CCH – Annual General Meeting – CEO presentation
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Good morning. Thank you for joining our Annual General Meeting.

Before we get started, I would like to remind everyone that this presentation contains various forward looking statements. These should be considered in conjunction with the cautionary statements on the screen.

Full-year highlights

I am delighted to join you for my first AGM as CEO of Coca-Cola HBC.

I will start by giving an overview of 2017, and I will then discuss Q1 trading and our outlook for 2018.

As you can see, I am fortunate to have taken over a business in excellent shape. 2017 was an exceptional year for the company. We are delighted to have delivered strong growth in volume, revenue and margin, demonstrating significant progress towards our 2020 goals.

Starting with the topline: FX-neutral revenue grew by 5.9% in the year, achieved through a good balance of volume and FX-neutral revenue per case.

FX-neutral revenue per case grew strongly, up 3.6%, and faster than in 2016 due to better price, category and package mix in all segments.

Volumes grew by 2.2% overall, with strong growth in the second half of the year. We grew across all segments, with particularly strong growth in our Emerging and Developing countries, despite a challenging operating environment in both Nigeria and Russia.

EBIT margin increased substantially, up 120 basis points as a result of our ongoing focus on revenue growth initiatives led by price increases and mix improvements. We were also helped by volume leverage, careful management of input costs and a small positive foreign currency impact.

Comparable EPS was 1 Euro and 23 cents, up 27% on the prior year.

We increased our net capital expenditure spend by 46 million Euros in this period, focusing on revenue-generating opportunities in markets with high growth potential. This impacted our free cash flow, which declined marginally to 426 million Euros.

Financial performance overview

Let me take you through our performance in a bit more detail.

Currency-neutral net sales revenue grew by 5.9% in the full year. On a reported basis, net sales revenue increased by 4.9%. In recent years, reported revenue growth has been considerably smaller than the currency-neutral one. In 2017, the stronger Russian Rouble helped to minimise the currency impact.

Volume growth of 2.2% was broad based across the segments and accelerated as the year progressed, with the second half delivering better volume expansion than the first half. We are pleased to see good momentum in our medium-sized Emerging and Developing segment countries, while Nigeria and Russia produced flattish results in a challenging operating environment.

FX-neutral revenue per case grew in all segments as well, up 3.6% overall, with positive contributions from price, category and package mix.

Gross profit margin improved by 90 basis points, helped by the significant price/mix improvement, operating leverage from volume growth as well as careful management of input costs and a small positive foreign currency impact.

Operating expenses as a percentage of revenue improved by 30 basis points, a good performance driven by top-line operating leverage.

Comparable operating profit increased in the full year by 20% versus the prior year and comparable operating profit margin expanded by 120 basis points. Better price/mix, combined with volume leverage, drove this excellent performance. We also managed our input costs carefully, taking advantage of certain windows of opportunity to pre-buy PET resin for instance.

Currency impact was an 8 million Euro tailwind in the year due to the strong Russian Rouble, which more than offset our other weaker currencies, mainly the Nigerian Naira.

Comparable EPS reached 1 Euro and 23 cents, 27% higher than prior year, further helped by the improved financing costs year on year.

Our working capital balance remained in the triple-digit negative territory.

We generated strong free cash flow of 426 million Euros in the full year, down 5 million year on year. Higher operating cash flow was offset by a 46 million Euro increase in net capital expenditure as per our plans to invest in revenue-generating assets.

Revenue growth from balanced volume and price/mix growth

Turning to the revenue performance, let me start by saying that we are very pleased with the balanced contribution from volume growth and price/mix improvements. It is also good to see that the growth is broad based across our markets.

As I mentioned earlier, FX-neutral revenue per case improved substantially versus the prior year. Our successful commercial strategy and execution improved category and package mix in all segments. We also implemented significant pricing to offset adverse foreign currency movements, particularly in the Emerging segment.

In our Established markets, FX-neutral revenue per case increased by 0.7%. Good category and pack mix was partially offset by adverse channel mix.

In Developing markets, improved price, category and package mix led to a 2.7% increase in FX-neutral revenue per case.

The Emerging markets saw a 6.9% improvement in FX-neutral revenue per case mostly as a result of price rises, which, as I mentioned, were deployed to offset FX headwinds. Category and package mix also contributed to the improvement, offsetting adverse channel mix.

Input costs slightly better than expected

Turning to input costs

FX-neutral input cost per case was up by 3.1% in the year. This is slightly better than our previous expectations.

We had contracted EU sugar prices at favourable levels at the end of 2015, which proved successful. PET resin prices did increase as expected, but careful management and certain well-timed pre-buys by our procurement team ensured that we secured better pricing versus our plans.

Operating leverage delivering despite higher marketing

Turning to our OpEx performance

We have worked hard over the years to right-size our operating cost base, and we continue to use our infrastructure effectively while we grow the topline. In the year, this resulted in comparable operating expenses reducing to 27.9% of revenue - a 30 basis-point reduction compared to the prior year.

Let me walk you through the key drivers.

Reductions in administration and warehousing costs led to a 50 basis point improvement as a percentage of revenue.

Sales and marketing expenses increased by 10 basis points. Direct marketing expense increased in absolute terms to support our new product and flavour launches, and was stable as a percentage of revenue.

We also incurred a significant one-off negative impact of 40 basis points, driven mainly by a bad debt provision in Croatia and the investment we have made in re-designing the revenue growth management framework.

As a result, we are pleased with the ongoing strong underlying performance of our OpEx as a percentage of revenue, especially in view of the growing sales and marketing investments that support our revenue growth management initiatives.

Profit and margin growth

Turning to operating performance, we are reporting comparable operating profit of 621 million Euros in the year, 103 million higher than in the prior year. This is the result of driving price/mix and volume, while managing input and operating costs, enhanced by the absence of adverse net foreign exchange movements. Historically, currency movements have been a headwind to profitability, impacting predominantly the Emerging markets segment.

Let me provide you with some more colour on the key drivers on a segmental basis

In Established markets we benefited from volume growth, favourable price and product mix and lower operating expenses. These were only partially offset by the negative impact of higher input costs and adverse foreign exchange impact.

In Developing markets, improved volume, price and mix only partly offset the impact of unfavourable input costs and higher operating expenses due to the bad debt provision in Croatia. Excluding the provision, the Developing segment EBIT grew year on year.

The Emerging markets segment benefitted from higher pricing, mainly in Nigeria, and higher sales volume along with minimal net FX impact. These factors more than offset higher cost of goods sold and increased operating expenses.

First quarter highlights

We are also very pleased to report a good start to the year and a solid performance in line with our expectations against the backdrop of mixed trading conditions.

I would like to highlight a few elements.

Our revenue growth, 4.5% on a currency-neutral basis, continues to be driven by balanced growth between volume and price/mix.

Our volume growth of 2.3% in the quarter is the result of good performances in the Established and Developing markets, as well as the medium-sized Emerging markets. On a category basis, Sparkling drinks volume was strong, up 2.8%.

We are particularly pleased to see the impact of our strategy on these results including innovation in new products and flavours, revenue growth management initiatives and the effectiveness of our commercial strategies.

Looking ahead

In closing, we are very pleased with our performance in 2017. We delivered another year of strong growth in profitability and there is good momentum in the business we can build on.

Looking at 2018 we expect volume to continue to grow in all three segments, with the Emerging markets segment accelerating, as Russia and Nigeria return to volume growth.

Our revenue growth management initiatives, which are designed to grow revenue faster than volume, have gained momentum. We will also take pricing actions in markets impacted by foreign currency depreciation. With relative stability in Nigeria and Russia, the contribution from pricing actions is likely to slow down in 2018. Overall, we are confident we can continue to improve FX-neutral net sales revenue per case in the year.

At current commodity price levels, input costs are expected to be a low single-digit headwind in the year, mainly driven by resin.

Taking into account our hedged positions and current spot rates, the adverse impact on EBIT from foreign currency is now expected to be around 45 million Euros for the full year.

Finally, our actions in cost management and the effect of top-line operating leverage are expected to result in further reduction in operating expenses as a percentage of revenue, supporting another year of EBIT margin growth.

Q&A

With that, I will now open the floor to your questions.

[Q&A transcript will be available on the Company's website on Tuesday 12th June]