CCH – Annual General Meeting – CEO presentation

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Good morning and welcome to our Annual General Meeting.

Let me start by saying that, while much of what I will speak about today focuses on 2019, we need to recognize that 2019 currently feels a long way away. We are operating in extraordinary times. This crisis is having a profound impact on all of our stakeholders, so I hope you and your families are well. We also owe a debt of gratitude to those healthcare workers doing such vital front-line work, both across our territory and the whole world.

Through this crisis, our priorities are first to ensure the safety of our people, customers, partners and communities, second to maintain business continuity through the crisis by decisive, timely and effective action, and third to prepare for the opportunities that we know will emerge once recovery is underway. Our supply chain has been fully operational every day since the start of the outbreak and all our production facilities, with even more stringent health and safety measures in place, remain open. Our sales people have been continuously serving every one of our customers who is able to operate and maintaining contact with our customers who are not. We have also adapted our customer routines to provide them the best support that we can as they face their own challenges of rapidly shifting demand patterns.

Whilst we are experiencing significant challenges in our markets today, Coca-Cola Hellenic is a well-positioned and resilient business prepared to adapt and emerge to take on new opportunities.

We also benefited by entering the crisis in a position of strength after strong performance in 2019.

Forward looking statements

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

Full-year highlights

2019 was another year of progress. Currency-neutral revenue grew by 4.4%, or 3.7% excluding the impact of the Bambi acquisition. We were pleased to see the expected acceleration in the fourth quarter of the year after unusually poor weather impacted industry volumes in our markets during the summer months. Overall, for the full year we believe weather had roughly a 1 percentage point negative impact on our top line growth.

This view is supported by the very strong rebound in our own performance in the fourth quarter of 2019, where weather has a much lower impact. In the fourth quarter, we delivered currency-neutral revenue growth of 7.4%, or 6% excluding Bambi. This was despite cycling a very strong result from Q418 and without the benefit of Lavazza coffee sales in Q419. As you may recall, Lavazza coffee was discontinued in October which negatively impacted revenue growth by 70 basis points in Q4 and 20 basis points in the full year. As I stand here today, however, we have already started our initial launch of Costa Coffee in the first three countries, and we are planning on rolling out in at least a further seven during 2020.

Full year highlights

Our market share performance continued to progress very well. During the course of 2019 we gained or maintained share in the majority of our markets in both non-alcoholic-ready-to-drink and Sparkling.

And good progress on top line growth, along with our continual efforts to control costs and drive efficiency in the business, generated strong operating leverage. Comparable EBIT grew by 11.5% to €759 million and comparable EBIT margin expanded by 60 basis points to 10.8%. Excluding the impact of Bambi, comparable EBIT grew by 9.5% and EBIT margin expanded by 50 basis points.

Comparable earnings per share grew by 10.0% to €1.44. We are particularly pleased with this strong result given that it incorporates higher financing costs this year due to the raising of €1.8 billion of gross debt.

Importantly, we also generated strong free cash flow, closing the year at €443 million Euros, the highest level of free cash flow generated since 2010.

This financial growth was accompanied by continued progress in our commitment to build a more sustainable business and I will say more about this later.

In line with our progressive dividend policy, the Board of Directors proposes a full-year dividend of 0.62 Euros per share, an 8.8% increase on the 2018 dividend. This dividend is in addition to the special dividend of 2 Euros per share which we paid in July.

Financial performance overview

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

As I mentioned before, 2019 currency-neutral net sales revenue grew by 4.4%, or 3.7% excluding Bambi. Reported net sales revenue grew by 5.5% as we benefited from 1.1 percentage point of positive impact from currency movements in the Russian Rouble and the Swiss Franc against the Euro.

This growth was primarily driven by volume growth of 3.3%, or 2.6% excluding Bambi. All three segments grew volumes in 2019 while accelerating in the fourth quarter.

Currency-neutral revenue per case grew by 1.0%, or 1.1% excluding Bambi. Excluding Nigeria, where we have made targeted price investments over the course of 2019, currency neutral revenue per case increased by 2.1%. We are seeing strong results from our strategy in Nigeria with volume growth in the fourth quarter accelerating to 24%.

Gross profit margin declined by 20 basis points, while OpEx as a percentage of sales improved by 80 basis points.

Continued margin expansion

Comparable EBIT increased by 11.5% year-on-year, and comparable EBIT margin expanded by 60 basis points to 10.8%. 10 basis points of this margin improvement is attributable to the Bambi consolidation in the second half of the year.

Depreciation of currencies, mainly the weakening of the Russian Rouble and the Nigerian Naira against the US Dollar resulted in a 7 million Euro currency headwind, better than what we had initially anticipated.

Financing costs increased by 62% to €67.1 million due to the raising of €1.8 billion of gross debt in May and November.

Our comparable effective tax rate reduced from 26.2% in 2018 to 25.8% in 2019.

Comparable EPS reached 1 Euro and 44 cents, 10% higher than the prior-year period. The growth was slightly slower than the comparable EBIT growth of 11.5%, due to the higher financing costs mentioned earlier.

Our working capital balance continues to be in triple-digit negative territory at the end of the year and generated strong free cash flow of 442.6 million Euros, a 19.6% improvement compared to 2018.

Input costs in line

Turning to input costs.

Currency neutral input cost per case grew marginally by 60 basis points, in line with our low-single digit guidance for the year.

The main driver for this benign input cost growth was resin, while sugar and aluminium improved. Good management of contracts, favourable hedges,mix shifts to low and no-sugar variants and our ongoing efforts in light-weighting, helped us to deliver in line with expectations.

Strong operating leverage

Comparable operating expenses as a percentage of revenue improved by 80 basis points in the full year to 26.9%.

30 basis points of improvement is due to operational leverage on logistics and administration cost efficiencies in the year. The rest of the improvement is due to lower marketing expenses as we are cycling the investments behind the FIFA world cup, as well as other one-off items.

Growth and margin expansion across all segments

Turning now to the key financial drivers on a segmental basis:

In our Established markets, currency neutral revenue growth of 1.3% was driven by 80 basis points of volume growth and 40 basis points expansion in price/mix. This price/mix improvement is due to selective price increases in several markets as well as strong package mix which improved by 1.1 percentage points in the segment. We also saw transactions growing by 2.4%, evidence of the ongoing progress we are making on our Revenue Growth Management initiatives in the segment. On the other hand, the discontinuation of Lavazza in the fourth quarter was a headwind to price/mix in the segment.

Established comparable EBIT grew by 6.4% and comparable EBIT margin expanded by 40 basis points to 10.2%. This strong margin improvement was mostly due to operational leverage of OpEx. To a lesser extent we also benefited this year from the strengthening of the Swiss Franc.

In Developing markets, currency neutral revenues grew by 4.2% with volume up 50 basis points and price/mix growth of 3.7%. The acceleration in price/mix in the year was due to selective price increases in several countries as well as positive category mix driven by strong Sparkling and Energy growth. We also saw excellent progress on single-serve mix, up 3.9 percentage points year on year.

In terms of operating profit in the Developing segment, comparable EBIT grew by 6.9% and comparable EBIT margins expanded by 30 basis points to 10.8%. The main drivers here were the positive pricing and mix mentioned earlier.

Growth and margin expansion across all segments

The Emerging markets saw currency-neutral revenue growth of 7.1%, or 5.6% excluding Bambi. This strong result was driven by volume growth of 5.7%, or 4.4% excluding Bambi. We achieved particularly strong performance in the fourth quarter, with volume growth of 13.5%, or 10.6% excluding Bambi. These strong trends were broad-based across the segment, but it is also important to note the significant improvement in volume growth in Nigeria and Russia. Currency-neutral revenue per case grew by 1.3%, or 1.2% excluding Bambi. This is a slow-down in price/mix expansion compared to the 2.4% we delivered in 2018, due to the targeted investments in pricing that we have undertaken in Nigeria. Given the timing of these investments, you should expect the impact to continue into 2020 with a similar effect on the country and segment price/mix. Excluding Nigeria, Emerging price/mix would have increased by 3.6%. The point here is that outside of Nigeria we have seen improving trends on price/mix. Zoran will give you more insight on our progress in Nigeria later on.

In terms of operating profit, comparable EBIT grew by 17.5%, or 13.2% excluding Bambi. This drove an improvement in comparable EBIT margins of 80 basis points to 11.3%, of which 30 basis points were due to Bambi. The remaining 50 basis-point improvement was driven by operating leverage on our revenue growth, which more than offset the negative transactional FX impact due to the movement of the Russian Rouble and the Nigerian Naira against the US Dollar.

Continued focus on efficiency

Turning to restructuring, we incurred charges of 37.8 million Euros in the year with the majority of this being spent in the Established and Emerging segments.

Restructuring benefits within 2019 from 2018 and 2019 initiatives amounted to 30 million Euros.

Looking ahead to 2020, we expect restructuring costs of approximately 15 million Euros with estimated annualised benefits of 7 million Euros from 2020 onwards.

The benefits in 2020, from initiatives taken in 2019 and those expected to be taken in 2020, are estimated to reach 32 million Euros.

Strong growth in cash flow

We generated strong free cash flow of 442.6 million Euros, up €72.5m from prior year. Strong operational profitability and working capital management allowed us to accelerate capex investments ahead of the strong revenue growth and at the same time generate this strong cash flow in the year.

Net capital expenditure as a percentage of revenue increased by 50 basis points to 6.9%. Of this 50bps growth, 10bps is attributable to the acceleration in capex investments, while we benefited from an extra 20bps of increased idle asset sales proceeds year-on-year. The remaining 60bps of growth are attributable to the impact of the adoption of IFRS 16 as of 1st January 2019.

As you are aware, IFRS 16, which requires the recognition of all leases on the balance sheet, came into effect in 2019. This accounting change leads to an one-off capex as % of revenue increase of half to 1 percent of revenue. Therefore, taking into account the impact of the adoption of IFRS 16 in 2019, going forward, our restated annual capital expenditure target range has become 6.5% to 7.5% of net sales revenue. We see capex remaining within this range as we progress towards our 2025 plans.

The working capital balance remains on our target level of triple-digit negative balance.

New debt raised at Lower interest rates

Turning to our balance sheet.

During the course of 2019 we raised 3 bonds and a total of 1.8 billion Euros of debt. We also redeemed 223 million Euros of our June 2020 800 million Euro bond, leaving 563 million Euros.

Financing costs in 2019 were 67.1 million Euros, an increase of 25.8 million Euros due to the higher level of gross debt on our balance sheet.

The average interest rate on our bonds reduced by 60 basis points to 2.1% during the year. We would anticipate this interest rate reducing by a further 40 basis points after June 2020 when we redeem the last 563 million of our 2020 bond.

Our net debt to comparable EBITDA stands at 1.54X at the end of 2019, compared to 0.61X at the end of 2018. We continue to expect this to move towards the upper end of our 1.5-2.0X target range by the end of 2020.

First quarter 2020

Now let me now give you an update on our performance so far in 2020.

We started the year well, with strong trading in January and February but delivered weaker results in March as government lockdowns severely impacted the out-of-home channel.

Overall in the first quarter our currency neutral revenue declined by -1.2%, or -0.5% adjusted for trading days and Bambi.

During April, with all our markets in lockdown except for Belarus, we experienced volume declines of approximately 27% excluding Bambi, which translated to currency-neutral revenue decline of 37%. We consider these the peak of the declines while the lockdown measures are in force, so we expect some gradual easing from mid-May onwards, subject to the success of the next phase of social distancing measures.

Let me also say a few words on FX and Input costs. The recent weakness in the oil price has had a negative impact on the oil-dependent currencies such as the Russian Rouble and the Nigerian Naira, with a significantly positive impact on resin rates. Currencies-wise, we are very well hedged for transactional exposures in 2020, at favourable rates that prevailed prior to the depreciation. However, we expect a significant negative impact from currency translation and the remaining open transactional exposures. Having said that, the negative impact of currencies when netted with the significant gains from lower commodity costs, leaves us close to our original budget for the year.

We benefit from a significant variable cost structure which will support our EBIT as we are dealing with the decline in revenue from the impact of the covid-19 pandemic. Nearly two thirds of our total annual cost is variable. Compared with our original plan, we have cut more than €100m of costs in areas such as marketing, seasonal labour, consultancy and contracted services, travel, meetings and events, and have put in place a general recruitment freeze. We have also re-prioritised capital expenditure plans by reducing our capex cash outflow this year by 100m Euros compared to our original plans, aiming to preserve our cash without sacrificing our preparedness for the recovery when it comes.

We exited April with a net cash position of 1.4 billion Euros. This is the result of the refinancing we did last year, whereby we raised 1.8 billion Euros to meet our debt rollover and other obligations, as well as the good operational cash performance in the last 6 months.

A recognized leader in ESG

Building a more positive social and environmental impact is integral to our long-term growth and to creating value for all our stakeholders. In 2019 our actions across 17 commitment areas again demonstrated our commitment to doing exactly that. Our progress was reflected by our Dow Jones Sustainability Index ranking as Europe's most sustainable beverage company for the 6th time in 7 years. We were also ranked second globally. Alongside this, we have the highest level of rating in MSCI, CDP Water, CDP C02 and FTSE4 GOOD.

We continue to push for progress in this area and we intend to be as accountable on our sustainability targets as we are on our financial ones and you can find comprehensive reporting against our Mission 2025 sustainability commitments in our Integrated Annual Report.

Keeping our people safe and customers served

As you know we took the decision in March to withdraw guidance for 2020. And it is still too early to quantify the impact that the COVID-19 pandemic will have on our full year 2020 results.

What we do know is that our strong balance sheet and liquidity position, significantly variable cost base and agile cost mitigation, combined with our leading market shares, unique portfolio of brands and capabilities at adjusting our packaging types to meet consumer demand, will allow us to weather this unprecedented crisis, and at the same time prepare our business and partners to win once it is over.

I am very proud of how our teams have been responding to this crisis, particularly the adaptability, resilience and community spirit our people have demonstrated. We entered this crisis from a position of strength with sound business fundamentals and a very solid balance sheet. When the pandemic struck we took decisive actions, fully focused on keeping our people safe and customers served as well as to cut discretionary costs and re-prioritise investments. In short, we are managing the business to support our performance in the short term, and to ensure we are well-placed to move into the recovery phase as it develops.

I believe that Coca-Cola Hellenic will emerge stronger and smarter from this crisis, able to leverage our geographical footprint to its full advantage and to take hold of the immense growth opportunities ahead. Let me extend my good wishes to you and your families, and all of us at Coca-Cola HBC sincerely hope you stay safe and well. We look forward to speaking to you again next year to continue to share our progress.