CCH – 2022 full-year results
Conference call script – 14 February 2023

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 full-year results. We have with us Zoran Bogdanovic, Chief Executive Officer, Ben Almanzar, Chief Financial Officer, and 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 Tuesday, February 14, 2023. I now pass the floor to one of your speakers, Joanna Kennedy. Please go ahead. Thank you.

Joanna Kennedy - Coca-Cola HBC - Head of Investor Relations

Good morning. Thank you for joining the call.

Zoran and Ben will present our full year 2022 results and then we will open the floor to questions.

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

As you know, this conference call will include various forward-looking statements. These should be considered in conjunction with the cautionary statements in our press release issued this morning and included at the end of this presentation.

Now let me turn the call over to Zoran.

Zoran Bogdanovic - Coca-Cola HBC – CEO

Operational review and strategy

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

2022 was a year in which we continued to make clear progress in our vision to be The Leading, 24/7 beverage partner.

It is testament to the strength of our business, our culture and our team spirit that we have continued to perform so well, especially during a year where the business, and so many of our colleagues also dealt with the unimaginable consequences of war.

I want to thank our passionate and engaged people for making Coca-Cola HBC a better business every day. Also, I want to extend a very big thanks to all our stakeholders, particularly our customers, The Coca-Cola Company, the Monster Energy team and all our other partners for their trust, support and collaboration.

Delivering today, investing for tomorrow

Five things stand out to me from 2022.

One: Our Growth story 2025 priorities are driving our continued strong performance.

Two: The strength of our portfolio and capabilities ensure we continue to win in growing markets. Volumes grew across all our markets, except for Russia and Ukraine. We have expanded revenue per case, executed double digit revenue growth and achieved solid share gains.

Three: Our focus on customers is at the heart of what we do. Our people are committed to enabling our customers' success in many ways. One important indicator is that we remained the **number one** contributor to revenue growth for our retail customers in 2022.

Four: We have navigated historically high levels of inflation while delivering strong financial performance, record levels of comparable EBIT, excellent ROIC and a strong balance sheet.

Five: Our vision of being the Leading 24/7 beverage partner opens tremendous opportunities today and in the future. We continue to invest behind these opportunities and 2022 had some notable examples:

- Adding Egypt as a strategically important, long-term investment
- Increasing investments behind digital commerce and data capabilities;
- And accelerating our sustainability agenda with the opening of another rPET facility, this time in Italy, and issuing a €500 million green bond.

Strong financial progress

Ben will review our financial performance in more detail but key highlights for me are:

- Strong double-digit organic revenue growth, with and without Russia and Ukraine;
- Ongoing organic EBIT expansion despite cost pressures;
- And record high free cash flow generation with consistently high levels of ROIC.

Growing industry, strong brands

Moving on to the consumer environment in our markets.

We are lucky to operate in a growing industry with very strong brands.

NARTD and Sparkling industry revenues grew well in 2022 and we are gaining share both versus branded and private label.

Within our portfolio, our higher revenue per case categories, Sparkling and Energy, remain the most resilient.

We do see that in some markets there is more demand for affordable options – but we have the revenue growth management capabilities to handle this in a balanced way – giving consumers the price that they want at a revenue per case that supports our business. For example, with the 850ml bottle in Poland where we are seeing double-digit volume growth. And we continue to see smaller package formats, and indeed small premium packages, growing faster than multi-serves. A good example of this is in Italy where glass packs were the fastest growing of all.

There are a handful of markets where we have seen changes in consumer behaviour and signs of slowdown in underlying category volumes – I'm thinking of Egypt, Nigeria, Romania and Hungary – but we have been proactive in deploying our ready-to-go plans in those markets. In our other markets we remain vigilant and well prepared.

So overall, despite more challenging conditions in a small number of markets, consumer demand for OUR products has remained healthy. We are growing share in growing markets and growing our top line too.

Volume momentum continues in Sparkling

Let's get into the categories that are driving our growth. In each of the following cases I will focus on organic volume growth excluding Russia and Ukraine to give a better feel of underlying momentum.

We continue to actively prioritise opportunities in our portfolio, focusing on the areas of highest potential.

Sparkling remains our largest opportunity and single most important driver of growth and profit.

We have continued to gain share in Sparkling in 2022, benefitting from strong activations throughout the year, particularly around the summer season, and Christmas.

Coke with meals is always an important focus, and in each market we adapt to locally relevant opportunities. To give a sense, more than 1.5 billion pizzas are consumed each year in Italy and our activations have successfully focused on this as a 'must win' occasion.

Fanta and Sprite both saw good volume growth, with Fanta benefitting from activations focused on snacking, as well as flavour launches, including What the Fanta. Meanwhile Sprite's new Heat Happens campaign is delivering good results.

Low/no sugar variants maintained good momentum, with volumes up double digit in the year, growing ahead of regular offerings in all segments. We launched Coke Zero Sugar Zero Caffeine across a range of markets in 2022 and will continue to scale this innovation in 2023.

Our Adult sparkling portfolio gained share overall, while volume growth benefitted from strong performance in the Established and Developing segments. Adult sparkling activations focused on socialising occasions where mixability plays an important role and we're seeing broad based strength across brands. We benefitted from a range of new flavour launches in Adults in 2022, and we'll continue this theme in 2023 with a variety of zero tonic flavours.

Energy remains energised

Energy continues to increase its share of our business and in the market. With volumes up by 32% in 2022, this category now makes up 7% of our group revenue. This year we focused on partnering to enable successful activations, one example being Monster with gaming company Apex Legends, which had good results.

Within our Emerging segment, Nigerian Energy volumes nearly doubled. Our Established markets also grew strongly, led by 33% volume expansion in Italy where we took the number one position last year and continue to gain share.

We see great potential for this category to continue to expand per-capita consumption in our markets, driven by innovation, wider distribution and an increasing focus on women and older adults.

Coffee gaining scale

Coffee continued to make good progress in the year, with volumes up 45% and market share growing.

Costa Coffee performed strongly across all markets. In particular, 2022 was a successful year for recruiting out-of-home customers, and we doubled the number of Costa outlets to 8,000.

We also saw an acceleration in the roll out of Caffe Vergnano with 13 market launches in 2022, bringing our total to 14 markets, more than initially planned. Although it's still early days, we are getting great feedback on rate of sale.

In 2022, we launched a Coffee Academy and we are investing in coffee experts and training centres. We are continuing to invest in coffee for the future and I'm excited to see growth in our coffee capabilities across the group.

Opportunities to drive revenue per case further

Moving on to one of the drivers of the strong price/mix we've achieved in 2022.

Our RGM framework allows us to improve revenue per case across our portfolio through driving price and mix. And we see significant potential to continue doing that through all macroeconomic environments.

On mix, we have three main areas in which to drive improvements.

- First, category mix. We have shown in the last few slides some of the ways in which we are making active choices in our portfolio to drive positive **category mix;** indeed our continuous focus on Sparkling and Energy is showing tangible results.
- Second, deliberate actions to drive **package mix** led to improved single-serve mix by 3.5 percentage points in 2022. And this number doesn't give full credit to the improving quality within the single serve part of our portfolio. For example, can packages grew 22%, and our 250 ml premium glass pack grew by 24%;

- Finally, **channel mix** was also accretive in 2022, with out-of-home recovering post pandemic and benefiting from strong execution in the summer season.

Pricing is a critical part of our RGM framework. Pricing decisions are data driven, proactive and agile. Based on our profound understanding of demand, elasticities and the broader competitive environment, we can make changes to a particular pack, within a category in a specific channel.

It is due to the strength of this capability that we have ensured that all pricing was executed according to plan, AND while gaining share and driving value for our customers.

Digital commerce driving incremental revenues

Digital commerce continues to be an important driver of incremental revenues. In 2022, we continued to invest in and develop our digital commerce platforms to serve the growing numbers of consumers and customers choosing to shop online.

We can think of these opportunities as split between route-to-consumer and route-to-customer.

When it comes to route-to-consumer, we are partnering with e-retailers and food delivery platforms. This area of our business grew by **59%** in 2022.

In our route to customer, Customer Portal is our largest B2B platform, which allows our customers to buy CCH products at their convenience, any time of the day. We saw good growth in the number of customers, orders and revenue delivered, excluding Russia and Ukraine. We have seen a standout performance from Czech Republic and Slovakia, where Customer Portal reached 34% of total orders placed, and Ireland, where it reached 36%.

We also launched Sirvis as a pilot in Italy in Q3. Sirvis is our B2B marketplace for the HoReCa channel, offering a 24/7 multi-category ordering experience, as well as a range of services. We are pleased to have seen a positive response to the platform and are planning an expanded roll out in 2023.

Data capabilities enhance customer segmentation

We made further progress using our advanced data, insights and analytics capabilities to strengthen our revenue growth management and route to market.

Segmented execution is where we use our capabilities to identify customer needs in different locations and distinct types of outlets, to better target product assortment and marketing activities.

This year we focused on improving micro segmentation of our customers, using artificial intelligence to combine rich external data with our own internal data, to generate unique insights. Using micro segmentation, we can identify outlets for accelerating certain packs and products, personalise marketing activities, and we can choose where to locate coolers to optimise productivity. For example, for the launch of the 300ml PET bottle in Bulgaria, we used micro segmentation to target outlets which had higher-than-average traffic and a younger demographic.

This next generation of segmented execution is now live in 10 markets, with further roll outs planned for 2023.

Our ambition is to become a truly data-driven organisation. We launched the Data and Analytics Academy in 2022 to build the capabilities of our people and accelerate the culture of data-driven decision making. All with the goal of better serving our customers and creating more value.

Progress in Egypt

Turning to Egypt, which is a great addition to our group that I want to touch on. The market has tremendous potential due to its size, demographics and headroom for increasing per-capita consumption and market shares.

However, there is no denying that Egypt faced severe macroeconomic headwinds in 2022. That's why we remain focused on developing Egypt over the mid-term, while adapting to today's realities on the ground.

Let me tell you a bit about both.

Mid-term – we continue to develop our capabilities in the market and are expanding our portfolio into white spaces. A clear example of that is the launch of affordable Energy brand Fury at the start of 2023. From the cost optimisation perspective, we are rapidly integrating teams and back-office systems ensuring efficiency and an upskilled organisation. And we're incorporating our sustainability goals and programmes.

Short-term, we have responded to the weaker currency with decisive price increases. Despite this, we were pleased to see strong share gains throughout the year, enabled by the refresh of our salesforce and distribution. We are also adapting our offering, fully utilising our glass portfolio as an affordable option, and we are upping investments behind our brands, together with The Coca-Cola Company.

We are creating a healthy, resilient business in Egypt, and I remain truly excited about the long-term opportunity in that market.

Leading in sustainability

We've made good progress towards our Mission 2025 and NetZeroby40 goals this year. I'm proud our work has been recognised as we were ranked as the world's **most sustainable beverage company** by the Dow Jones Sustainability Index… for the sixth time.

Just a couple of examples to highlight. In packaging, we continue to prioritise a circular approach. We began the transition to a 100% rPET portfolio in Austria and Italy, following the successful move to 100% rPET for our locally produced portfolio in Switzerland in Q2.

Also in Italy, we opened a plant that can convert up to 30,000 tonnes of PET per year into 100% recycled PET preform bottles, with a much lower carbon footprint than their virgin plastic equivalents. We also set up in-house recycled PET production capability in Poland and are planning to launch the same capability in Romania in 2023.

In September we issued our first ever green bond, which was very well received by the market. We raised €500 million in support of our ambitious sustainability agenda that will further accelerate our progress into 2023 and beyond.

Now let me hand over to Ben to take you through the financials in detail.

Ben Almanzar - Coca-Cola HBC AG – CFO

Financial review

Thank you, Zoran, and good morning everyone.

Consistently strong top-line performance

We closed the year with good top-line momentum, leading to organic revenue growth of 14.2%, including Russia and Ukraine, which negatively impacted performance.

Excluding these two markets organic growth was 22.7%.

Volume growth was 8.1% excluding Russia and Ukraine, with our strategic priorities as the best performing categories.

Pricing was the largest contributor to revenue per case, accounting for approximately two thirds of the improvement in the period. The remaining one third came from mix levers, led by package and category mix.

2022's top line performance come on top of the 21% organic revenue growth achieved in 2021. The point being that we have well and truly stepped up our performance in the last two years with 2022 revenues 28% ahead of 2019 levels.

Managing significant cost inflation in 2022

2022 was dominated by inflation and supply chain challenges.

Just like the broader industry, we have been wrestling with sharp inflation across our COGS lines.

Let me give you a flavour of some of the pressures we've seen.

- Raw materials, packaging and finished goods were adversely impacted by inflation across all major commodities. These were amplified by embedded higher energy prices, resulting in increased conversion costs.
- Our own production and haulage costs were affected by labour and energy inflation across our markets
- Concentrate costs also increased as revenue per case expanded.

We have used every tool at our disposal, on both top line and productivity efficiencies, to manage these headwinds.

Organic EBIT up 1.3% despite cost inflation

As a result of this focus and discipline we have achieved organic EBIT growth expansion in 2022. We are proud of that performance given the challenging macro backdrop, compounded by the war in Ukraine.

It's important to add that we have continued to invest across the business. Marketing spend was up 11.5% year on year. We are fully funding newer categories such as Coffee; big bets in digital and data; as well as investments to deliver our sustainability agenda - all in service of our vision of being the leading 24/7 beverage partner.

22. Established markets

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

In the Established segment, organic revenues grew by 18.6%.

Strong revenue per case expansion of 8.6% was achieved through improvements in category and package mix, as well as pricing actions throughout the year in all markets.

Volumes in the segment were robust, with volumes accelerating in H2 versus H1 on a three-year stack. All the main markets achieved high single digit volume growth in 2022.

We have been pleased with the strong performance on package mix in the segment, with single serve mix up 4.5 percentage points. For example, the excellent results from our 330ml premium glass portfolio, growing 40% in Italy and 50% in Switzerland and Austria.

While Sparkling and Energy were the main growth driver in Established, we are also pleased by the strong performance in some of the smaller categories. Fuze Tea volumes grew over 20% in Italy. We also became the number one player in Sports Drinks in the market with impressive results from Powerade.

For the segment, organic EBIT grew 1.3%. As a reminder, in 2021 the Established segment benefitted from a one-off property sale in Cyprus, which we are lapping this year. Without it, organic EBIT growth was up 9.5%.

23. Developing markets

Moving to the Developing segment, organic revenue grew 29.0%, benefiting from very good price/mix expansion and sustained volume growth.

All the main markets gained share and achieved double-digit volume growth in the year led by Sparkling and Energy.

We are also seeing success from our focus on multi-packs of single serve, particularly in Poland and Czech Republic.

Poland delivered excellent volume growth and we continued to accelerate share gains, as the category recovered from the 2021 sugar tax. Low/no sugar variants saw another year of robust volume expansion. This area will receive even more attention in 2023, particularly in the Adults Sparkling range and with the launch of Coke Zero Zero.

Developing segment organic EBIT grew by 12.7%.

24. Emerging markets

In the Emerging segment, organic revenue finished up 5.5%. Top line growth was negatively impacted by the war in Ukraine. Without Russia and Ukraine, organic revenue grew by 23.5% - demonstrating the health of the non-affected areas of the business.

Organic volume contracted 41% in Russia, with most of that decline in the second half, after the depletion of The Coca-Cola Company brands in the market at the end of July.

While volumes were in steep decline, we saw a surprisingly strong Rouble which generated transactional and translational currency benefits. FX, combined with the impact of consolidating Multon, meant that Russia's comparable EBIT was higher in 2022 than 2021. We have seen weakness in the Rouble at the start of 2023, and continue to expect currency volatility for the rest of the year.

Returning to the Emerging segment as a whole, organic volumes declined by 10.9% and grew 4.3%, if we exclude Russia and Ukraine.

Segment revenue per case expanded 18.4% as we took decisive action on pricing and mix across all countries to manage inflation, and currency weakness in selected markets.

Segmental organic EBIT declined by 1.1%.

EPS up 7.7%

Further down the P&L we see comparable EPS expansion of 7.7%.

Finance charges increased by €15 million as we consolidated Egypt into the P&L.

Our comparable tax rate of 26% was in the middle of the guided range of 25 to 27%.

Consistent growth in comparable EPS has allowed us to recommend a dividend of 78 euro cents, up 10% from 2021, in line with our progressive dividend policy. This would place the dividend payout ratio at 46%.

Another year of investment and record FCF generation

Capex increased by €49 million in 2022 as we continue to deploy capital into critical growth projects. In particular, we are investing behind:

- upgrading our manufacturing facilities in selected markets;
- expanding our base of energy efficient coolers to drive single-serve growth; and
- delivering our sustainability goals.

Capex finished at 6.4% of revenue - at the bottom of our guided range, following suspension of capex investment in Russia in 2022.

Free cash flow increased by €44 million year on year to €645m - a record high for our company.

Our balance sheet remains very strong. At the close of the year net debt to EBITDA was 1.2 times.

The business is well-insulated from interest rates exposure by having most of our debt on fixed rates. Our next bond repayment is not due until November 2024.

Prudent financial management of our balance sheet is a source of strength and flexibility, providing ample capacity for investments both organically and through M&A. As we've said before, if we do not see more effective uses for this capital at attractive returns in the mid-term, we will return it to shareholders.

Continued ROIC expansion

As I think about the performance of this business, Return on Invested Capital is one our most important KPIs. To be the leading 24/7 beverage partner we need to make thoughtful choices, ensuring that we deploy capital efficiently and effectively in the service of profitable growth. That's why I'm pleased to see another year of good ROIC performance even as we faced a tremendously challenging environment.

Outlook 2023

Moving to our outlook for the year.

While we remain attentive to macroeconomic and geopolitical risks, we have high confidence that our portfolio, capabilities, attractive markets and talented people will allow us to continue to make progress on our strategy in 2023.

- We expect another year of organic revenue growth above the 5 to 6% average mid-term range guidance.
- While we have seen signs of improvement in some commodities, overall inflation levels remain high and we expect COGS per unit case to increase by low teens
- Given the good momentum, combined with our proactive management of the P&L, we now expect organic EBIT growth in the range of plus to minus 3%.

With that, I hand over to Zoran.

Zoran Bogdanovic - Coca-Cola HBC AG – CEO

Sustainable, long-term growth

Thanks Ben.

I'm proud of 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 industry 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 for the long term - our strong balance sheet continues to support the business, allowing us to seize opportunities today and in the future;
- Our people, culture and capabilities remain a distinct competitive advantage; and
- We continue to make tangible progress on sustainability 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 15/02/2023]----

Zoran Bogdanovic - Coca-Cola HBC AG – CEO

Thank you all for your time.

We look forward to speaking to you all again soon, and look forward to seeing as many of you as possible at our investor day in Rome on 25 May. Thank you and I wish you a great rest of the day.