I think it is fair to say from where we stand today that we really need to observe what will happen in the next days and weeks, and we will give you more fair assessment of that in our next call.

**Alexander Gusarev:** Okay, that is clear. Thank you very much. Have a nice day.

**Alicia Forry (Investec):** Hi, thanks for the question. Sorry, my line has not been great so apologies if you have already answered this. Your established market volume outlook for volumes to approach but not quite reach 2019 levels in 2022, I was wondering if you could comment on what level of summer tourism you are expecting for those markets in the segments that are dependent on it, such as Greece, Italy, Switzerland.

Then the second question is, can you confirm the percentage of your volumes that are sold in returnable glass bottles in Nigeria and in Egypt? It would be interesting to know. Thank you.

**Zoran Bogdanovic:** You said returnable glass in Nigeria and?

**Alicia Forry:** And in Egypt, if that is a feature there.

**Zoran Bogdanovic:** Okay, so, let's go to established markets. So, as I said, established markets were still down versus the 2019, around 3.8-4%, and all markets – apologies, established markets around mid-single digits, 5.6-6% down where all the markets were down. Now, the thing is that exactly you are pointing to the right thing, that tourism in those markets really could not perform last year. We do expect that this year, we will see better tourism figures. However, we are not really able to estimate to which degree. That is why we are saying that established markets will for sure go towards 2019 level, but will it be able to cross it, we cannot say yet. For example, we know that tourism in Switzerland has been significantly affected. In Italy, even though last year worked fairly well, but still the tourism was like mid-teens down versus 2019. So, we do expect that it will come back in 2020, that is with solid certainty, but what we cannot assess is the actual magnitude to which extent this is going to happen.

On Nigeria, RGBs are solid; actually, that is the largest part of our business. I do not know from top of my head. However, Joanna will come back and revert on this, but I would estimate that it must be somewhere around 30-40% RGB business in Nigeria. And Egypt, we will come back in the next calls. Thank you.

Well, that at the end, let me just thank you all for your time and all your questions in today's call. Let me just reiterate that we believe that the results we have announced today underline the fundamental attractiveness of our markets and industry as well as the strength for our business and people. While clearly there are uncertainties and challenges to come, we are well prepared to capture the growth opportunities ahead. We look forward to speaking to all you soon again. Have a great rest of the day. Thank you.

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