CCH – 2022 Full year results
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C O R P O R A T E   P A R T I C I P A N T S

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Questions From:

Edward Mundy - Jefferies

Simon Hales - Citi

Mitch Collett - Deutsche Bank

Andrea Pistacchi - Bank of America

Sanjeet Aujla - Credit Suisse

Yubo Mao - Morgan Stanley

Charlie Higgs – Redburn

Richard Felton - Goldman Sachs

Questions and Answers

Edward Mundy (Jefferies): Morning, Zoran. Morning, Ben. Two questions, please. The first question is really around pricing. You ended the year with very strong revenue per case. Could you perhaps talk to the split between price and mix? I appreciate mix is a function of a number of factors – package, category and channel. As part of the same question, can you talk about the pricing environment today and how your strong relationship with your retailer partners is helping with joint business plans and avoiding things such as delistings or customer pushback? That is the first question around pricing.

Then my follow-up question perhaps for Ben is really around scope, EBIT, which is a little bit stronger than we had anticipated at €49 million for 2022. Could you talk perhaps about the split between Egypt and Multon? I think you previously talked about Multon being €15-20 million. As part of this question, if you are successful with the rollout of innovation on the Multon portfolio in Russia, does this get booked within the scope line until August and then within the organic line thereafter?

Zoran Bogdanovic: Thank you, Ed. Let me start, and then Ben will also do his part.

On price mix, overall, as you have seen, it has been consistently strong over quarters and across the segments. As we mentioned in our remarks, two-thirds of that comes from pricing, and I am really pleased that our whole pricing plan in 2022 has been executed very well, which is a result of a very thoughtful plan across all countries where it is not one-size-fits-all. We really take into account competitive landscape, elasticities; everything that we leverage through our revenue growth management is coming to play.

Pricing was two-thirds, but let us not also neglect the fact that mix really plays an important role, as we really consciously draw priorities in our portfolio. Therefore, category mix, about which I am really pleased, and I really wanted to highlight in the remarks, package mix which moved 3.5 percentage points in the year. And I am very pleased that our glass package particularly has been growing so strong. This gives me the opportunity, Ed, to highlight that out-of-home performance in 2021(sic) has been really strong. When we see total Hellenic, excluding Russia and Ukraine, out-of-home grew 13%. And that is together with at-home channel continuously growing, but also in the at-home channel, we are focusing consciously more on single serves for in-home consumption.

Coming back to the point that you said about retailers, I can say that I am very pleased how the teams are doing joint business planning. There are very early conversations, fact-based conversations, and coming blended with a strong marketing plan that we do in conjunction with pricing plans. Therefore, we have not seen any issue with pricing plans in any of our customers. And Ed, this gives me confidence for our pricing plan also for this year, as we continue to do so across all markets, as we did also in 2022.

I hope that answers your first question, Ed.

Edward Mundy: Yes, very clear. Thanks, Zoran.

Ben Almanzar: Good morning. Let me give you a little bit more colour on the scope as you think about 2022 and indeed 2023.

In 2022, we saw a Group scope benefit of €48.7 million and this was driven by the Emerging segment and within that, the majority came from Multon. As you know, we consolidated Multon for 4.5 months in 2022, and we will have Multon under scope for a further 7.5 months this year, 2023. However, one caveat is you will not simply scale up these 4.5 months into 7.5 months, since Multon saw a very significant one-off benefit from double-digit pricing and FX tailwinds. We do not expect this necessarily to reoccur in 2023. In addition, we will have Egypt in scope in 2023, which was a positive contributor.

To your question on the local brands, yes, local brands are part of organic growth.

Edward Mundy: The local brands, they will be in the scope. If you are able to innovate on the local brands through flavours and other Sparkling, that would come within the scope line until August and then within the organic line after August, or will it come into the organic from day one?

Ben Almanzar: That is organic, Ed.

Edward Mundy: That is within the organic. Got it, very clear. Thank you.

Simon Hales (Citi): Thank you. Morning, Zoran. Morning, Ben. Morning, Joanna. A couple for me as well, please. Maybe I could follow up on Ed's question around scope, generally. I am just trying to understand, and maybe this is one for Ben still, some of the moving parts within the Emerging market profit beat that we saw this morning. Clearly, you had a big FX benefit, probably bigger than the market expected. What was driving that? I think that was not rouble-related, was it? Because I imagine most of the rouble benefit came in the scope line within Emerging through Multon. Is that how I should look at it? I am just trying to get the build right in terms of what drove that headline EBIT number in Emerging in 2022.

Maybe, associated with that, could you give us an idea of what the absolute level of contribution was still from Russia in 2022? I think you said in your presentation, Ben, that it was bigger in aggregate than it was in 2021, but a number there would be useful.

Then my second question comes back to the outlook for cost inflation in 2023. Clearly, you are talking about low-teens COGS per case inflation. Is there any opportunity for you potentially to renegotiate some of the hedges that you have in place for this year, particularly against the backdrop of falling energy costs? Some of your beverage peers seem to be hinting that that might be an opportunity later in the year for them. Do you have that benefit potentially too?

Ben Almanzar: Thank you. Let me start with basically the EBIT delivery. Our business maintained a strong momentum through Q4, and that resulted in better-than-expected financials throughout the year against the guidance beat. Specifically, on Emerging, we benefited on two things. On the one hand, there is favourable currency which I already referenced, and then there is the consolidation of Multon, which mechanically drove that emerging EBIT higher. Again, Multon has also that currency benefit, which delivered more in scope than we had initially anticipated. Really, these are the factors that drive the beat in Emerging.

You also asked about Russia and we have already said that all of these one-off combined together – currency, scope, and also I suppose the extraordinary trading environment that we had at the beginning as we were phasing out the inventory of the Coca-Cola company brands – led to that higher EBIT in Russia.

Your third question was about COGS and essentially our hedges and whether there are opportunities to benefit more. At the moment, we are hedged over 50% of the main commodities, considering input cost, and those hedges are skewed towards the first half of the year. That limits a bit of the upside, Simon. However, you have also the opportunity that if any of these prices continue to go down, then, obviously, that will result in lower input cost for our suppliers as well and we should be seeing that benefit. That typically takes one to two quarters for the benefit to flow through the P&L.

Simon Hales: Got it, that is useful. Are you able to give us an EBIT number for Russia at all, just to give us a bit more clarity, what it was in the year, so we can work back what it might come back down to this year when you have some rouble headwind?

Ben Almanzar: No, I think we have basically communicated sufficient at a market level, which give's a good indication.

Simon Hales: Okay. Thank you.

Mitch Collett (Deutsche Bank): Morning, Zoran, Ben, and Joanna. I have got one quick question. The guidance range is only 600 basis points, which I guess, given the uncertainty, seems quite narrow. I just wondered if you could give us some colour on the puts and takes to get you to the top and the bottom of that guidance range? Thank you.

Ben Almanzar: Yes, absolutely. We have said, again, that we expect organic EBIT in the range of +/- 3% in 2023, and we are planning for another inflationary year. As I mentioned with the COGS per case in low teens, including the transaction FX headwinds that are baked into it. Then, we have obviously revenue management capabilities and pricing is going to be critical for us in 2023. We have said that in order to ensure the right decisions that we navigate this environment, we want to focus primarily on organic EBIT.

When you put that all together, our guidance considers several scenarios, and the exernal risks that we are facing. Let me walk you through some of those factors, what would take us to the low end or to the high end of that range.

We will be towards the lower end if we see a significant deterioration in the consumer environment. There could be COGS per unit case inflation that could accelerate beyond what we are currently expecting, with sustained transactional FX and input cost headwinds. On the other part of the spectrum, we will be towards the upper end if we see a stronger top-line momentum across our markets, and very importantly, that COGS per case inflation is less significant than we are currently anticipating, thanks to a more benign input cost environment with better-than-expected transactional FX.

This is how we see it based on today's visibility.

Mitch Collett: Great. Thanks very much.

Andrea Pistacchi (Bank of America): Good morning, I have two, please. The first one, on volume. There is still pretty limited evidence of volume slowdown, except maybe in Egypt. After a couple of quarters of a weaker economic environment but with your elasticities holding up nicely, are you more confident that that could continue to be the case going forward even maybe in some of the lower income markets? And on volume consensus, I think is around a 2% volume decline for 2023. Is that a realistic view, in your opinion, of what volumes could do this year?

The second question, if I could please, it is on Russia again. I wanted to ask if you could give a bit more colour on what the business looks like now, what it could look like in 12 months times. And in particular, I am referring to the new Sparkling business, the Dobry brand that you have launched in what is a very fragmented Sparkling market at the moment in Russia. What do you reckon your share is, and what could your share be maybe 12 months down the line? Thank you.

Zoran Bogdanovic: Good morning, Andrea. Let me start with volume.

In the algorithm, how we see this year and what we guided for, we do see that volume would be on a slight decline. I think broadly, and directionally, the consensus is in a fairly good place. We are mindful of the fact that we have quite some cycling that we will have this year in Established and Developing, because those were the two segments which really performed very well with volumes. Then it is quite for sure that we are going to have volume declines in Russia.

Now, this confirms what we said is that we prioritise for this year, and we continue to prioritise as we did last year, price mix as our primary driver of revenue generation. And when and if we need to choose between the price mix or volume, for all the right reasons, we are focusing on the price and mix.

Now, moving on to Russia. As I said last time, after we have completely depleted all the brands and products of The Coca-Cola Company in July, in August, we started with this reshaped business focused only on the local brands. And since then, there were few extensions within the Sparkling category, which now fully is with this local portfolio.

Now, how this is going to perform? You said yourself very well, it is an extremely fragmented market. There is a complete population of a number of various cola brands. Our primary objective over there is to focus on protection of our assets and focus on our people. And it is extremely hard to estimate how this will be in 12 months, neither to say what our share is today or what it could be in 12 months.

Andrea Pistacchi: Perfect, I understand, thanks very much.

Sanjeet Aujla (Credit Suisse): Morning Zoran and Ben, two from me as well, please. Firstly, as we think about the -3% to +3% organic EBIT growth outlook for the year, how would that look, excluding Russia? Just mindful of some of the volatility there.

And my second question, just taking a step back and looking further ahead at some of your 2025 targets, I think back in 2019, you came out with a 20-40 bps annual margin guidance. And appreciate we have had a considerable amount of input cost volatility but on the assumption if input costs were to stay where they are today, do you still feel confident in delivering that margin algorithm over that time horizon? Thank you.

Ben Almanzar: Thank you, Sanjeet. So, again, when we think about Russia, it is already incorporated into our guidance. So that if you want, we can perhaps step back and think about 2023, this market that is going to be very volatile, as we said. So it is any caveat that we can have. The other thing for you to consider is that the one-off that business benefited from in 2022 will not be reoccurring, so nor obviously the phase-out of the portfolio, nor the currency benefits. Quite the contrary.

So therefore, if you were to step back and think about how the market and compare it versus 2022, it is reasonable to expect there will be a lower contribution. So that is when it comes to Russia.

If you think about how does the recent years affect our mid-term algorithm? What I would say is that this is clearly an abnormal period – the combination of war, sharp inflationary backdrop, we have the consolidation of Egypt as well. All of these things put pressure on near-term margins. But if we look beyond 2023, we still believe that that mid-term algorithm is right for the business and we remain confident behind the fundamentals of EBIT.

On the one hand, input cost inflation should start to ease in the future. We also will realise more logistic efficiencies and manufacturing efficiency and better leverage of our fixed costs as the business continues to grow. Zoran talked about our drive behind the strategic parts of the portfolio, which support our margins as well. And there is a number of geographies where we expect to improve margins as we go forward.

Yubo Mao (Morgan Stanley): Morning Zoran and Ben, thanks for the questions. Maybe just two from me. One is on the margins, the established and developing. I think H2 was a bit weaker relative to H1 and expectations. Can you just talk about the key moving parts there? I think you called out stronger COGS inflation, but pricing was also stronger and mix was positive. So any additional colour on these dynamics and how to think about 2023 would be helpful?

And secondly, just very quickly, FX and the guidance. You are guiding to a translational impact of €25-35 million. Can I just confirm that is calculated based on the latest spot rates? Thank you very much.

Ben Almanzar: Thanks for the question. So yes, when we think about the margin evolution for the Established and Developing segments, the reality is that we are actually very pleased with that. We delivered an organic EBIT growth in both segments of 1.3% and 12.7%. And as a reminder, the Established segment benefited from a one-off property sale in Cyprus in the prior year. So therefore, without this, the organic EBIT growth was up 9.5%. So that is a consideration.

And your second question was regarding the FX guidance and essentially what is included in there. So when we think about 2023, we expect translational FX headwind of €25-35 million, which is mainly impacted by the Egyptian pound, the rouble and the naira, as well as some other smaller currencies in there.

So most of this is actually calculated on the spot rates, except for the naira, where we expect we are anticipating a depreciation.

Yubo Mao: Okay, understood, thank you very much.

Charlie Higgs (Redburn): Good morning, Zoran, Ben and Joanna, I hope you are all well. My first one is just on the free cash flow and the net deb: EBITDA. Very strong free cash flow in the year. and you are now down to 1.2 times leverage, which I think is a bit below the long-term target. Can you just talk about how you feel over the next coming quarters and years, what you would need to see to maybe do a capital return? Then also maybe just your view on M&A in the near term. Are you seeing any interesting, distressed assets maybe that would keep the leverage low for now?

Ben Almanzar: Thank you, Charlie. Let me start and then I will hand over to Zoran to say some more on M&A. So yes, indeed, our net debt to comparable EBITDA ratio ended at 1.2 times, which is slightly below our mid-term guidance of 1.5-2 times. And this was indeed helped by the strong cash generation that we saw last year in the business.

Our strong balance sheet and liquidity position has allowed us to continue to invest in future opportunities, despite all the disruptions that we have seen recently in the environment. And we have always said that if we do not see good uses of cash on the horizon, then we will return to investors by a special dividend.

Zoran Bogdanovic: Charlie, just to add on the second part, just before saying a word on M&A, I just want to reinforce that with this type of balance sheet and financials that we have, that our first objective is strengthening our business organically. We are very clear about three pan-Hellenic prioritised categories that we believe will continue driving the most of the profitable revenue generation.

Secondly, we are significantly investing behind capabilities, which are tremendous investments behind data, digital commerce, insights, revenue growth management. All that really makes a difference in how we are shaping the business to be as resilient, and even more for the future.

And then we are on the lookout. This current environment does not stop us in any way. And given the fact that such financials and balance sheet give us the optionality that we can react if and when the right opportunities come up. And I emphasise the word the 'right opportunities' that really make strategic sense, and also that there is a financial sense. And I can say that, yes, we are active. We are evaluating a couple of opportunities. And the time will tell whether those prove to be the right ones to increase and drive shareholder value. Thank you, Charlie.

Charlie Higgs: Thank you. And then my follow-up was just on Nigeria. It looks like another strong year. I know beforehand, you were maybe talking about the consumer weakening. But could you just maybe talk a little bit about what you are seeing in the market there with the consumer and maybe the outlook for Sparkling, in particular, Energy with the launch of Fury, the affordable brand, how you see that progressing in the year?

Zoran Bogdanovic: Yes. Nigeria had couple of years of very strong growth. And in 2022, we were cycling very strong volume and price-mix growth. Therefore, last year, we knew that there wafs going to be impact on the volumes side. In all the previous calls, I believe whenever a Nigeria question came up, I always said that we are prioritising price-mix, is the right thing to do, and that is what we have been doing. And that is why I am very pleased and very much encouraged that throughout all quarters, we have been very consistent with our price-mix in the country. And on top of that, gaining share in all categories.

So yes, consumer in Nigeria is not as resilient as in Europe. We know that. That is why through our flexible plans and revenue growth management, we are extremely mindful in how and where and to which extent and how frequently we are doing pricing. That is why we always prioritise Nigeria as the lead country for our prioritised capabilities. In this case, it is the blend of data, insights and analytics that really strengthen our revenue growth management, thinking and planning.

And this is what led to such execution that balanced, to the extent possible, our price increases with consumer demand. We are mindful and we know that consumer is going to be challenged on the affordability. That is why we are paying attention to those packs that really play that role. That example of RGB, which is a very important pack for us in Nigeria for affordability. But having such a big country that I just learned also has bigger population than Brazil, also there is a segment of population that is still, even in these times, wants premiumisation type of product. And we are doing those because affordability and premiumisation have a space for Nigerian consumer.

Charlie Higgs: Thanks Zoran.

Zoran Bogdanovic: Thanks Zoran

Richard Felton (Goldman Sachs): Good morning. Just one question for me, please. And it is a more medium-term question on the Energy category. Zoran, you mentioned in your presentation that you see upside for per-capita consumption in the Energy category. I was wondering if there is any numbers that you can share to help us frame that opportunity. What markets are you looking at as a benchmark? And where do you see the biggest gaps in your portfolio? Thank you.

Zoran Bogdanovic: Thank you, Richard. Let me just first say that coincidence or not, for the past seven years, we had a continuous double-digit growth, which now led to having this close to 7% in our Group revenues. And I can say with pretty good certainty that this category is going to continue with above-average growth, also for the next couple of years.

I cannot say that we have a portfolio gap because I think that is what we have done over the years with three different brands, and activating those in markets where it makes sense. And Nigeria is a good example, where we started with this affordable Energy called Predator, which is performing extremely well. You have markets where we have that affordable Energy proposition, then we have like a mainstream plus, which is Monster, and then more on the premium level, we have Burn. Example of such country is Poland.

So we see the need for product proposition in all three segments. And that is why we are very pleased that there are excellent brands, with their own respective properties and activations and marketing plans, that really drive each segment.

Now, the beauty of this category is that it is constantly expanding into new occasions, is becoming more relevant not only to teens which it used to be in the past, there is a more balanced consumption pattern between men and women. There are also extensions of Energy into certain adjacencies, like performance energy, with a brand Reign, and it is growing consumption across more time parts in the day.

So through a number of these elements contribute on top of our strong execution, continuous distribution increases, cooler penetration and excellent innovation that comes from the Monster team. This has been a proven formula, which really serves well. But together with Monster team, we really keep raising the bar and challenging ourselves how we can drive this category further. And that is why I think you can feel also my excitement about it and belief that it will continue with a strong growth.

Thank you all for your time. We look forward speaking to you all again soon. And we look forward to seeing as many of you as possible at our Investor Day in Rome on 25th May. Thank you all. And I wish you a great rest of the day. Thank you.

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