CCH – 2022 Half-year results
Conference call script – 11 August 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 Investor Relations

Title slide

Operator

Thank you for standing by ladies and gentlemen, and welcome to Coca-Cola HBC's conference call for the 2022 half-year results. We have with us Mr. Zoran Bogdanovic, Chief Executive Officer, Mr. Ben Almanzar, Chief Financial Officer, and Ms Joanna Kennedy, Head of Investor Relations. 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 Thursday, August 11, 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.

Zoran and Ben will present our half year 2022 results and following that we will open the floor to questions.

We have just over an hour available for the call today, which should leave over 30 minutes for questions. We will therefore ask you to keep to one question and one follow up before joining the queue again.

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

Operational review and strategy

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

The first half of 2022 presented unique challenges for our people and the business.

We are deeply distressed to see the human suffering that the ongoing conflict in Ukraine is bringing to millions, including many of our people and their families. Their safety remains our number one priority.

We continue to do all we can to support our people on the ground with immediate financial and practical assistance, alongside donations towards the humanitarian effort.

Despite these challenges, our business delivered strong financial results for the first half and made clear progress on our strategy. This demonstrates the winning spirit and resilience that is part of our culture.

I want to thank our passionate and engaged people for making Coca-Cola HBC a better business every day. 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 collaboration.

Delivering today while investing for tomorrow

Looking at our progress, five things really stand out to me:

One: During challenging times we focused on delivering against our strategy, centred on five growth pillars. The benefits of this are evident in our strong half year results today.

Two: We continue to drive strong, well balanced revenue growth combined with share gains. And we are creating value for customers: we were the number one contributor to revenue growth across our retail customers.

Three: In very challenging circumstances our supply chain has been flexible, our hedging policies robust and our cost structure adaptive.

Four: We are seeing the benefit of years of investment behind our prioritised opportunities in the portfolio and across our capabilities. And we continue to invest for the future. Let me pull out just two examples from the portfolio:

- We have invested behind opportunities in Adult sparkling over several years. This has enabled the consistently strong growth we are seeing there. We have now added a new super-premium brand with the acquisition of Three Cents.
- Similarly, we have been investing ahead of the curve in Coffee, building out dedicated teams and investing behind coffee specific capabilities in revenue growth management, route to market, and data, insights and analytics.

Finally: And most importantly, the strength of our partnership with The Coca-Cola Company, has meant we can make decisions quickly when necessary and continue to develop significant growth plans for the future.

Strong financial progress

Let me give an update on Russia and a few financial highlights and then Ben will address both in more detail later.

Following the decision and announcement of The Coca-Cola Company to suspend their business in Russia, we immediately stopped placing orders for concentrate in March. Over the course of Q2 we wound down the Coca-Cola brands in the market, and that is now complete.

Following this we retain a much smaller, self-sufficient presence in the market focused on local brands. The local management team have been developing plans and adapting the business to the cost base, including rightsizing the operations to ensure they can support our people and be immediately financially self -sufficient.

Moving to the financials, there are three key highlights for me:

- First: We have benefited from sustained momentum. Excluding Russia and Ukraine, Q1 and Q2 volume growth was remarkably consistent at 12%.
- Two: We have continued to achieve strong price/mix across our portfolio and markets, while gaining share. Revenue growth management capabilities are allowing us to do this.
- Finally, the strong EBIT growth, despite a very challenging input cost environment.

Volume momentum continues

Let's dig into the volume momentum we're seeing at the category level. I'm going to focus here on performance excluding Russia and Ukraine which gives a better understanding of the underlying momentum.

Sparkling continues to be the main growth engine, with consistently strong performance in Low/no sugar variants as well as Adult sparkling.

Energy volumes grew by nearly 29% and the category continues to increase its contribution, improving revenue per case as well as EBIT margin.

We have seen a good recovery in Stills as out-of-home has returned, and we gained share in at-home. We continue to take a targeted approach to our local offerings, focusing on brands and packs where we can drive healthy revenue per case.

Coffee continues to show good momentum, helped by our focus on the out-of-home channel where we have been signing on new customers and expanding the footprint of express machines.

Harnessing healthy consumer demand; ready to adapt

Our end consumer remains healthy. Our markets are still enjoying a post pandemic boost, propelled by very strong out-of-home performance, while the at-home channel continues to perform. And while our consumers are seeing the impact of inflation in their shopping baskets and energy bills, unemployment remains low and savings relatively high.

This has led to a favourable market environment for beverages. Private label continues to lose share in Sparkling across the majority of our markets, both in value AND volume terms.

That said, we are vigilant for changing consumer behaviour.

We have regular conversations with our customers and are watching for any change in order levels that might indicate a slowdown in demand or the need for even more affordable offers.

What's important here is that we have a very flexible portfolio. This means we can easily adapt our offering to focus more on affordability while still enhancing revenue per case. And I'll share more on that over the next few slides.

Using data to sharpen our tools

Our RGM strategy is crucial in this dynamic environment. But what is new in the last three years is that RGM is significantly strengthened through our capability around data, insights and analytics.

Data and analytics create opportunities for deeper understanding across our markets, creating insights which can inform our choices.

Capitalising on these insights, we see further opportunities to better segment our customer base, predict demand at a granular level and to improve the return on promotional spend.

For example when we launched our smaller single serve in Bulgaria we were able to micro-segment outlets to target those with high traffic from students. Or in Italy, where careful analysis of relative elasticities between zero and regular offerings led us to adjust promo levels, increasing overall revenue generation.

Enriched with more data, I am confident that our revenue growth management tools equip us to make better and faster decisions, helping us to continue to gain value share and to drive revenue growth in a changing environment.

Plenty of headroom to drive mix improvement

While we often focus on the premiumisation end of RGM, it can also help ensure we remain affordable while enhancing revenue per case.

It is important to note that when we talk about affordability, we do not mean only large two-litre bottles; rather we mean using smaller 'entry packs' at attractive price points to meet consumer spending needs while still driving up revenue per case. For example, in Poland where we launched an 850ml pack in place of a one litre. Or in Italy where we launched a 660 ml pack. These two different packs were tailored precisely to their specific market dynamics.

Equally, a focus on affordability does not mean reversing our progress on single serve. Again, we can use single-serve price points to meet affordability needs in a healthy way. With smaller single-serve packs, or smaller multi-packs of single serve. The focus is transactions, revenue growth and value share rather than just volume.

We have well-honed capabilities on managing affordability from our markets. Africa, for example, requires very specific affordability offers, and here we use returnable glass packages to make the product accessible for a large segment of the population.

Finally, our experience is that even in more difficult economic environments, premiumisation trends continue. There is always going to be a segment of the consumer looking for a premium experience, and the strength of our offering in adult sparkling, glass package formats and premium coffee, combined with our improved ability to segment our customer base, places us strongly to address that opportunity.

B2B drives incremental revenue and ability to segment customers

We are making significant strides in digital commerce which is generating incremental revenues and valuable data.

Customer Portal, our largest B2B platform, has more than 200,000 registered customers. As you can imagine, we monitor a lot of KPIs to evaluate our performance in B2B, but in our view, the most critical KPI is growing the number of customers.

That is because, while it is relatively easy to switch revenues from physical to digital ordering by switching a few large wholesalers or key accounts, this does not create much incremental business or provide much incremental data to improve your offer. By contrast, we have focused on building a last mile solution to customers which brings us new outlets and valuable data which we can use to micro-segment our customer base and run targeted, diverse campaigns for different groups.

Customer Portal accounted for 8.4% of orders in June. The pace of the overall growth in the first half has been lower than anticipated due to the negative impact from Russia, but we are seeing very encouraging progress in several other markets, and we are excited by our progress and opportunities.

Bright future for Egypt

Egypt offers huge opportunity due to its size, demographics and potential for increasing per capita consumption and market share.

We've hit the ground running since we completed the acquisition in January by immediately getting the teams together to develop our key execution capabilities: revenue growth management, route to market, and data, insights and analytics.

Let me give you a few examples.

- In only a few months we have doubled the number of coolers in the market and we continue to accelerate placement; and
- We have strong plans to improve the portfolio in Egypt with new product launches, to generate growth and improve revenue quality further.

We're seeing early success from our strategy in a market where, historically, the Coca-Cola brands were losing. However, year to date, we've arrested losses and are gaining share.

We see huge potential for this market and are really excited about what is to come.

Remaining a leader in sustainability

As I've said before, we are determined to remain a leader in sustainability.

There are two milestones I'm particularly proud of this quarter.

In May we made significant progress on our packaging agenda by launching our entire portfolio in Switzerland in recycled PET. At the same time, we also launched Valser water in a label-free bottle. We will continue to work on similar launches across other markets.

In June we made an important commitment to enhancing biodiversity by joining the Science Based Targets Network corporate engagement programme and committing to achieve a net positive impact on biodiversity in critical areas of our operations by 2040.

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

Ben Almanzar - Coca-Cola HBC AG – CFO

Financial review

Thank you, Zoran, and good morning everyone.

Consistently strong top line performance

As you know, our financial performance in H1 has been distorted by Russia and Ukraine. This slide excludes Russia and Ukraine from organic volume and revenue to appreciate the combined performance of our other 26 markets.

We closed another quarter with good top-line momentum, leading to H1 organic revenue growth of 25.2%. The split between 12.1% volume growth and 11.6% revenue per case expansion was well-balanced.

As Zoran noted, we are actively driving volume growth in our strategic priorities.

When it comes to revenue per case, pricing was the largest contributor, accounting for approximately two-thirds of the improvement in the period.

The other third came mainly from package, category and channel mix.

On package mix, we have certainly benefited from the reopening of the out-of-home channel. More importantly, we are actively evolving the portfolio and successfully meeting an increasing number of consumer occasions with single serves. To give you a sense of progress, single serve volumes grew by 13.5% on an organic basis in H1 and now account for 48% of total volume sold.

Category mix also improved, with the faster growth in contribution from Sparkling and Energy being the most important drivers.

Finally, the strength of performance in the Established segment resulted in positive country mix contribution.

Inflationary pressure continues

During H1 we navigated global supply chain disruptions – no small feat. We are very proud of the work done by our teams adapting to maintain supply.

We have seen significant inflation in COGS from commodities and energy, as well as cost pressures in production and overheads.

Concentrate costs increase along with revenue per case expansion, so our strong achievements in driving quality revenue growth also drove some COGS inflation in H1.

Looking forward, we do not expect inflation to ease in the second half. And for the full year we now expect COGS/case to increase in the mid-teens.

Levers to mitigate inflationary pressure

In managing input cost inflation we are benefiting from the improvements to price and mix that both Zoran and I have discussed today which are driving our revenue per case expansion.

In H1 we benefited from solid hedge positions and long-term contracts with our suppliers. We expect that to continue to help manage inflationary impacts in the future.

We continue to focus on productivity improvements in our supply chain, for example with warehouse automation, predictive maintenance and automatic changeover of production lines.

And finally, discipline on operating costs is part of the company's DNA and we plan to deliver more efficiencies as we grow revenues.

Organic EBIT grew by 23%; margin expansion in all segments.

Let's look at how we used those tools in H1.

Organic EBIT grew by 23%, with margins expanding 30 basis points year on year. Let's unpack that.

Despite robust price and mix expansion and productivity savings, we were not able to fully offset the inflationary pressures I just mentioned at the gross profit margin level.

Nevertheless, further down the P&L, while we expanded marketing by 9%, we maintained strong cost discipline on OPEX, which helped to protect profitability.

OPEX as a percent of revenue improved by 250 basis points. This has helped to drive a 30 basis point increase in organic EBIT margins.

22. Established markets

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

Organic revenues grew by 19.1% in the Established segment.

We are very pleased by the robust revenue per case expansion, combined with an acceleration in volume growth in Q2, both versus 2021 and versus 2019.

All the markets in the segment performed well, but let me highlight Italy where strong execution of summer activations drove double digit volume growth in the market and across our strategic priorities in Sparkling and Energy.

For the segment, comparable EBIT grew 26.5% and margins expanded 60 basis points organically, mainly due to operational leverage on revenue growth.

23. Developing markets

In the Developing segment, organic revenue grew by 33.6%, benefiting from broad-based and well-balanced strength across the markets in the segment.

We achieved particularly strong share gains in Poland in both NARTD and Sparkling, which is encouraging to see in the year after the sugar tax impacted the market.

EBIT grew by 63.8% organically, with a 120 basis point expansion in margin.

24. Emerging markets

As Zoran noted, our presence in Russia is significantly smaller following the suspension of Coca-Cola brands. As a result, we recognised charges of €190 million in H1. For the avoidance of doubt, €188 million of these charges are non-cash, and none of them affect our comparable metrics.

Going forward, we are fully consolidating Multon and we have included this impact in our EBIT guidance.

Performance in the Emerging segment was impacted by the winding down of inventory in Russia and the temporary suspension of operations in Ukraine. Excluding these markets, volumes would have been up high-single digits, rather than down low-single.

We've continued to gain value share in Nigeria benefiting from volume growth and significantly improved revenue per case driven through both price and mix.

EBIT grew by 15.5% organically, with a 20 basis-point improvement in margins as positive price/mix offset cost pressures.

EPS expansion and FCF generation continue

Further down the P&L we see comparable EPS expansion of nearly 34%.

Finance charges increased by 23% as we consolidated Egypt into the P&L. Looking forward to the full year, we expect finance charges to be approximately 15 to 20% higher than in 2021, similarly due to the consolidation of Egypt.

Our comparable tax rate of 25% was at the bottom end of the guided range of 25 to 27% due mainly to country mix.

While capex as a percentage of revenue was below our guidance range in H1, we expect an increase in the second half as we accelerate investments in our strategic priorities and critical capabilities. This includes deploying capital behind capacity expansions in growth markets and placing coolers to drive single serve mix. We would expect full year capex as a percentage of revenues to remain within the 6.5 to 7.5% range.

All of this has delivered another strong performance on free cash flow, up 20% year on year. It is likely that cash conversion in the second half will not be as strong as the first, given the expected increase in capex mentioned.

Balance sheet strength

Our balance sheet remains a clear source of strength for the business.

We have significant fire power for all of our capital allocation priorities including organic investment and M&A. We maintain a progressive dividend policy and at the start of August we paid a dividend of approximately €260 million, a pay-out ratio of 45%.

We expect to see net debt to EBITDA within the 1.5 to 2 times targeted range by year end.

2022 outlook

Turning to the outlook.

- We have high confidence in our business and expect to be able to generate positive organic revenue growth at a Group level.
- While volumes will be negatively impacted by Russia and Ukraine, outside of those markets we continue to benefit from good momentum and excluding Russia and Ukraine we expect double digit organic revenue growth.
- Revenue per case delivery has been strong in H1 and we expect to continue to benefit from actions taken on pricing and continued focus on mix. That said, pricing was weighted to H1 and our comparative is more challenging in H2.
- As noted earlier we now expect COGS per case to increase by mid-teens for the full year.
- And finally, our expectation is for our local Russian business to be immediately financially self-sufficient, however EBIT generation from Russia will be much lower in H2 than H1, despite the extra contribution from the consolidation of Multon.

As a result of all of these considerations and remaining mindful of macro-economic and geo-political risks, we expect 2022 Group Comparable EBIT in the range of €740 to 820 million.

With that I'll hand back to Zoran.

Zoran Bogdanovic - Coca-Cola HBC AG – CEO

Sustainable, long-term growth

Thanks Ben.

I'm proud the strong performance we reported today and even more than that, the groundwork and investments we are making to capture the potential in our markets.

We have enormous 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;
- We are successfully 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 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.

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 transcript will be available on the company's website on 12/08/2022]----

Zoran Bogdanovic - Coca-Cola HBC AG – CEO

Thank you all for your time.

We believe that the results we announced today underline the fundamental attractiveness of the markets where we operate as well as the strength of our execution and capabilities. We are well prepared to adapt and seize future opportunities in our industry.

We look forward to speaking to you all again soon.