CCH – Annual General Meeting – CEO presentation
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Good morning. Thank you for joining us at our Annual General Meeting. I will give a brief presentation following which we will open the floor to questions.

Forward looking statements

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

Full-year highlights

I am very pleased to stand before you at my second AGM as CEO of Coca-Cola HBC following another successful year.

Let me begin by giving an overview of our progress over 2018 before discussing our Q1 trading and outlook for 2019.

2018 was a strong year for the company and we are very pleased to report the second consecutive year of top-line growth above the 4 to 5% range. This growth was coupled with good expansion in operating margin to 10.2%, as we continue to make strong progress towards our 2020 targets.

Currency-neutral revenue grew by 6% driven by strong volume growth and another year of price/mix expansion.

Currency-neutral revenue per case grew by 1.7%. This is the eighth consecutive year of expansion, and all three segments made good contributions.

Volume grew by 4.2% with a strong performance achieved in both Sparkling and Stills. Sparkling volumes grew 4.3%, the fastest growth in a decade. The pace of innovation is playing a role in this faster growth and 2018 saw a record number of new product launches which accounted for 4.4% of our volume growth. Our operating margin improved by 70 basis points in the year. Our revenue growth management initiatives, including product innovation, price increases and better package and category mix proved very effective, making the biggest contribution to our profits followed closely by increased volumes. Comparable earnings per share of 1 Euro 31 cents is 5.9% higher than the prior year.

We generated strong free cash flow, closing the year at 370 million Euros. Capital expenditure as a percentage of revenue increased to 6.4%, as anticipated, as a result of our investments in revenue-generating opportunities.

In-line with our dividend policy, the Board of Directors proposes a full-year dividend of 57 Euro cents per share, a 5.6% increase on the 2017 dividend. This is in addition to the special dividend of 2 Euros per share that the Board recently proposed, following successive years of strong performance.

Financial performance overview

Now, I'd like look at this performance in greater detail.

Volume growth of 4.2% was broad based across the segments, supported by our revenue growth management initiatives, strong in-market execution, a record number of new product launches and favourable economic conditions.

Russia returned to growth and our medium sized Emerging and Developing segment countries maintained their positive momentum, while volume in the Established segment grew by 1%.

Currency-neutral revenue grew by 6.0% over the year, while reported revenue increased by 2.1% despite the resumption of currency depreciation in our Emerging Markets.

Currency-neutral revenue per case grew by 1.7% overall, with growth in all three segments. The growth was a result of price increases as well as package and category mix. Growth moderated in the Emerging segment due to the cycling of the 2016/17 price increases in Nigeria and lower Premium Spirits sales in Russia.

Our gross profit margin improved by 40 basis points helped by a low single-digit decrease in input costs per case which more than outweighed adverse currency movements.

Comparable operating expenses as a percentage of revenue improved by 20 basis points, largely driven by top-line operating leverage.

Financial performance overview

Comparable EBIT increased by 9.6%, and comparable EBIT margin expanded by 70 basis points to 10.2% due to better price / mix, volume and operating leverage. Adverse currency movements such as the depreciation of the Russian Rouble, Nigerian Naira and, to a lesser extent, the Swiss Franc resulted in a 51 million Euro currency headwind. Our EPS grew by 5.9% compared to the previous year. The growth was slower than the comparable EBIT growth of 9.6% due to higher financing costs and increased tax charges following our profit expansion.

The working capital balance continues to be in triple-digit negative territory. As previously mentioned, the company generated strong free cash flow of 370 million Euros, a deterioration of 56 million Euros year-on-year due to higher capital expenditure.

Volume and price / mix growth in all three segments

Now turning to the revenue performance on a segmental level. Volume growth was strong, growing in all three market segments and was the main driver of the 6% increase in currency-neutral revenues.

Turning to currency neutral revenue per case by segment.

In our established markets, currency neutral revenue per case increased by 1.1% driven by favorable price / mix due to the sugar tax implementation in Ireland, and small price increases selectively taken in other markets, as well as positive category and package mix.

In Developing markets, currency neutral revenue per case grew by 2.8%. Favorable impacts from price increases in Hungary and Poland, as well as category and package mix, were partially offset by negative channel mix.

The Emerging markets saw a slowdown in the pace of currency-neutral revenue per case growth, mainly due to the cycling of the price increases taken in Nigeria in 2016 /17 and the discontinuation of our distribution of Brown-Forman products in Russia. The growth of 2.4% was the result of price increases and package mix, partially offset by adverse channel mix. Excluding the impact of premium spirits distribution in Russia, currency-neutral revenue per case increased by 5.0% in the Emerging segment.

Input costs slightly better than our expectations

Turning to input costs:

Currency neutral input cost per case was down 1.4% compared to the previous year, an improvement on our latest guidance, which we had continually revised downwards as the year unfolded.

Sugar was the main driver of this improvement, where we achieved rates that represent a decline compared to the prior year, while PET resin prices increased in 2018 as a result of higher oil prices. We were able to minimise the impact of increasing aluminium spot prices through favourable hedges, light-weighting initiatives and the strategic management of contracts.

Operating leverage delivering despite higher marketing

Turning to our OpEx performance. We were able to improve comparable operating expenses as a percentage of revenue by 20 basis points in the full year to 27.7%. We are particularly pleased with this performance given that it was delivered while we also increased our marketing investment by 30 basis points of revenue in 2018.

The Company also benefitted from cycling the prior year's bad debt provision in Croatia as well as its partial recovery which amounted to 20 basis points of revenue in total.

Profit and margin growth

Turning to operating performance, comparable operating profit was 681 million Euros in the year, a 60 million Euro increase from 2017.

In the Established segment, comparable operating profit declined by 3.9% to 240.7 million Euros, resulting in a 50 basis-point contraction in comparable operating profit margin to 9.7%. Higher input costs, higher operating expenses and adverse foreign currency movements, mainly from the Swiss Franc, offset volume growth and favourable price and product mix to drive this contraction.

Developing markets achieved a comparable operating profit of 137.0 million Euros, a 48.4% increase compared to the previous year with profit growth achieved in all countries. Comparable EBIT margin for the segment improved by 260 basis points to 10.5%. Higher volume, price and mix more than offset the impact of unfavourable input costs and currency movements. The segment also benefitted from cycling the prior year's bad debt provision in Croatia.

The Emerging markets segment delivered comparable operating profit of 303 million Euros, resulting in a 100 basis-point improvement in the comparable operating margin to 10.5%. Better price / mix across the segment and higher sales volumes were partially offset by the impact of adverse currency movements and increased operating expenses as we invested in the FIFA World Cup and the launch of new products.

First quarter 2019

Let me now give you an update on our performance so far in 2019. We have started the year well, delivering solid growth in revenues despite the impact of this year's late Easter.

In the first quarter our revenue growth was up 4.7% on a currency-neutral basis driven by strong volume growth of 3.5% and a 1.1% expansion in currency neutral revenue per case.

This puts us on-track to deliver on our expectations for the year, given that in 2019, the sell-in for the Easter period shifts from the first into the second quarter, and that we still have the impact of the discontinuation of our distribution of the Brown Forman brands in Russia in our numbers in the first quarter. The negative impact of these two factors in the first quarter was 150 basis points, 90 basis points on volumes and 60 basis points on price/mix.

We expect another year of growth

This good start sets us up well to deliver on our plans and make 2019 another year in which we achieve FX-neutral revenue growth above the 4 to 5% range with another step up in margins.

Overall, we expect volume to continue to grow in all three segments with the Established and Emerging market segments maintaining their current growth trends while Developing markets will moderate to more normalised levels.

We also believe we can continue to deliver an improvement in FX-neutral net sales revenue per case. The Developing segment should accelerate its price / mix growth, while in the Emerging segment, we have now cycled the discontinuation of our distribution of the Brown-Forman products in Russia and the negative impact that that has had on price/mix.

We expect the adverse impact on EBIT from foreign currency to amount to 50 Million Euros, considering the current spot rates.

For our commodity costs, overall, we expect our input costs per case to increase by low single digits on a currency-neutral basis.

Finally, we expect to deliver further reduction in operating expenses as a percentage of net sales revenue in the year, aided by the operating leverage of the anticipated growth in our revenue.

New targets to 2025 set at our Capital Markets Day

Two weeks ago we held a Capital Markets Day in London.

At our last investor day in June 2016, we set out an ambitious plan for 2020 to deliver strong growth in revenue and margins. As we enter the final stage of this plan, I am pleased to say that we are delivering against these targets having grown into a considerably stronger and more capable organization in the process.

With this in mind, it is time to look to the future. Accordingly, we used our recent Capital Markets Day to set out a new and ambitious plan to continue our strong growth to 2025 which, guided by our vision to become the Leading 24/7 Beverage Partner, targets another step up in financial performance. The plan builds on our recent consistent, strong performance and the considerable progress we have made in strengthening our business. We've recently proven our ability to deliver industry leading growth and we plan to maintain this pace, which represents a step up in performance vs. our 2016 – 2020 plan.

Our plan targets annual organic currency-neutral revenue growth of between 5-6%.

Having already grown margins by 270bps since the start of the plan, from 7.5% in 2015 to 10.2% last year, we aim to achieve our 11% EBIT margin target by 2020 and to deliver further margin expansion of between 20 – 40 basis points beyond 2020.

In addition, we plan to fulfil the sustainability commitments I have outlined and keep our employees engaged. On employee engagement, we measure ourselves against the benchmark of the highest performing companies in the industry.

Q&A

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

In conclusion

I want to thank you for joining us today.

I would like to leave you with the following thoughts We have a broad, 24/7 product portfolio, the commercial capabilities and passionate people to continue to win market share and to deliver on our strategy. This sets us up well for the future and we are confidently looking forward to the next stage in our development. Of course we also look forward to speaking to you again next year to continue to share our progress.