

Deutsche Bank | 2022 dbAccess Global Consumer Conference

Mitch Collett:

Good afternoon. My name is Mitch Collett from Deutsche Bank's consumer staples team in London. I am delighted to be able to welcome Zoran Bogdanovic from Coca-Cola Hellenic. The format of today's presentation will be: Zoran will do a few slides and introduction to the company, and then we'll go straight to Q and A. We'd love to have questions from the audience, but obviously I've come armed with a list. Feel free to interject at any point after Zoran has finished speaking, but I'll also turn it over to the crowd at several points during the session to make sure you have an opportunity to ask your questions. Zoran, thank you very much for coming. The floor is yours.

Zoran Bogdanovic:

Thank you, Mitch. Good afternoon, everyone. It's absolutely great to be back in Paris in person and great to see some very familiar faces and so much better meeting live than over Teams or Zooms or whatever those are. So I'll just share a couple of slides and intro remarks as a segue to the conversation that we will have. And I look forward to any questions that any of you may have.

I would just like to emphasize and remind for those who maybe are less familiar that Coca-Cola HBC is one of the strategic bottling partners of The Coca-Cola Company, and we have worked over 70 years together. Actually last year was the 70th anniversary of the company from its beginnings, actually, in Nigeria. And, I would like to emphasize that this partnership with The Coca-Cola Company is stronger than it's ever been. We have a diverse geographical footprint operating in 29 markets, and we combine the stability and hard currency cash flow generation of Established markets with the structural growth opportunities of our Emerging and Developing markets. We are the leaders in a large growing industry, and we offer truly 24/7 beverage portfolio. We are privileged to sell some of the strongest brands in the industry and are gaining share. In '21, we gained 90 basis points of value share in the whole non-alcohol, ready to drink industry, and the pace of gains have accelerated in 2022. We believe the strength of our portfolio and commercial capabilities will allow us to continue to win in our markets in every environment.

In '19, we laid out a clear strategy to drive the business towards our vision of being the leading 24/7 beverage partner. This strategy is called Growth Story 2025, and it is underpinned by five growth pillars. Our progress on these pillars is positioning the company for sustained success. They have guided our investment choices and priorities, and that has been especially relevant when facing challenges such as COVID and now, inflation.

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Let me briefly touch on one of those pillars. Our route to market is second to none in our territories. We operate across a wide range of channels with thousands of motivated salespeople to activate our 24/7 portfolio. Our customer base is still relatively fragmented. For example, we cover 1.7 million customers across our markets and not one of our customers is more than 2% of our total revenue. Our route to market is strengthened with digital tools that allow us to serve our customers better and drive value growth in the category. This is because data allows us to segment our customer base, to make tailored offers for each outlet type. It's the strength of these capabilities that is allowing us to continue to win in the marketplace.

Consistent execution of our strategy is delivering strong financial performance. We have generated volume growth as we expanded per capita consumption and market shares. We have achieved good and consistent price mix expansion, improving the value we earned for each case sold through pricing and other revenue growth management tools. That progress continues in 2022. Q1 revenues were up 24%. I was very pleased to see the quality and balance of that performance with volumes up 11.3% and price mix up further 11.6%.

Moving down the P&L, we see EBIT growth and consistent margin expansion. Margin resilience during the COVID pandemic proves the benefit of our restructuring after the financial crisis. And finally, our discipline use of capital has ensured accelerated free cash flow performance and consistent ROIC improvement.

We don't only judge our success through financial performance. We are committed and passionate about ESG at Coca-Cola HBC, and proud of our strong performance in this area. We have set clear goals for continued progress. These goals are all aligned to the company's most material issues, as well as the UN sustainability goals. As you can imagine, we are particularly focused on progress in packaging, climate, and water usage. In '21, we set our boldest environment goal yet, to reach net zero emissions by 2040. I'm also proud that we have consistently gained recognition for our achievement and progress by the key sustainability benchmarks.

I'm proud of the business and the strong performance we are demonstrating, but even more than that, I'm 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. We operate in highly attractive geographies with growth opportunities across Emerging, Developing, and Established markets, adding also Egypt in 2022.

We have a strong track record on managing costs. We are successful in navigating short term challenges and investing in long term opportunities. Our people, culture and capabilities remain a distinct competitive advantage, and we continue to make a 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. Thank you for your attention and looking forward to the discussion.

Mitch Collett:

Thank you, Zoran. Do you want to take a seat? You can. So maybe just to get us started, I can ask about the reopening. So I think you said in Q1, that away from home consumption was already ahead of 2019, but in two of your divisions, Established and Developing, it remained below. Can you comment on the reopening and how you expect that to progress throughout the balance of the year with a focus on those divisions?

Zoran Bogdanovic:

In short, the whole opening after pandemic, I think, really started picking up very well. Even before all the customers and outlets have reopened, we've seen in those that have reopened that there was more activity and consumption in the out of home. I think a number of companies have felt and experienced what we have, that consumer was keen to go out and spend, socialize after this locked period. So with that, our single serves have strongly benefited from that, and we've seen a very good performance in total, especially in the Emerging segment in the out of home. Still in Q1, Established and Developing was still behind '19, but our expectation is that now in the build-up to the season, we would think that they would reach, and a number of countries exceed, '19 levels. It's very encouraging to see the bookings for the summer. Everything indicates that we should be seeing good level of activity. And with that also consumption, from which we expect good results.

Mitch Collett:

Thank you. And linked to that as, as markets have reopened and as consumers are able to resume away from home consumption, have you seen a commensurate reduction in at home consumption or has that remained solid?

Zoran Bogdanovic:

That has remained quite solid. We are, I would say even a little bit above our expectations to see that out of home recovering, but at home part has been resilient and with a very good performance versus last year and strong double digit versus '19. So we do see that some of the consumption shifts, more moments at home, definitely are visible and they'll stay for a while if not for much longer. And throughout all this period from beginning of 2020, we have even more intensified quantity of activities, but I would say more importantly what we do, so that we can do cross-category promotions, adjust the packaging for more occasions that are happening at home. So as a result, this is what we see happening.

Mitch Collett:

That's great. Thank you. I'll pause there to see if anybody wants to ask questions from the floor. If not, I'll keep going. Can we talk about COGS? At your Q1 results, you talked about COGS inflation being low double digit. Can you comment on whether that's still the right number, your level of hedging for this year, and maybe if possible, give us some perspective on what you think would be a realistic estimate for 2023, if it's not too early.

Zoran Bogdanovic:

So the guide that we gave for Q1 for COGS being low double digit stays the same, nothing dramatic has happened that would impact that. Also on hedging level this year, we are on better levels than usually we would be. This year around 85%, and even for '23, at this point of time, we are on a better level than we usually would be. So, I think that gives us more predictability in this very unpredictable situation. Now for '23, I think it's really early to say, after summer I think we will all be wiser.

One thing I would emphasize is that as we are now approaching and already with teams are working on '23 plans, we are taking the assumption that this inflationary environment that we are seeing it's not going to disappear. We will go with the assumption that we have to prepare our plans, revenue growth management initiatives, both on pricing and mix across various types. How do we get into the next year knowing that we'll be in a similar environment. Get ready for that, then if we get in any way positively surprised by the resilience of consumers and the whole situation, better, but we will force ourselves to get ready for that type of environment.

Mitch Collett:

In that context, can you comment on pricing? I appreciate that's only one aspect of the suite of tools you have to offset higher inputs, but can you talk about what you've been able to achieve in terms of pricing and also perhaps comment on whether there have been any volume elasticity impacts of you taking up prices?

Zoran Bogdanovic:

I'm really pleased with the level of pricing that we have done across all the markets last year, Q1 this year. Everything has been in line with the original plans, but even more in some cases as we reacted quickly when we saw that situation is evolving and that circumstances allow us, that we can do more. We do believe that now is the time when these are type of things that should be done. I think later if we face anything that's recession or close to that, I think it'll be too late to do those things. Even though we are all the time playing the balanced game of price mix and volume, this is the period where we will prioritize price mix even if that means some sacrifice of the volume. We have not seen last year and this year, anything that would be material impact on volume because

of our pricing actions. I think that also goes in hand with that state of consumer post COVID. So on one side, there was this post COVID recovery, and on the other side there is also now pre-season build-up. One wave and second wave are helping in how the whole pricing is landing. We have not seen any significant impact on that, maybe somewhere here and there, but consciously we are absolutely fine with that.

Mitch Collett:

It's good to hear. So you mentioned recession, if we do see pressure on consumers, where would you expect that to have the most meaningful impact on your business in terms of channel or category exposure? I should ask, it sounds like the answer is no, but have you seen any of that pressure manifest itself in your markets to date?

Zoran Bogdanovic:

Not yet, but we don't want to be naive to think that sooner or later with sustained period of this kind of environment, that that would not hit consumer, especially because so many things are increasing that very likely at some point is going to affect now. Where usually we see manifestation of that is more in the modern trade or organized trade part of the market, which is the at home. Where people will start to look for more deals, more promotions, in which case we would need to respond with what types of promotions we do, packages we do. Within that whole space, more price elastic would be hyper markets than discounters. That's what I would say. Now, it's not one size fits all for every single market. Some markets tend to be ... when this situation happens they tend to react faster in the cautiousness of how much they consume, how much they start to save versus some other markets. For example, I would say Romania is one example where you could see people starting to be more cautious earlier than some other markets. Equally when things start to get better, they also start to boost their consumption activity.

Mitch Collett:

In terms of potential mitigations that you can use, I know revenue growth management is something you've done a lot of work on and excelled on in the past. I also appreciate that you have a suite of analytical tools that allows you to maximize your revenue growth management. Is that something you can use to help offset pressure on consumers and make sure you have the right packs in the right places?

Zoran Bogdanovic:

Absolutely. I cannot emphasize enough how much it ... in 2016 where we said that we really want to completely revamp our revenue growth management capabilities and then start with the rollout from 2017, this was one of the best capability building decisions that we've done in the last X number of years, because we've seen that this capability carries us through very well through years when things are going well, as well as those like 2020,

this year. It gives us the confidence that we read situation better with the proper data, that there are teams who can really connect the dots, analyze competitor moves, understand elasticities, constantly refreshing them.

The beauty of this is how we work also with Coca-Cola Company together because bottlers alone have a limited impact. The beauty comes when we come together, so when we have all the data and insights - shopper from company side, as well as from customer, channel promotional analysis. All that comes into this revenue growth management framework that we have done together and that we are constantly evolving. So this has evolved to be one of the most critical cornerstones of how this company now works and with a full alignment between Coca-Cola company and us on creating value through revenue generation, where we are fully aligned. That now works in a very seamless way.

This is where I see that there are so many other things than just price on which we work, whether that's different categories, how we are pushing the adults, part of the sparkling portfolio, which over the last four, five years from being equal price parity with Coca-Cola now became almost everywhere the more premium part of the portfolio, which is helping to drive the price mix. Energy category, focus on those single serves, a number of elements that we are doing, which are not only price that we can do together.

I seriously count that in all these times, we talk a lot about price, but there are so many other things that we have to force ourselves to deploy, because I don't think that you can do pricing just indefinitely and to the levels that don't have limits. So that's why the mix part for me is something that I would like to emphasize as something that I feel we can steer with more control and influence than before.

Mitch Collett:

It's probably linked to what you've just said, but if you dive into the categories, in sparkling you've had good share gains over the last couple of years. Can you comment on the drivers of those share gains and whether or not it's something you think you can continue to achieve?

Zoran Bogdanovic:

If I single out one thing that I think over the last several years, pre pandemic, pandemic, and now in the recovery, it is performance of sparkling and it comes as a result of several things. It starts with the marketing of the Coca-Cola Company, because I think that the whole innovation stream that is happening within the category, which makes brands more contemporary to young consumers, those who have not yet tried a product, with a flavor variety, with a look and feel, with types of promotions, gaming, that's now happening as a platform. Meals that are critical in every single market, doesn't matter

where you go. Music element. So those passion points of consumers are properly activated.

And then, being aligned that within the sparkling, that we have identified for now, a number of years that we focus intentionally behind zero sugar variants. That came also from the sugar topic. And I remember when I was doing first time roadshows and these kind of things, that would always be from the audience or investors, question on sugar. I don't remember when last time anyone asked me question on sugar. And that's because there is so much reformulation that has happened, not only now with Coca-Cola, but Fanta, Sprite, Schweppes, everything.

Second is also the Coca-Cola brand. Not only because of the sugar variant, but Coca Cola regular has been growing now for several years, for the reasons I mentioned. And then, adults sparkling, where we are as Coca-Cola HBC. I think we are very passionate about Schweppes and Kinley and opportunities that we have for this adult segment of consumers. Because also, these are the products which are perfect for mix-ability. In last several years trend goes in our favor, where long drinks, cocktails, mixers, are growing. And we have excellent proposition. And this part of portfolio has been growing strong double digit now for several years, and, as I mentioned, they are price premium to Coca-Cola.

So, in last year, this year, I think also as a result of the reorganization that Coca-Cola has done, where now sparkling flavours are a separate category from Coca-Cola. We do feel that there is more attention and more resources and funds behind these things. So, as a consequence, we see very good performance second part of last year, this year, behind Sprite. Which, few years ago, had some little bit iffy performance. But now we see very, very good rebound.

So, overall, I could talk much longer about this category alone. But these are some of the drivers that I just hope they convey confidence and passion behind this phenomenal category.

Mitch Collett:

Understood. Thank you. Maybe we should ask about stills has recovered well, but within that, waters is still not back to where it was. Can you comment on, on what's holding waters back and whether you think that can reverse and get back to where it was in 2019?

Zoran Bogdanovic:

That's very well spotted, and it is by choice. It's by choice because we don't want to play in water volume game. In water, there is a lot of promotional activity, big multi-serve packs being on big price discounts.

Now, for a few years, we intentionally don't follow that level of intensity. I cannot say that we are not doing it at all. But we primarily focus on the value in water, meaning that intentionally we do more behind small packs and single serves. And we also want to focus more on the enhanced or flavoured water segments, where we can also have higher price. So it is part of the choice that we do and intentionally not playing this volume chasing recovery game.

Mitch Collett:

So, you've mentioned energy briefly. We talked about adult sparkling, you've also got a rollout of coffee, and you are doing RTDs with seltzers. So you have a lot of new growth engines. But how do you manage the additional complexity that comes with having all those categories in addition to your core categories?

Zoran Bogdanovic:

That's every year evolving topic. That's why, when we talk about, if there are strong foundational capabilities, then organization has more bigger lungs to do more things. And to be specific on this, last three years we've been ramping up data insights and analytics before we called it big data, advanced analytics. So, it's all the same.

One of the use cases there is segmented execution. Now we have already segmented execution 2.0, which we have rolled out to all countries. Because that gives us ability to segment market outlet types, customer types, across various dimensions. That's why when we say, for sports category and Powerade, it's one type of outlets that we quickly can identify versus outlets that are important for energy. And we can do that not only on a country level, but in big cities like Lagos, we've been doing it. Actually, we started doing that first in Nigeria. Within the city, we can identify and segment customers. Because that helps us then, that with more navigation from those insights analytics, we know that, instead of some time ago, trying to get everything everywhere, now you know that these parts of portfolio are going there and which types of outlets. So people are getting specific distribution, penetration targets based on that. So that really helps us. So this type of thing is helping us with how we manage that.

And then, on the side of the supply chain, we are continuously investing in and digitizing supply chain. We have lots of in-house capability to produce. When we discuss with Coca-Cola, production of smartwater, we invested a line in Hungary. Adez plant based beverages in Prague. Monster lines, almost every year, we are adding them. So there is, there is more and more in-house capability to do those kind of things.

And then to complete this answer, demand planning and forecasting overall as a capability, is essential. And that's why, one of the prioritized five use cases of data insights analytics, is on planning. Because it really takes... It's a complex thing where lots of statistical algorithms that are now being used for statistical planning, which takes into

account many parameters, which for now are observed and corrected with human element. But the idea is that, over time, this planning can be done more automated and leveraging artificial intelligence.

So the answer is, we are investing more significantly in how we are developing the organization to be able to do that. And, we are far, far away from being finished or mature on that level, but investments will continue.

Mitch Collett:

Thank you, Zoran. And, I'll pause there to see if there are any questions from the floor. I think we have one over here. Do have a microphone?

Speaker 1:

I just wanted to ask a question with regards to, you're well balanced and spread into geographic markets and you've shown that one of the strengths is that a lot of your markets still have low per capita consumption. With the current pressures that we're seeing with the consumer, if I may turn that question around, the per capita consumption, the low level of that, have you seen science that that has been going backwards? Maybe an overview of how you see your markets in that regard?

Zoran Bogdanovic:

Thanks. In short, no. We haven't seen that it's going backwards. Actually, we do see that so far, we've seen that across the markets, these per capita numbers are going in the right direction, as an increase.

A few weeks ago, we've been in Italy. I was very pleased to see how last year and beginning of this year, when we see period, how it went up by two points, for example, per capita numbers, which, for example, for Italy, not only for Emerging markets, but even in Italy, per capita, is a big opportunity. When you compare Italy to Spain, to France, to a number of markets, that's a great opportunity that we are focused on. As well as in Nigeria, now Egypt, those are obvious markets.

So, that number is something we monitor and really think through, how do we drive them? And that's one of the always reminders and north stars for our planning that we do together with Coca-Cola Company. So no, nothing backwards.

Mitch Collett:

Do you have any other questions?

Speaker 2:

Thank you for this. I just want to tie two separate points you mentioned earlier on in your presentation. One was sustainability. I'll tie my question to that in a minute. And one was single-serve and smaller packaging. Obviously these go a little bit against detail, but in the sense that smaller serve requires more packaging and the cost of packaging has also been going up significantly with plastic, with glass, with aluminum prices. So, how is that single-serve or focusing on smaller packaging going to impact margins. It's been margin enhancing in that last, I don't know, five to ten years, how do they foresee the future on that front?

Zoran Bogdanovic:

Yeah. Well, very good question. So, luckily those type of packages are less price elastic. So in price increases, we don't do 5% across the board. We segment that by category as well as by package type. So those smaller packages can absorb more pricing than bigger multi-serve packaging. And that's constantly like this. And I don't think that's only valid for us. That's the same in beer and for other players, also competitors, that's observable.

Then, within the single serve packages, we are very, and we have always been very passionate about the returnable glass bottle. Also cans, which is aluminium cans are performing extremely well. So, those two package types are also somehow increasing their share versus the plastic, which when we convert to recycled PET, so far, we've always been prioritizing the smaller packs, single-serve packs.

And, now we started actually with introducing countries with a hundred percent of the portfolio being on rPET and Switzerland is example of a market that just went full portfolio a hundred percent recycled PET. So, that was on the single-serves. And, what was the first part they said?

Speaker 2:

Single-serve, just the final packaging. But you just explained that [inaudible].

Zoran Bogdanovic:

No, the point is that we are very mindful to protect our margins, especially on single serves. It might be in different countries that in one year, maybe this might be some impact, but that's why these things should be looked sometimes on a two-year basis. Because we are mindful that we don't want to overprice and then have a more impact because the volume suffocation. That's why sometimes looking pricing versus inflation over two-year period is important. Yeah.

Mitch Collett:

We've got another question.

Speaker 3:

Thank you very much. I just had a question on your marketing strategies or if you want to talk about cost inflation into next year and how people might expect some more on promotions going forward. So, I wanted to ask how we should think about new strategy and would you be willing to sacrifice some marketing in order to finance promotions and how much do you think marketing is key to support your plans [inaudible]?

Zoran Bogdanovic:

It is very important because especially on the bottler side, we appreciate a lot, all marketing spend that The Coca-Cola Company does together with our own spend because pricing strategies and moves have to be blended with activities that constantly builds the perception and brand strength and health for the categories and brands.

And James Quincy, I think several times almost on every call, emphasizes that brands need to earn the right for price increases. So, and if we would direct more marketing funds into price promotions, I think it would be dangerous path and not a game that honestly we want to play to a great extent, and definitely we are not type of company and a system that we want to ignite and lead that. I think that is much more healthy for us, as well as customers and consumers, for everyone, when marketing plays a good role and when everyone understands that more value creation, either monetary or perceptible or what you get through the experience with brands, that everyone gets something out of it.

So I think that marketing spend, and especially because over now few years that marketing spend is becoming more effective. I think that has been lots of efficiencies that has been gained on non-performing marketing funds that together we are doing. And I think that's also part of the reason why one of the pillars that's driving the growth. So very good question. Yeah.

Mitch Collett:

Thank you, Zoran. Do we have more questions? We're almost out of time. It's a difficult question Zoran, but I feel I ought to ask it for the benefit of the audience. Russia is a market where you've had to reduce your operation significantly. Can you comment on the current state of play and how you plan to deal with Russia?

Zoran Bogdanovic:

Yep. Yeah, I was surprised it didn't come earlier.

Zoran Bogdanovic:

So, as of March 8, when Coca-Cola Company announced that they are suspending the business in Russia, that meant that from that day, we have stopped ordering the concentrate for Coca-Cola Company brands. From that day on, we are in process of depleting the inventory that we have, both in the form of concentrate as well as finished goods.

So that process is ongoing, in a full alignment with Coca-Cola Company. Some of the SKUs and products have already been discontinued as they have run out of the stock and the others will finish in the next few months. And following that, we do see that going forward, we would see in Russia, much smaller business focused on local brands.

Local brands because there are several very well-known local brands, which are different price tiers in juices. So, this is what we see as being a centre of the model. And then we are evaluating to see how potentially we can do some further extensions there, as we are seeing how we shape that model for the future. But certainly, this is going to be sizably smaller presence than what we used to have.

Mitch Collett:

And we're out of time. But to finish on a more positive note, can I ask quickly about Egypt? Can you just comment on the integration of Egypt and your plans to expand and grow that business?

Zoran Bogdanovic:

Yes, well especially now because of this situation that happens with Russia and Ukraine, Egypt comes as a good, excellent addition to the portfolio. But even without that, we were so passionate to work on that acquisition of the franchise. As we believe this market with 105 million people, young population, we are the challenger versus Pepsi. We want to close the gap and then take over the leadership. So, share gain opportunity portfolio expansion. So I think it's a land of huge opportunities.

That's why we really staffed a strong team from the group that works with local team. This integration process is ahead of the plan. We are prioritizing few critical capabilities, no-brainer revenue growth management, route to market, data, insights and analytics. And, I think this business will be important driver of the growth for Hellenic this year and then in the next years. So thanks so much for asking me that question for the end.

Mitch Collett:

It's okay. Zoran, thank you very much for your time and thank you to everyone for listening.

Zoran Bogdanovic:

Thank you, Mitch and thank you all.

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