CCH – 2023 Half-year results
Conference call script – 09 August 2023

CORPORATE PARTICIPANTS

Zoran Bogdanovic – Coca-Cola HBC AG - CEO

Ben Almanzar - Coca-Cola HBC AG – CFO

John Dawson - Coca-Cola HBC AG – Interim 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 2023 half-year results. We have with us Zoran Bogdanovic, Chief Executive Officer, Ben Almanzar, Chief Financial Officer, and John Dawson, 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 Wednesday, August 9, 2023. I now pass the floor to one of your speakers, John Dawson. Please go ahead. Thank you.

John Dawson - Coca-Cola HBC AG - IR Director

Good morning. Thank you for joining the call.

In a moment, Zoran will share his highlights of the first half of the year, and our strategic progress before Ben takes you through our financial performance in more detail and discusses the outlook for the balance of 2023. Zoran will then return to summarise before we open up 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.

Let me remind you that this conference call contains forward-looking statements and these should be considered in conjunction with the cautionary statements in our slide pack, and in our results statement issued today.

With that, now let me turn the call over to Zoran.

Zoran Bogdanovic - Coca-Cola HBC AG – CEO

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

I'm very pleased with our strong performance in the first half of 2023, which has been achieved against a mixed backdrop.

Key to our success has been our committed, passionate and engaged people, who have overcome a variety of challenges, guided by their outstanding sense of purpose. As a team, we are making Coca-Cola HBC a stronger business every day. Also, a very big thanks to our customers, The Coca-Cola Company, Monster Energy and all our other partners for their trust and collaboration in jointly driving sustainable growth.

I'd like to highlight five things that stand out for me over the last six months.

First: Our **focused execution** against clear strategic priorities, and our revenue growth management capabilities have helped drive **strong organic growth** in both revenue and EBIT. We've made choices to strengthen the business, including delivering price and mix improvements to offset cost inflation. For example, we've focused on the most profitable revenue growth in the Water category, leveraging our premium positions in advanced hydration, including enhanced waters and sports drinks.

Second: We've seen good outcomes in our **strategic priority categories** of Sparkling, Energy and Coffee. We delivered robust volume and market share performance, across our markets and in all three segments, despite varying degrees of economic pressure and consumer demand.

Third: Our teams across all our regions were flexible and fast moving, **handling a range of challenges and opportunities well**. Our supply chain continues to be resilient, our hedging policies effective, and our management team adaptable. For example, our team in Nigeria navigated the country's bank note crisis in the first quarter and the currency devaluation in the second. They delivered a solid performance, growing volumes in second quarter while executing the price and mix changes needed to offset external pressures.

Fourth: **sustainability continues to be embedded** in our strategy, as shown by the consistent investments we've made, including a new returnable glass line in Austria.

And finally: At the same time as delivering financial and sustainable performance improvements, we have **continued to invest** behind our **strategic priority categories,** our **core capabilities** and other **targeted opportunities** in the portfolio, for example our acquisition of Finlandia and more on that later.

Turning to the financial highlights of the first six months.

Our organic revenue growth of 17.8% was very good, with solid volume performances from our priority categories, while delivering strong price/mix improvements.

Better-than-expected operating leverage contributed to a strong Q2 for EBIT. As a result, our comparable EBIT in the first half was €561 million, up nearly 18% on an organic basis, and resulting in a margin of 11.2%.

Finally, our earnings per share was up 22.3% led by strong performance throughout the P&L.

Ben will take you through the drivers of this in more detail, but let me share some commercial highlights, starting with our category results.

Sparkling continues to be our main growth engine, representing around 70% of group revenues. Sparkling volumes grew by 1.6% overall, with growth in **all three** of our segments. Excluding Russia and Ukraine, growth in Coke variants was broad-based, with Coke Zero in particular growing high-single digits in Established markets and mid-single digits in Developing, and we further accelerated the roll out of Coke Zero Sugar Zero Caffeine. I'm also excited about our fourth 'What the Fanta' campaign with innovative new flavours launched in 14 countries.

Adult Sparkling growth was held back by a tough consumer backdrop in several central European markets, as well as strong comparatives. However, Established markets delivered double-digit revenue growth. In particular, I would call out the good performance of Schweppes in Greece, as well as the Kinley relaunch, especially in Italy.

Turning to Energy, volumes grew by over 20%. Growth was strong in each segment, but particularly Emerging, with successful launches in Egypt of Monster and Fury. Established and Developing growth was led by Monster – helped by the very successful launch of Monster Lewis Hamilton Zero Sugar, now present in the majority of BUs in Europe.

Volume growth in Coffee was a very strong 22%, with excellent results in the Established and Developing segments.

We are continuing our journey to scale and invest in Coffee. With the Costa Coffee and Caffe Vergnano brands, we have a segmented portfolio approach that allows us to cover multiple price tiers from mass premium to super premium. This has driven good progress on out-of-home customer recruitment, and we're now reaching 10,200 outlets at the end of the half, up from 8,000 at the end of last year.

Finally for our categories, Stills performance was mixed. Water was impacted by our deliberate focus on more profitable revenue growth. As a result, while we grew revenue and single serve packs, volumes for water were down 14%, with the biggest drop in the at-home multi-serve offering.

Elsewhere in Stills, Sports Drinks performed well, with volumes growing mid- to high-single digits in our Established and Developing segments. Juices were down, with declines in Developing and Emerging more than offsetting positive growth in our Established markets.

Premium Spirits volumes were strongly ahead.

Turning to sustainability, I'm pleased we have been rated **triple A** by MSCI for the **ninth** consecutive year, as we continue to deliver on our Mission 2025 and NetZeroby40 goals.

In particular, we made good progress with sustainable packaging and coolers.

To increase the range and capacity for returnable glass bottles we've installed a new line at our factory in Edelstal, Austria, which has been in commercial production since May. I visited the plant last month and saw the line in operation, processing a new returnable and **resealable** 400 ml bottle as well as our current 1 litre universal bottle. It's impressive what the team are delivering at this state-of-the-art facility.

I'm also really pleased to share that at the end of June, we **exceeded** our target of 50% energy efficient coolers by 2025.

And, together with The Coca-Cola Company and seven other bottling partners, we recently committed $15 million to a new venture capital fund. At nearly $140 million, the fund will focus on innovative solutions to drive carbon footprint reduction, supporting our goal to be net zero by 2040.

Let me now share a few reflections on some market and strategic developments.

As I touched on earlier, one of the highlights for me in the first half has been the consistent growth performance across our three segments.

Each of our segments delivered double digit organic growth in both revenue and profit.

There are of course many moving parts behind this outcome, and Ben will discuss these in a moment, but it just shows the flexibility and strength of our local management teams. How they're able to use our prioritised capabilities and their experience to manage through changing market and consumer conditions.

This consistent and strong performance has been achieved despite mixed market conditions and demonstrates the strength of our category, our portfolio of brands, our disciplined focus on execution and the capabilities we deploy to adapt to win.

NARTD and Sparkling **industry** revenues grew in the first half of the year, and we are gaining share in NARTD both versus branded and private label.

But we are not without challenges in our markets. As I have said to you in previous calls, we do have some countries with persistently high inflation, including Czech, Hungary and Romania where we have seen changes in consumer behaviour and **more demand for affordable options**. The post pandemic boost I talked about last year which propelled a very strong out-of-home performance, has moderated somewhat. There have also been significant macro challenges in Nigeria and Egypt, related mainly to inflation and currency devaluation.

In every market, we apply our well-developed revenue growth management capabilities, to address both affordability and premiumisation, helped by the strength of our brands. For example, we developed new pack formats in Czech, Slovakia and Romania, focusing on smaller multi-serve entry packs to address affordability.

We continue to be vigilant, watching out for changes in consumer behaviour. However, we remain cautiously optimistic about market conditions going forward. The signs are that in key markets, demand for our core portfolio is remaining robust and the price increases we have delivered in the first half have had a better-than-expected impact on volume elasticities to date.

Our investments in Data, Insights and Analytics have helped underpin this performance. Every year we deploy significant spend behind promotions to stay competitive in the market, to be the preferred partner for our customers and the first choice for our consumers. We aim to drive higher volume uplifts and better return for every Euro invested.

Supported by data and advanced analytics algorithms, we can now quantify the true incremental value of promotions at the most granular level, incorporating a holistic view that considers the impact of forward-buying, competition and cannibalisation.

The consequence of this is that in the first half of the year we've been able to target promotional spend at specific points of maximum impact, managing dynamically the necessity to support our price increases and balance those with affordability and volume elasticities. The benefit can be seen in our improved profitability and margin.

Turning briefly to M&A. The acquisition of Finlandia vodka presents a unique opportunity for us to acquire an excellent brand we've worked with for 17 years. Over 60% of Finlandia's total sales are in our geographies, but we only distribute a small proportion. This will strengthen our offering to key customers in the HORECA channel in those markets, growing our revenue as we leverage its proven mixability with our core NARTD portfolio.

Poland is a good example where Finlandia is one of the country's top vodka brands – a must-have for many of our target HORECA customers, and yet is not part of our offering. Bringing Finlandia into our family gives us the chance to leverage reputation and position of this consumer relevant product and strengthen our business in the country.

At our recent Investor Day in Rome, we showcased our team and shared important developments that are critical foundations for our medium-term growth.

Our markets have exciting growth prospects. with a combined addressable market value of around 100 billion euros, and projected growth of 4-6% per annum.

We unpacked how the pillars of our growth strategy are delivering results, how we are activating our unique 24/7 portfolio, winning in the marketplace, working in strong customer partnerships, and investing to fuel growth.

All of this underpins our updated mid-term guidance of organic revenue growth of 6-7% on average per year, from 2024, ahead of our previous guidance, and ahead of the industry.

We confirmed confidence in our ability to grow EBIT faster than revenue, and our expectation to grow organic EBIT margins in the range of 20-40 bps on average per year.

We are a stronger business. We are delivering a stronger 2023. And we are well positioned for sustainable profitable growth into the medium term.

Let me now pass over to Ben to take you through the half year financials in more detail.

Ben Almanzar - Coca-Cola HBC AG – CFO

Thank you, Zoran, and good morning, everyone.

Another strong set of results building on the Q1 momentum. We delivered consistent top-line growth, with organic revenues up 17.8% and organic revenue per case up 19.0%.

Pricing was the main contributor to revenue per case, accounting for more than 80% of the improvement in the period. The rest came from mix levers, led by package and category.

Volumes were marginally down: 1.0% on organic basis - with our strategic priorities the best performing categories as Zoran mentioned.

Gross profit increased by +22.6% leading to a 90 basis point improvement of Gross Profit margins. I am pleased to see these results even as we continue to wrestle with still elevated inflationary pressures, resulting in COGS per unit case up by 13.1%.

We are proud to have delivered the highest half-year Comparable EBIT in CCH's history, reaching €561m, and up 17.7% on organic basis, supported by a strong Q2 performance.

Comparable EBIT margins were 11.2%, unchanged on organic basis. We benefited from strong operating leverage thanks to double-digit top-line growth and hedging strategy, which offset input cost pressures and increased operating expenses in the period.

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

In the Established segment, organic revenues grew by 16.9%.

We saw strong revenue per case expansion of 16.7%. We benefitted from price increases in all markets through the period as well as improvements in category and package mix. Single serve mix increased 3.8 percentage points, and our premium glass portfolio grew high-single digit in the period.

Volume in Established markets was broadly in line with last year. We delivered good growth in Sparkling, Energy and Coffee, which was offset by declines in Stills, mainly Water.

Ireland and Greece closed with very good volume performance in the first half. In Ireland, we saw strong growth in Sparkling led by Coke Zero and an impressive result in Energy, the second-best in the Group. In Greece, our decision for early activations for the summer season is paying off, with volumes up high-single digits in the first half, despite cycling tough comparatives.

For the segment, organic EBIT grew 20.8% and organic EBIT margins were up 30 basis points, with price and mix more than offsetting higher COGS.

Organic revenue grew 23.6% in the Developing segment. This was driven by improved organic sales per unit case, thanks to pricing initiatives. Category and package mix were also positive, the latter helped by improvements in single-serve mix.

Volume growth in Sparkling and Energy was offset by declines in Stills. Coffee continued its strong momentum, growing mid-thirties.

During the second quarter we also successfully launched Jack & Coke in Poland, Hungary and, by the way Ireland in Established. Performance to date has been ahead of expectations.

I want to call out Poland, which continued to deliver a good volume trajectory in the second quarter and sustained share gains. Low/no sugar variants retained their strong momentum with volumes up by low twenties.

Organic EBIT increased by 27.2%. Comparable EBIT margins improved by 20bps on organic basis, with better price and mix actions covering inflationary pressures for countries in the segment.

In the Emerging segment, organic revenue grew 16.0%, with NSR per case increasing by 17.7% on organic basis. This was driven mainly by pricing initiatives in our markets to proactively manage currency devaluations and mitigate cost inflation.

Organic volumes were down 1.4% mainly affected by the decline in Stills. Sparkling grew by low-single digits, and Energy grew almost 30%.

In Nigeria, the challenges with the shortage of bank notes have normalised. Our strong execution in the market, delivered volume growth in the second quarter and share gains for the period. All under the umbrella of carefully considered RGM initiatives.

In Egypt, we are expanding the Energy portfolio, with the launch of the Monster brand in May, following the successful introduction of Fury at the end of 2022. We have continued deploying key RGM capabilities in the market, helping us to drive revenue per case.

Serbia and Bulgaria delivered very good performance for the period backed by share gains in non-alcoholic ready to drink.

Emerging segment Comparable EBIT increased by 13.9% on organic basis. Organic Comparable EBIT margins were down by 20 basis points as a result of adverse transactional FX impact mainly from the Nigerian Naira and Egyptian Pound.

Further down the P&L, we delivered comparable EPS growth of 22.3%.

Net finance costs were down 26.5% as we secured higher interest income from increased interest rates. We now expect improvements in net finance costs with FY23 in the range of €65 – 75 million.

Our comparable tax rate of 27% was at the higher end of the guided range, due mainly to country mix. We expect our tax rate to be around that level for the full year.

Capex as a percentage of revenue was below our guidance range in H1 and €39million higher than in 2022. We expect an increase in the second half as we accelerate investments in our strategic priorities and capabilities. This includes deploying capital behind capacity expansions in growth markets, placing more energy efficient, connected coolers to drive single serve mix, and investing towards our sustainability commitments. We expect full year capex as a percentage of revenues to remain within our guided range of 6.5 to 7.5%.

Free cash flow for the period was down €76 million versus the prior-year, mainly due to working capital phasing as well as increased capital expenditure.

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

We have significant fire power for all our capital allocation priorities including organic investment and M&A.

The unique opportunity to acquire the Finlandia vodka brand, which is expected to be completed in Q4 2023. And, the increased capex to enable the growth of the future, are recent examples of our continued investments in attractive, value-enhancing opportunities.

We are maintaining our progressive dividend policy. In June we paid a dividend of approximately €290 million, a pay-out ratio of 46%.

With these considerations in mind, we expect to see net debt to EBITDA in the lower end of the 1.5 to 2 times targeted range by year end.

Outlook 2023

Turning to the outlook.

We delivered strong top-line growth in the first half of the year, and now expect mid-teens organic revenue growth for the full year. We expect to continue to benefit from our pricing actions and retain our focus on mix improvements.

We have seen some moderation in input cost pressures, which means that we now expect COGS per unit case to increase by high single digit for 2023 as a whole.

As a result, we reiterate the upgraded guidance we provided early in July, of organic EBIT growth for the year of 9-12%.

We have high confidence in the strength of our business, our broad portfolio, led by the exceptional Coca-Cola brands, and underlying growth in our categories, to achieve those results despite mixed market conditions.

With that I'll hand back to Zoran.

Zoran Bogdanovic - Coca-Cola HBC AG – CEO

Thanks Ben.

To summarise. We are executing on our strategy, focusing on our priorities, and have delivered strong organic growth on both revenue and EBIT in the first half.

We remain cautiously positive about market conditions going forward, and we have an even stronger platform off which to grow revenues, margins and returns from 2024 onwards.

Our people remain at the centre of what we do, and it is their passion and dedication, with the commitment and trust of our partners, that enables us to keep delivering for our customers and consumers.

Thank you for your attention, and we'll now hand you back to the operator for questions.

---- [Q&A transcript will be available on the company'swebsite on 11/08/2023]----

Zoran Bogdanovic - Coca-Cola HBC AG – CEO

Thank you all for your time, questions and interest.

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

We look forward to speaking to you all again soon.