CCH – 2021 Full-year results
Conference call script – 22 February 2022

CORPORATE PARTICIPANTS

Zoran Bogdanovic – Coca-Cola HBC AG - CEO

Ben Almanzar - Coca-Cola HBC AG – CFO

Joanna Kennedy - Coca-Cola HBC AG – Head of IR

Title slide

Operator

Thank you for standing by ladies and gentlemen, and welcome to Coca-Cola HBC's conference call for the 2021 full-year results. 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. 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 Tuesday, February 22, 2022. 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. Thank you for joining the call today to discuss Coca-Cola HBC's full year 2021 results.

Zoran and Ben will present the results and following that we will open the floor to questions.

We have 1 hour and 15 minutes available for the call today, which should leave roughly 45 minutes for questions. We will therefore ask you to keep to one question and one follow up before joining the queue again.

2. Forward looking statements

Before we get started, let me remind everyone that this conference call contains various forward-looking statements. These should be considered in conjunction with the cautionary statements on the screen. This information can also be viewed in our press release issued today.

Now let me turn the call over to Zoran.

Zoran Bogdanovic - Coca-Cola HBC AG – CEO

3. Operational review and strategy

Thank you, Joanna. Good morning, everyone and thank you for joining the call.

4. Strong execution drives growth momentum

2021 has been a great year for Coca-Cola HBC.

I would like to take the opportunity to thank our passionate and engaged people, who continue to show great creativity and adaptability in making Coca-Cola HBC a stronger and better business every year. And also a very big thanks to all our customers, The Coca-Cola Company team, Monster Energy team and all our other partners for their trust and partnership.

Six things really stand out to me from our results today:

One: The strength of our financial performance. All key lines are now above pre-pandemic levels, with strong growth in 2021.

Two: This growth is being driven by strategic choices in the portfolio. Low and no sugar variants; Adult Sparkling and Energy in particular.

Three: We have been able to increase prices while continuing to gain significant share. We are also adding value to our customers - in 2021 we were the largest contributor of incremental value to our customers across the whole FMCG space.

Four: We are investing in future growth opportunities with marketing spend and capex increasing in the year.

Five: Given our confidence in our future opportunities we are increasing our dividend pay-out ratio target.

And finally: The strongest relationship we've ever had with The Coca-Cola Company team, reflected in the fast decisions and actions we take together, as well as creation of our future plans.

5. Strong financial progress

2021 has not been without challenges. We are therefore even prouder of our strong results. Reopening has been asynchronous throughout our territories. And we had to successfully navigate significant global supply chain disruptions and input cost inflation.

Ben will take you through the financial performance in more detail later. Here I want to call out a few key achievements.

- Top line growth has been very strong, with like for like revenues up 20.6% in the year, that's 10% above 2019 levels.
- As you might have read in our release this morning, we sold an idle property in Cyprus in December. EBIT growth was 20.2% excluding this. Importantly, we delivered very strong operational leverage, while taking marketing spend up 63%.
- And finally free cash flow was the highest in our history, allowing another year of growth in the dividend.

6. Performance is driven by our strategy

Through all this we continue to put our investments and executional efforts behind the pillars of our 2025 Growth Story.

- We are making conscious choices across our powerful 24/7 brand portfolio
- We are winning in the market through creative and disciplined execution, which resulted in another year of share gains
- We continue to invest boldly behind our growth opportunities, while being highly disciplined on costs
- And we continue to nurture the talent and potential of our people. We are a high-performing organisation, and also one that cares. I'm therefore pleased to see us ranking in Forbes' World's Best Employers list in 2021. We are creating a diverse and inclusive workplace, which has been recognised by Refinitiv's D&I index that ranks us in the top 8 of the 11,000 companies they surveyed globally.
- Finally, it was another year of action and recognition for our sustainability efforts that I will refer to later in my remarks.

7. Egyptian growth opportunity

Turning now to the opportunities we see in our new Egyptian market.

With our roots in Africa, we are extremely pleased to be welcoming the team from another African market to the Group 70 years later.

Egypt offers tremendous potential. Not just due to its size and attractive demographics, but also because we see the potential for both increased per capita consumption and market share expansion.

The integration work is on track. We have already started building commercial capabilities in the market, particularly around revenue growth management, route to market and digital. And we have strong portfolio expansion plans. We are also excited to learn from the best practices that the Egyptian team have in place, for example their excellent work on Schweppes portfolio development.

We are really excited about the impact and growth we can achieve in the market, while moving Egypt's margins towards group average over time.

8. Strong recovery; room for more in Established and Developing

Let's move on to our top line performance in 2021.

The easing of restrictions across our markets fuelled a strong recovery in 'on-the-go occasions' in the year.

As we have seen, the recovery was not linear. However, the clear overall improvement can be seen in the volume performance of the out-of-home channel.

Even as the out-of-home channel reopened, we have continued to deliver strong performance in the at-home channel. We seized the opportunities around new and larger at-home occasions and are gaining share.

As I've mentioned before on these calls, the data suggests that some of the newer at-home trends are here to stay. We are well-positioned to continue to win in these occasions.

If we look at performance by segment, there are some clear contrasts.

Throughout the pandemic and in this recovery year we have benefited from our exposure to Emerging markets. These markets were more resilient in 2020 and have seen the fastest growth in 2021. We've continued to drive strong performance in Nigeria, Russia and Ukraine with all three now having volumes more than 20% above 2019. This has been consistently driven across all markets with strong performance in Sparkling and Energy.

Importantly, despite the world's spotlight being on Russia and Ukraine these past few weeks, those markets have maintained strong momentum in 2022. As has Nigeria.

The Established segment is more exposed to the out-of-home channel and volumes there have not yet reached 2019 levels. That said, recovery in these markets has been strong.

For example, in Italy we have seen the benefit of our broadening portfolio, with strong share gains. And we are seeing very good recovery in the out of home channel, supported by focused plans and investments. As a result, our premium offerings have performed very well, with glass volumes up 58% and cans up 30%.

As you will know, the Developing segment was impacted by the Polish sugar tax. Here we are pleased to see strong performance from zero variants and Energy. Coke Zero volumes were up 20%, showing that our mitigation strategies are working and driving share gains.

Going forward, we expect all segments to grow volumes, with the Established and Developing segments continuing to close the gap versus 2019.

9. Revenue growth management drives price/mix +5.8%

Now let me focus on pricing and mix.

Along with volume, we have been very deliberate in driving improvements in price/mix throughout 2021.

The out-of-home channel reopening is a key contributor to the better package mix. However, this is by no means the whole picture. For example, package mix in 2021 was higher than before the pandemic.

We have increased prices in over 95% of our markets in waves throughout 2021, without seeing any volume impact. And we had an additional price increase in Q4 in direct response to higher commodity costs. At the same time, we have been continuously optimizing and improving the return on our promo investments.

The work we've been doing together with The Coca-Cola Company team on our revenue growth management tools makes us confident that pricing will be a critical lever once again in 2022.

We sell a product with a very different elasticities by occasion, brand and package. We use our revenue growth management tools, along with data and insights, to translate this understanding into faster and better actions. These actions are segmented by channel and customer and are focused on driving value growth in the category.

10. Consistent sparkling growth; broad based strength across brands

Let me now discuss the opportunities for further growth in our portfolio.

Sparkling remains the most important contributor to our business. Historical performance has been strong with average volume growth of the 5 past years just under 5%.

Trademark Coke, Fanta and Sprite had very good growth in 2021.

One key driver of growth in the sparkling category is innovation. Together with The Coca-Cola Company we have a disciplined innovation framework, going after fewer, bolder initiatives. We can see that our strong pipeline of well selected launches continues to stimulate growth.

Examples include the reinvigorated Coke Zero, now in place across all our markets, as well as Zero Sugar variants across Sparkling flavours. Sprite's performance has been particularly encouraging, benefiting from the successful new marketing campaign 'Let's be clear'.

11. Low/no sugar and Adult Sparkling driving momentum

I think it's important to understand that the Sparkling portfolio we have today is different and stronger than what it was in the past.

Today we have a much higher proportion of low and no sugar variants in the mix, as well as an important and growing contribution from Adult brands.

The growth from these two Sparkling sub-categories continues to be much faster than the rest of the portfolio.

Low and no-sugar volume growth has averaged 23% over the last 5 years. And that includes 2020 which was obviously heavily impacted by the COVID-19 pandemic.

Adult Sparkling volume growth has averaged 10% over the last 5 years. And good to keep in mind that Adult Sparkling has a higher revenue per case than the average for Sparkling.

Both are generating positive momentum in the sparkling category that we believe will continue for many years given consumer trends.

12. Energy growth continues

Now, moving onto another rapidly growing part of the business. Energy has been a significant contributor to the group over the last few years and 2021 was no exception.

Volume growth in the category has averaged 29% in the past 5 years. This has been driven by successful innovation, expansion and strong execution of the brand portfolio. The result is the increased importance of Energy in our revenue. And of course, this is high quality growth given that Energy is accretive to our mix, both at revenue per case and at EBIT margin level.

We expect that the category's contribution will continue to expand, driven by the pace of innovation that we're seeing from our partner, Monster Energy.

Examples are the recent launch of the affordable brand Predator, which has unlocked massive growth in Nigeria, as well as the launch of Reign in the premium part of the energy category in Ireland, Poland and few other markets.

13. Coffee is another growth opportunity

We are investing behind the coffee category which we expect to be a source of growth for the business for many years to come.

We have two brands to access the 9-billion-euro distributor market in our territories. Costa Coffee in the mass premium space, which has a full at-home and out-of-home offering, while Caffe Vergnano is a premium brand, primarily focused on the out-of-home channel.

We rolled out Costa Coffee to 3 more markets in 2021, bringing our total to 17. And we have launched Caffe Vergnano in 5 markets and will continue rolling out both brands through the rest of the year.

We are seeing strong results in terms of customer take up and repurchase, market share and also revenue growth.

14. Dedicated digital strategy to unlock value

We have continued to invest behind our digital commerce strategy in 2021, focused on both route to customer and route to consumer.

Firstly, within our route to customer, we have been developing and investing in a suite of digital B2B platforms and solutions.

Customer Portal, our main B2B platform, allows our customers to order direct from us 24 hours a day, 7 days a week. This platform now accounts for 8% of our transactions, up from 2% just a year ago. It is convenient for customers. And critically it allows our business developers to spend more time on category strategy execution and customer relationships, rather than taking orders. In addition, by lowering our cost to serve, the portal can allow us to lower the break-even point for customer acquisition.

In addition, we have been working with The Coca-Cola Company on WABI2B as a one-stop-shop primarily for traditional trade, allowing customers to buy products from us and other FMCG companies. WABI2B is now live in Russia and Nigeria, with good early take up.

At the same time, we are investing in our digital route to consumer. This includes partnerships with our existing customers who sell online, as well as newer, digital first customers such as pure player e-retailers and also food service aggregators. Growth rates are strong, up 87% year on year, reaching 3% of 2021 revenues.

15. Net zero by 2040

Moving to another crucial area of investment.

Taking action on climate is a priority for Coca-Cola HBC. We have a strong track record of making, and achieving, clear, science-based targets on emissions reductions.

In the last decade we have reduced our absolute value chain emissions by 31%, or by 50% across our own business.

With our net zero commitment we have set targets to reduce emissions by 25% to 2030 and by a further 50% in the following decade.

Management and the Board are fully aligned on the importance of this initiative. We will remain accountable on our progress, with emissions reductions being included in our long-term incentive plan.

16. Progress on Mission 2025

In 2021 we have continued to make good progress on our Mission 2025 sustainability commitments.

And I am proud that we continue to be recognised for our efforts.

We have once again been ranked as an 'A list' business by CDP on both Climate and Water. And I am particularly pleased that they have also ranked us as a Supplier Engagement Leader, in the top 8% of all assessed companies. This award recognises the work we have been doing to engage with our suppliers to tackle climate change. Partnership with our suppliers will be critical in reducing our emissions across the value chain.

In addition, for the 11th year running, the Dow Jones Sustainability Index has ranked us in the top three of all beverage companies globally, and number one in Europe. Maintaining this consistent leadership requires commitment and investment. We know there is still much more to do, but we are proud of our progress and determined to push for more.

I'll now pass over to Ben to take you through the financials in more detail.

Ben Almanzar - Coca-Cola HBC AG – CFO

17. Financial review

Thank you, Zoran, and good morning everyone.

18. Strong financial performance on all key lines

Before diving into our financials in more detail let us spend a moment on the overall 2021 business performance.

We have said many times that the base of comparison for 2021 is not 2020. We expected to show big improvements versus last year given the impact of the COVID-19 pandemic. I am very glad to report that our business has delivered results above 2019 on every key performance indicator.

19. Revenues accelerate

With that, lets dig into the drivers of our 2021 performance.

Like-for-like volume accelerated in the second half, and was up 14.0% in the year, closing 9.0% above 2019 levels.

Price/mix also improved, up 5.8% or 3.9% excluding the pricing taken to offset the Polish sugar tax.

If we look at price/mix performance in 2021 on a two-year stack, we can see improved momentum versus 2019 through the year. This was achieved through careful but determined actions.

We heard Zoran talk about pricing earlier. Pricing was the most important factor, accounting for half of the revenue per case increase in 2021.

Category mix improved, with the faster growth from Sparkling and Energy, contributing a quarter of the NSR per case expansion.

The last upside came from package mix, where our actions to grow single serve in the at-home channel and capitalise on the out-of-home reopening, saw single-serve mix finish the year 4 percentage points above 2020 levels.

As anticipated, country mix was negative, given the fast pace of growth from the Emerging segment.

20. EBIT grew 23.6%, margin expansion continues

EBIT grew by 23.6%, with comparable margins expanding 60 basis points year on year.

A transaction to dispose of an idle property in Cyprus closed in December and contributed 30 basis points to this result.

From an accounting perspective this sale constitutes part of our comparable EBIT, since efficient management of our fixed asset base is part of the normal course of business. However, we're calling it out for two reasons.

- Firstly, because the precise timing of the deal was not known when we set the guidance; and
- Secondly because another sale of this magnitude is unlikely to repeat.

As such we believe that the fair assessment of business performance would consider EBIT margin expansion of 30 basis points in 2021, consistent with our original guidance.

Let's unpack what contributed to the robust results.

We already touched on pricing and mix. Therefore, I won't repeat.

Down the P&L, we benefited from solid hedged positions across our key commodities, as well as long term contracts with our suppliers which helped to mitigate inflation in H1. Input costs, manufacturing and logistics pressure was far more pronounced during the second half. We finished the year with mid-single digit increase in COGS per case.

We also continued to deliver efficiencies through the benefits of positive production and overhead leverage as well as ongoing productivity initiatives in our supply chain.

As anticipated, we have seen the consistent upward pressure on commodities extending into 2022. We are prepared to steer the business in a significant inflationary environment.

That is why we are counting on continued pricing actions, making the mix work harder, and disciplined cost management to deliver on our goals for this year.

21. Marketing investment up 63%

Moving to OPEX:

We made the most out of the operational leverage from the strong revenue growth in the business.

We are working differently and require less discretionary spend. Travel, meetings, consultancy fees and training were all kept near 2020 levels.

This in turn has allowed us to restore marketing spend while still driving OPEX as a percentage of sales down by 2.2 percentage points to 25.1%.

To complete the picture, Marketing support for our brands was up 63%, reaching 2% of revenues for the year, only 20 basis points shy of 2019 levels, and above them in Q4.

Together these factors contributed to the strong EBIT growth and margin expansion we are reporting today.

Looking forward, we expect continued strong operational leverage on fixed costs, and absolute focus on cost discipline. However, it's fair to say that to repeat the same scale of the reduction in OPEX as a percent of sales in 2022 would be challenging. Overall, we expect to be able to continue delivering EBIT growth in 2022 and I'll take you through the guidance in more detail in a moment.

22. Established markets

Turning now to the drivers of performance on a segmental basis.

Established segment FX-neutral revenues grew by 13.9%, propelled by both volume and price/mix in 2021.

EBIT grew by 44% while margins expanded 250 basis points, of which 90 basis points was due to the property sale in Cyprus. The rest is mainly due to operational leverage on revenue growth.

23. Developing markets

The Developing segment's currency-neutral revenue increased by 18% with price/mix expanding 17%. FX-neutral revenues are now 5.7% above 2019 levels.

Performance was impacted by the Polish Sugar tax. Without it, the segment's price/mix growth was 5.8%, and volume growth was up 4.4%. We expect Poland volumes to return to growth in 2022.

EBIT grew by 4.3% with EBIT margin weighed down by the sugar tax

24. Emerging markets

We continue to see sustained, strong momentum in the Emerging segment with like for like revenue up 27.1%. FX-neutral revenues are now 24% above 2019 levels propelled by Russia, Nigeria and Ukraine as well as recovery in the rest of the segment.

EBIT grew by 17.3% and Emerging remains our highest margin segment.

25. EPS expansion of 33.7%

As we travel down the P&L we harvest the benefit of broadly reduced finance charges, combined with a much-improved tax rate, which boosted EPS up 33.7%.

26. Free cash generation with continued investment

Cash conversion decisively improved in 2021. Free cash flow expanded 21% year on year, building on the strong performance in 2020.

We achieved the highest free cash flow in history while continuing to up investments in the business.

Capex reached 7.5% of revenues. We focused on four key areas.

- Building additional **production capacity** in priority markets and categories;
- Increasing our **coolers** which are a key driver and enabler for single-serve mix;
- Accelerating our investments in our **digital agenda**; and
- Continued support of our **sustainability commitments**

27. Continued ROIC expansion

I'm proud of the pace of the recovery in ROIC seen in 2021 which builds on the positive trajectory of prior years.

We are reaping the benefits of having rationalised our supply network, optimised our logistics infrastructure and improved our cost to serve. As revenue grows and margins expand, so does asset efficiency. And of course, we invest behind projects which we expect can improve ROIC over time.

28. Strong balance sheet maintained

Our gearing finished at 1.1 times net debt to EBITDA. However, in January we closed the acquisition of Coca-Cola Bottling Company of Egypt, and this would take our leverage ratio to 1.6 times.

We continue to maintain a strong balance sheet. This provides optionality for our capital allocation priorities including organic investment, M&A, and our progressive dividend. Of course, when the available investments do not meet our requirements we will return capital to shareholders.

29. Shift to organic metrics

Let me take this opportunity to inform you of a change we are planning on making to our disclosure, which we hope will improve the clarity and simplicity of our reporting.

We will be introducing organic growth as our key reporting measure for the market in 2022.

We believe that this will enable better understanding of underlying business performance. As you know, we have endeavoured to provide market participants with the required numbers to allow this look through. However, we are conscious that this approach creates complexity, and we believe that organic measures will be more straightforward.

We will be providing you with more detail ahead of the Q1 results, and of course myself and the IR team will be as helpful as we can with any questions you have.

It is important to note that we do not anticipate this change having any impact on our guidance beyond semantics. FX neutral guidance would shift to Organic revenue, and Comparable EBIT growth would shift to Organic EBIT growth, but with the same expected ranges.

30. 2022 outlook

Looking out to 2022 and beyond.

It's clear that the business has momentum. We can also see that 2022 has got off to a strong start.

We will stay the course on our strategic choices, pursuing the most attractive growth opportunities. We are confident behind the plans and the business' adaptability and the resiliency to thrive as circumstances change.

We have a good understanding of the significant inflationary pressures we face in 2022. We remain focused on mitigating actions including pricing, beneficial category mix as well as productivity and cost saving initiatives.

Given all of this

- We expect 2022 to be a year where we grow FX-neutral revenue, excluding Egypt, above the 5-6% range targeted, as an average, to 2025.
- And we currently anticipate being able to continue to invest in top line growth while growing comparable EBIT by low to mid-single digits.

This encompasses a range of possible scenarios for the business including:

- COGS/case that we expect to be at the upper end of high single digits could go into low double digits in inflation as commodities intensifies.
- Second is FX, where our current expectations based on spot and our hedged rates would imply FX impacts below 2021. A worsening of geopolitical tensions could impact that scenario.

We will continue to monitor these factors as the year progresses.

Given our strong cash flow generation, solid balance sheet and positive long-term outlook for the business, we are announcing an increase of our dividend pay-out range to 40 to 50%.

With that, let me pass the floor to Zoran.

Zoran Bogdanovic – Coca-Cola HBC AG – CEO

31. Sustainable longterm growth

Thanks Ben,

We're really pleased with the strong results we have reported today. But even more than that, are excited about our opportunities.

- The category we operate in is large and growing. And our 24/7 portfolio allows us to address every beverage consumption occasion;

- Our people, culture and capabilities remain a distinct competitive advantage helping us to win in the market, through close partnerships with our customers;
- We operate in highly attractive geographies, with growth opportunities across Emerging, Developing and Established markets;
- We have a strong track record on managing costs. We are successfully navigating short term challenges and investing in long term opportunities; and
- We continue to make good progress on ESG and are determined to remain leaders here.

Looking to the future, we remain confident in our strategy and in our ability to continue to deliver long term growth and shareholder value.

32. Q&A

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

----- Q&A------

[Q&A transcript will be available on company's website on 23 February 2022]

Let me 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 well prepared to capture the growth opportunities ahead.

We look forward to speaking to you all again soon.