CCH – 2021 First quarter trading update
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Questions and Answers

Telephone Operator

Thank you. As a reminder if you would like to ask a question please press *1 on your telephone keypad. Please ensure that your line is unmuted locally. You'll then be advised when to go ahead with your question.

The first question today comes from the line of Andrea Pistacchi, calling from Bank of America. Please go ahead. Your line is unmuted.

Andrea Pistacchi, Bank of America

Yes, good morning, Zoran, Ben and Joanna. I have a couple of questions please. I'll start with the first one, which is just really please Zoran, if you could provide a little bit more colour on the pricing environment in your main markets in the context of obviously the raw material pressures that are building.

You said you'd started to put through some pricing, could you be a little bit more specific maybe where that pricing is coming through? When would you anticipate more pricing? What markets are more difficult?

And then the second - I'll ask this one first.

Zoran Bogdanovic, Chief Executive Officer

Good morning Andrea, I hope you are well. Thank you for the question.

So on the pricing, indeed, to go directly there, yes, we already have taken pricing in a number of our markets during Q1, in line with our plans. And we do see that this year is going to be an environment where you know these kinds of healthy levels of inflation in the majority of markets actually pose a fertile ground to do that.

And how we plan to do that, I just want to emphasise this is exactly the time when our Revenue Growth Management capability, which we have been building in a very focused way over more than four years is exactly when it comes into play. So we will be observing the environment in every single market and we deem the markets given the competitive play as well, this gives us the opportunity to observe opportunities for pricing between the categories, between the packs, between the various regions.

So I would say in a third of our markets we have already taken price, this includes also our largest markets, and Russia and Nigeria and Italy, Greece is there, Poland of course because of the sugar tax - but we can talk about that separately.

So to wrap up, all in all, yes, we started, and we will be seeing more opportunities down the road leveraging the RGM.

Does that cover it, Andrea?

Andrea Pistacchi, Bank of America

Yeah, that was helpful, thank you. Now the second question I don't know how much you'll be able to answer this, but obviously The Coca-Cola Company announced - it said a few weeks ago that it intends to IPO CCBA later in the year. So are you able maybe to say where you stand today on CCBA, whether hypothetically - I mean whether you may have considered acquiring the business or whether from your point of view maybe the business is less attractive than it could have been two or three years ago?

And connected to this, seemingly with large M&A off the table, for the moment at least, would you be comfortable maybe increasing slightly the leverage of the balance sheet towards the top end of your range?

Zoran Bogdanovic, Chief Executive Officer

Thanks, Andrea. So look as you've seen, as we've seen, Coca-Cola Company announced its intention related to CCBA. And I think that is pretty clear. And as we always said within the system these kind of things always start with The Coca-Cola Company and this is the direction that they are taking, and I really have nothing else to add there.

However, what I want to emphasise is that this is not reducing the appetite capacity and firepower of Coca-Cola Hellenic to do what may be the right thing to do down the road, when and if opportunities appear. And I remain positive and optimistic about that.

I would like to highlight that our relationship with The Coca-Cola Company is on a very good and very strong level. And down the road, you know, I can hope, and I believe that we will be able to discuss certain opportunities.

Most important for us is to continue building Hellenic to be a stronger and better company, investing in our capabilities, delivering strong performance and also strengthening our balance sheet to be able to do the right deals for the company.

And when I say the right deals by that I mean, as I always said, two things - one is that there is a strategic fit and that there is also financial soundness of the opportunity that may present itself to us. So we remain very open for that.

And I'll just close these remarks by saying that this in no way has reduced the appetite of Coca-Cola Hellenic for the right opportunities ahead. Thank you.

Andrea Pistacchi, Bank of America

Very clear, thanks Zoran.

Telephone Operator

The next question comes from the line of Richard Felton, calling from Goldman Sachs. Please go ahead.

Richard Felton, Goldman Sachs

Hi, good morning. My first question is on the Energy category, which saw pretty incredible growth in Q1. I wonder if you could dive into a bit more detail of what's driving the strong acceleration in the performance of Energy and are there any reasons why the very strong growth in Q1 is just going to be a temporary acceleration. And then if you could remind us as well how much Energy is as a percentage of your total portfolio? That's my first question.

Zoran Bogdanovic, Chief Executive Officer

Good morning Richard. Look, Energy is a super exciting category and that is why now for many years we at Hellenic believe in its potential and our partnership with Monster and now also with Coca-Cola Company in the Energy category is very important for the future and our growth algorithm.

Now, this that you see in Q1 is not the outlier, because I just want to remind you that for five consecutive years, Energy is growing double digit. Also the beauty of this category is that it's quite a valuable category, meaning the value over volume ratio. In the last four years it has grown more than 2.5 times in the mix of our volume and revenue, reaching now, Energy in our revenue as a mix is around 6.5%, while in the volume it's 2.5%. So that gives you a good feeling of what's the value of the category.

Now, one thing also that contributes to our own performance is the fact that - it's the strength of the portfolio to start with, because we have a proliferation of the brands for various segments of consumers, as well as corresponding price points.

As a reminder, you know, Monster is the mainstream and then the upper end is Burn, then even the more premium is Coke Energy. And then what we have done in the last six months or so, also at the lower end of more affordable Energy is Predator. So you can see that there are four tiers, and they very well complement each other.

The second thing is that this category is expanding. It's finding its various adjacent segments with new functionalities. Another example of that is we have also now in more than ten countries in the last six / nine months we have launched also Monster Espresso, so a blend of Energy and Coffee.

Also, there is another emerging segment in Energy, which is called Performance Energy, and we have started with a Monster brand called Reign in Ireland. And I'm sure that, you know, this category will continue its growth because it seems that also it fits the needs of consumers where they need in various parts of the day, they need a kick of energy.

And with such a portfolio and even more functional propositions, there is an Energy proposition for every one of us. And we remain very optimistic about the prospect and the potential of this category for many years down the road. That's what I would say.

Richard Felton, Goldman Sachs

Thanks, Zoran, that's very clear.

My second question is on Nigeria where you mentioned that you're benefiting from some of your investments in recent years in route to market and big data analytics. So my question is having made those investments how have your expectations changed for the level of growth that you think your Nigerian business can deliver and how should we think about the medium-term opportunity in Nigeria? Thank you.

Zoran Bogdanovic, Chief Executive Officer

Richard, I can reiterate only what I said last year, that Nigeria is a double-digit country. The potential of this country is mind-blowing. It's not a walk in the park country with all the environment - macro, political, etc. However, evidently Nigeria is getting there.

So, that's why potential is on one side, we strongly believe in the country, we know it very well. You know we've been there 70 years and it's the root of Coca-Cola Hellenic and how we started. So we know very well how to operate there. And that is why we have never had any hesitation about investments, both in the technical capacity and capability, as well as the capabilities of our people to be able to be the key player and winning player in the market.

So, I can only say that with the investments that we have done that's only reinforcing our belief and expectations for Nigeria. By that I don't want to say that - we are not guided only by the volume potential, because what we want to do in Nigeria, and overall, is the high quality or quality growth, quality revenue. And for the reason, if you might remember from these remarks, as well as my previous remarks on Nigeria, whenever we started something new very often it's actually that we start in Nigeria.

Four years ago this was the case with Revenue Growth Management, then we've done a tectonic reshape of Route to Market. Also when we started with big data advanced analytics we started again in Nigeria. That is only because it's such a big and important market and every such capability investment helps us to play a smarter and wiser game in the market. And that's what is impacting how we see the algorithm of growth, in our case for Nigeria.

Does that help, Richard?

Richard Felton, Goldman Sachs

It does. Thank you very much.

Telephone Operator

The next question comes from the line of Sanjeet Aujla, calling from Credit Suisse. Please go ahead.

Sanjeet Aujla, Credit Suisse

Morning, Zoran, Ben, Joanna. A couple of questions from me please. Just coming back to the input cost point, can you just talk about if anything has changed there within your guidance for this year. I know you've reiterated the EBIT margin guidance, but I'm just wondering if you can kind of square that between what you're seeing on commodities, year to date and the ability to kind of mitigate that? That's my first question.

And my second question, well just coming back to the price mix, particularly in the Established regions, up 1.5%, despite the channel and pack mix going against you. So I'd just love a bit more colour on - you know if you could break that down between the various components. Clearly category mix is positive, and pricing is positive and seems to be more than offsetting the negative channel and pack mix. How much of a drag was the channel and pack mix component within Established? Thank you.

Ben Almanzar, Chief Financial Officer

Thank you Sanjeet, Ben speaking, perhaps I can start kicking off with your question on commodities. The key commodities for our business are sugar, sweeteners, PET resin and aluminium. In February we guided you to a high single digit increase in currency neutral input costs per case for 2021. And that includes the effect of the products we buy as finished goods. I'm referring to Energy, Premium Spirits and of course Coffee.

Stripping that mix impact out, we would have been looking at a low-single digit increase on the prior year. Since then we've seen commodity prices moving in only one direction, North, and our inflation expectation remains at high-single digit, now edging towards the upper end of that range. And again, if we were to back out that mix impact from purchased finished goods, we'd end up with a mid-single digit increase versus 2020. That is our current expectation.

Input costs of low to mid-single digit is not unusual for our business considering our geographical footprint. We feel comfortable that we can manage it within the year. I am reassured by our solid hedging positions, we're currently covered, approximately 70% of PET, about 80% in aluminium, and approximately 90% when it comes to sugar and sweeteners and that provides a cushion against the market fluctuations year-to-go.

Now, hedging buys us time, and time gives us options. And as Zoran well said, by the end of Q1 we have already selective prices up in one third of our markets. We will remain vigilant on how commodities change and how the environment progresses, and we'll be ready to take swift action to protect our margins.

Does that give you …?

Sanjeet Aujla, Credit Suisse

That's very helpful.

Ben Almanzar, Chief Financial Officer

Your second question was about the price mix on Established markets and perhaps I can kick it off and then happy for Zoran to build. What we're seeing in Established markets is that obviously the category is becoming a key driver. Zoran referenced the health of our Sparkling business, including Adult Sparkling and also Energy. And that's a key driver for our performance. And if Q1 was more about our Emerging markets driving that top-line growth, we see that rebalancing as the year progresses.

Sanjeet Aujla, Credit Suisse

Got it, okay. Thanks.

Telephone Operator

Thank you. Please standby whilst we prepare the next question.

Thank you for standing by, the next question comes from the line of Simon Hales, calling from Citi. Please go ahead. Your line is unmuted.

Simon Hales, Citi

Thank you, morning Zoran, morning Ben, morning Joanna. A couple from me please. Firstly Zoran, you talked about disciplined innovation and you referenced the Costa and Topo Chico sort of brands. Can you just provide a bit more colour perhaps on what you're seeing from Costa in the 16 markets where you're live now?

And also update us on some of the recent consumer appetite for Topo Chico, I appreciate you're just really rolling out there as we head into the summer selling season. So that's my first question.

Zoran Bogdanovic, Chief Executive Officer

Good morning, Simon. Yeah, on Costa, so we continue as per plan rolling it out with the direction that we get into all of our markets. This year, on top of the 14 markets, so last year, we added also Serbia and Cyprus.

Now, we decided last year to launch it irrespective of the COVID restrictions, adjusting our plan. Definitely this had some impact because we primarily focused on the at-home channel. However, even in such restricted way that we have across the markets we already exceeded 1,300 away-from-home outlets.

So, this is going to be the name of the game this year where on top of the strong focus for the at-home channel, we are going to complement it with increasing and progressive focus and attention in away-from-home, in parallel as away-from-home will be reopening.

Now, I just want to say that what is - okay you start, but the question is how is it going? We see and hear, based even on some first research, consumer research and customer feedback we see very positive feedback from consumers, how they perceive the brand, which impacts also the right positioning as a premium-mass segment proposition. So that's very encouraging.

And just as a reminder we have launched Costa in a variety of packs, which is not only ready-to-drink cans, actually they are very small, but all other types - roast and ground beans, capsules, vending machines, and across all channels.

So, we are very excited that things are progressing very well, month by month. We are further building capability and teams in the countries that just launched or will be launching in the future. And I see Hellenic becoming a very strong, respectable coffee player in all markets across our territories.

On Topo Chico that's more - as also Coca-Cola Company says, you know entering a completely new category where there is a lot about test trial and learn. Therefore we did start across five markets last year, we are adding Switzerland also this year. And it's fair to say that this is an emerging growing category, especially in some of the markets. In the markets where this category is already more developed, like let's say Northern Ireland and the Republic of Ireland, the level of engagement of consumers is on a higher level than in some markets where it's not yet the case.

However, the fact that there are more and more entrants into the category just proves that there is something interesting there and I'm very happy that we are already there, collecting our learnings.

Customers also believe in the high potential of this category. And we see some valuable learnings from markets, especially where this category already is performing better. Let's say in Ireland we have already reached within Tesco, which was the first customer, some very respectable positions, we are already number three within the account. We are proceeding with listings.

We also reached in Austria a more than 20% share in the category, in Greece more than 50% of the share. Yes, the category is still smaller, however it is growing and developing, and we are increasing the distribution.

Now, just a few last points, we have also learnt from Ireland that the product has higher seasonality than expected. And also COVID restrictions are impacting key occasions for this product. So as the markets reopen and people will be able to be more out and socialise, etc, that's going to provide a tailwind for the category. And already we have seen in April for example we've seen that the category is really starting to grow faster than for example March.

So, all in all, we learn by every month, every week, but really pleased that we are fast and already there ready to expand to other countries, if and when the opportunities present themselves.

Simon does that cover it?

Simon Hales, Citi

Yeah, that's really clear. Thank you.

And then secondly Zoran, I just wanted to sort of follow up a little bit on your full year guidance. Obviously, you know it's unchanged from where it was back in February from both a strong recovery on the top line and a margin standpoint. I wonder with regards to how you're seeing the strengthening of the revenue picture looking forwards, has the mix of those expectations changed, i.e. do you think Emerging markets will prove to be stronger than you thought through 2021 now compared to February and maybe the Established markets a little bit weaker. I'm just interested in the mix development of the guidance really from a geographic standpoint.

Zoran Bogdanovic, Chief Executive Officer

Yeah Simon, I'll start and Ben, please feel free to jump in if there is anything else. So from today's point we really think that, you know, the only thing - the right thing is to reiterate the guidance where we are because, okay we are very pleased with the start of Q1. It is the smallest quarter, still there is quite asynchronous development of reopening, etc. Plus there is what we discussed input costs and commodities on one side. So that's where we are, and we will have much better visibility after the first half.

We are quite positive about the development of the Emerging, however, also we do have expectations how with re-openings the Established and Developing will be also, let me say, also awakening in line with the away-from-home reopening. So, I would expect that all three segments will play their roles in this revenue recovery of the year and in moving our EBIT margin further up in line with the guidance.

Simon Hales, Citi

Got it, that's really clear, thank you.

Telephone Operator

The next question comes from the line of Natalia Svyriadi, calling from Eurobank Equities. Please go ahead.

Natalia Svyriadi, Eurobank Equities

Yes, hello, thank you for the [audio jumps] Firstly, I'm wondering if we could go back and talk about …

Zoran Bogdanovic, Chief Executive Officer

Apologies Natalia, I really don't know how it is for others, but I can't hear well.

Natalia Svyriadi, Eurobank Equities

Sorry, can you hear me better now.

Zoran Bogdanovic, Chief Executive Officer

That's better, thank you.

Natalia Svyriadi, Eurobank Equities

That's a bit better. I was wondering if we could elaborate a bit on the inflationary impact coming from the tax in Poland and how this would be for the remainder of the year, what we should be expecting with the tax kicking off in Italy also, if this hasn't changed?

Did you hear me?

Zoran Bogdanovic, Chief Executive Officer

Yes, yes, I heard the key word, Poland. Yeah, so that's the flavour of the year with this unique tax which got into life from January 1. And with that we have fully activated what we have thoroughly prepared for the launch.

So that means that we have passed on the tax fully through our pricing. And that is quite a significant increase, I would say in average something like 28 - 30%, it varies from the packages, there are packages that have 30% plus price increases, to packages that have around 15%. Because we have not done one size fits all, but we have really adjusted the approach with our Revenue Growth Management, based on the packages.

Also, the fact that this taxation, even though it's the first time this is also introduced not only on the full sugar beverages but also on beverages with sweeteners, however not to the same extent. That has enabled us that we have a two tier pricing, so that no-sugar variants are lower priced than full-sugar.

So, fully in line with expectations, we see also an impact on the volume which is in the low-20s. And also, I have to say it was encouraging to see that even so early, we've seen a very good performance of Coca-Cola Zero Sugar in Q1. And also performance of Energy which was plus 20%.

So it's inevitable to expect that with such price increase - which by the way it's not only that we have done it, but all other players as well have done the same thing of passing on the price - sorry the tax through the pricing. So it's logical that this is going to have an impact in the first year of introduction. But then we strongly believe that the market will stabilise because this just becomes a new reality. And the fact that Poland is really a strong, high potential market, no doubt about that, the fact is that we do expect on a full year level that volumes will be maybe low-single digit to mid-single digit decline as a result of that.

Ben Almanzar, Chief Financial Officer

Just a quick one from me on Zoran's point, and especially that last one, that if we look at Q1, you know, in Q1, the contraction in volume in Poland is higher than what is expected for the remainder of the year. So, we'll expect those volumes to pick up in Poland, therefore adding to the mix as well.

Natalia Svyriadi, Eurobank Equities

Okay. Thank you. That was very helpful.

Do you think, in Italy, you would be able to pass on the price with the same success, the price increases also?

Zoran Bogdanovic, Chief Executive Officer

Yes. When this comes into force, our approach, in this kind of thing, is the same, that this kind of taxation, we are passing on through our pricing.

So, at the moment, we see visibility that the sugar/beverage tax is planned from January 1 of 2022, needless to say that we are, in the same way, preparing for that to be fully ready, as we have done in the past, in Ireland, now in Poland, etc.

So, the principle is the same, that we are not absorbing that in our value chain but passing it on.

Natalia Svyriadi, Eurobank Equities

Okay. Thank you very much. That's pretty clear.

Zoran Bogdanovic, Chief Executive Officer

Yeah, thank you, Natalia.

Natalia Svyriadi, Eurobank Equities

Have a nice day.

Telephone Operator

The next question comes from the line of Edward Mundy calling from Jefferies. Please go ahead.

Edward Mundy, Jefferies

Morning, everyone. A couple from me.

So, the first question is really around your success in the At Home channel where you're, you know, gaining some share and also boosting multipacks of single serves. My question is really, you know, to what extent does your success in the At Home channel, potentially, drive increased frequency in usage on the other side of the pandemic, and could this be, actually, a driver of, you know, boosting per capita consumption on the other side of the pandemic?

Zoran Bogdanovic, Chief Executive Officer

Hi. Good morning, Ed.

I can't really say to which extent it might drive it, but I would tend to believe that, because of so many drinking moments which are happening now in the At Home, and how we are adjusting to that in many ways, I would just say, because of the pandemic, just in a more amplified way, we've been doing that before, but we just stepped it up and expanded it.

And part of that is, as you mentioned very well, our focus on single-serves for the at-home use, that's actually a great opportunity where, in various occasions during the day, consumers at home can better enjoy, you know, various packs, or small packs, be it cans, glass, because of the multipacks that we are also doing now At Home.

Also how we are doing the associations of various parts of the portfolio with other categories, whether through snacks, for the snacking occasion, various meal products for meal occasions, or for socialising mixability with Premium Spirits, which we also have in the portfolio.

So, all that is creating and embedding a habit for consumers for various occasions. And, yes, I would intuitively also believe that that can impact the frequency and per capita whenever after the COVID times are coming. Does that make sense, Ed?

Edward Mundy, Jefferies

Yeah, absolutely. Thank you.

And then the second question is really around pack and channel mix, which are, you know, currently still a headwind but, you know, should turn into a tailwind as, you know, we get the gradual reopening. Are you confident in being able to get back to previous historical levels of revenue per case in the business?

Zoran Bogdanovic, Chief Executive Officer

Yes. Yes, I'm confident. It's just a matter of the variable of the time. But, yes, we will see how the whole reopening happens throughout the year because our package mix really depends a lot on the Away from Home because that's our stronghold, which we preserve and develop very carefully. And that's why, you see as well, the moment there are even certain levels of reopening where our single-serves can play a role, this immediately has a direct positive impact on our price mix.

So, in short, yes, I'm positive that we will come there, and that's not only the result of the package mix, but it's also the result of our premiumisation strategy that we are doing both with packages but as well as with parts of the portfolio. An example is Adult Sparkling, which is performing really well on a total Group level, but also within certain countries, it's making tremendously good progress, like Russia, which has doubled it in Q1 versus Q1 of last year. And, as a reminder, that's the part of the Sparkling portfolio that's trading at a higher revenue per case than the average of the category. Concretely in Russia, it's around 16% plus.

So, the same goes in other categories where we are always focused more on higher value segments. So, apart from the pricing, there is mix of packs and categories and segments that all in blend, will contribute, that we will reach that what you were implying, Ed.

Edward Mundy, Jefferies

Great. Thank you.

And then my final question, just talking about premiumisation and, you know, ensuring that you're pushing higher revenue per case products, is really around enhanced and functional Waters that you're seeing cropping up more and more, you know, waters that include, let's say, calcium or vitamins, or even some of the plant-based protein waters; it might be a little bit too early for those to be rolled out in some of your markets given there's still a, you know, really good, you know, Sparkling and Energy opportunity, but is there something that's increasingly on the agenda when you're discussing, you know, a new innovation with Atlanta?

Zoran Bogdanovic, Chief Executive Officer

Yes, it is. Yes, it is, and, actually, as a matter of fact, that's exactly what you have described. What you have described is an excellent description of Aquarius as a functional performance Water. We have two variants; one is with magnesium. The second one is with zinc. And that's part of those, let's say, carefully selected innovations that we are, at the moment, doing across several markets where we have already launched Aquarius. And that came as a result of that kind of work and partnership with the Coca-Cola Company team. So, yes. And we see more opportunities in that space also going forward.

Edward Mundy, Jefferies

Great. Thank you.

Telephone Operator

The next question comes from the line of Alicia Forry calling from Investec. Please go ahead.

Alicia Forry, Investec

Hi. Good morning, everyone.

I just wanted to touch on digital. Clearly, a big advancement in that area during the crisis. I was just wondering if you could talk about the size of your B2B platform today, which you say will be sticky and probably retain customer usage post-crisis. Is that in all your markets? Any colour you can give on the size of that and scope of that for further expansion?

And then, secondly, also sticking with digital, you talk about the big data capabilities and advanced analytics in Nigeria, have you already rolled those out to other markets? How far are you in that, sort of, expansion of those digital capabilities across your footprint? Thank you.

Zoran Bogdanovic, Chief Executive Officer

Yeah, thank you. Thank you, Alicia.

So, on the digital commerce, if you will, there is a lot going on. It is really the name of the game these days. Let me just first say, by saying that during the last year, we have seen, in all markets, a step up in acceleration of usage of our B2B own platform, but also across the online platforms of our omnichannel customers, also the way our wholesalers have been leveraging our platform.

So, I just want to reiterate that we are investing in resources, investment in technology, in other versions of making all those platforms more customer/user-friendly, and we do see results. We do see very strong double-digit growth, almost across all countries.

Now, I need to remind that, as a percentage of our total revenue, we are still at low-single digit levels, where we stand today. However, there is no doubt that this is going to continue, even beyond COVID, with strong double-digit growth. And I just want to reiterate that we are very excited by it, and we are fully, not only getting ready, but we are already there.

As we speak, across our countries, we are either introducing our own new B2B and B2C platforms that we have been developing, and those are being introduced.

Also, what I would emphasise is that the number of customers that we have recruited during last year has been multi-fold bigger than where we've been before.

So, it's becoming, kind of, a new way of working, which is complementing our physical route-to-market, call it this digital route-to-market. So, for us, as a company that is very strong in the physical route-to-market, this is going to be a complementary blend where we see that the future will be in this "phygital", if you will, physical and digital combined. And that's how we see that we can leverage digital especially for us, that we have such a fragmented customer base and a huge number of customers with which we can really benefit from this new digital commerce area.

Now, on the big data advanced analytics, as I mentioned, Nigeria was the first one. There are different markets at a different stage. We are going in phases. However, one fundamental thing that we are doing everywhere is segmented execution. That's like the foundation of the house, for which then we are also doing other used cases.

So, by now, almost all markets, in some shape or form, are already being exposed and are part of the implementation and the rollout. This goes concurrently with staffing our Group team as well as our resources in the respective countries. We regard this, I would say, as a transformational and transversal capability for Coca-Cola Hellenic, and we see ourselves in the future really being a data-driven organisation which is going to make, you know, much better use of an unbelievable abundance of data that we have available in house, plus what we are getting externally from the market. And I'm very excited for this because this capability really injects even bigger confidence in driving our growth algorithm ahead of us.

Alicia Forry, Investec

That's great. Thanks.

Telephone Operator

The next call comes from the line of Charlie Higgs calling from Redburn. Please go ahead.

Charlie Higgs, Redburn

Hello, Zoran and Ben. I hope you're well.

Just a quick one on trademark Coca-Cola, you know, very strong 9.1%. Can you just talk a bit about the early reception for the new taste and packaging of Coke Zero, and whether that 9.1% was influenced by maybe some pre-stocking going into Q2? Thanks.

Zoran Bogdanovic, Chief Executive Officer

Good morning, Charlie. Thanks.

It is early to say. Q1 practically was not impacted by the new recipe of Coca-Cola Zero because we literally started at the end of the quarter, or maybe beginning of April. So, it didn't have the impact on the quarter. That's number one.

Secondly, we are rolling it out in all the markets, and we have actually very high belief and hope that this is going to be the step in the right direction further with our Zero Sugar strategy.

Initial reactions are good. I need to remind you that the Coca-Cola Company, who actually does the evolution of the formula, and that's their task, are doing, always before these kind of things are done, extensive research, consumer research, which we've seen together with them.

We test-tasted it on our own. We love it. And early signs are good. However, literally, you are catching us in a moment of us, number one, rolling it out across the markets, and, needless to say that we are really full throttle, fully activating in all of our markets. So, Coca-Cola Zero is having, you know, another booster this year on top of the formula that we have introduced in 2016, and that has been doing well, and this is going to further accelerate our Zero and Light proposition within the Coca-Cola trademark.

Charlie Higgs, Redburn

Perfect. Thank you.

Telephone Operator

The next question comes from the line of Ewan Mitchell calling from Barclays. Please go ahead.

Ewan Mitchell, Barclays

Good morning, all. I hope you are all well.

Zoran, if you could just quickly touch on the Nigerian competitive environment. It seems to be, certainly over the majority of last year, that pricing became a little easier to come by there. Is that continuing, and are you seeing the competitors continue to behave in a more rational way than perhaps we've seen in history?

Zoran Bogdanovic, Chief Executive Officer

Good morning, Ewan. Hope you are well as well.

Yes, we do see, exactly as you said, that last year there was definitely a more rational approach in the market conduct, and also, so far, we continue to see that.

So, I think that various regional pricing in various types of categories and packages, done in a really carefully orchestrated manner, I think plays a role, and I can observe that, what we are doing, that in a similar way also, other players in the market are doing. And I think that, at the end of the day, for the good of everyone, we all benefit from a more healthy category and more healthy market overall.

We also observe that maybe the competitiveness and intensity is not primarily in the price, but it's more in the innovation, and that's the beauty of Nigeria, that, even though it's a classical emerging market, however, the potential also can absorb more well-chosen and targeted innovation, which we are doing, but we also see that our other competitors as well are doing, which also contributes to the fact that, you know, this is what ignites the market overall and its performance, which we see as a very good and welcoming thing.

Ewan Mitchell, Barclays

Very helpful. Thank you.

And then perhaps on Russia, a very strong performance after the last couple of quarters that have been very good as well, has something changed for the longer term there? Are you seeing a weaker competitive set? What are the underlying drivers there that are really causing this market to, sort of, outperform the way it is?

Zoran Bogdanovic, Chief Executive Officer

Yeah. Yeah, good question.

Well, one thing that, for sure, I will not see happening, weaker competitive set. That will not happen because, as for us, also for others, Russia is a very attractive market with a strong future. It's a sizeable market with, still, per capita that is far away from the Europe averages, etc.

So, however, even though the market remains quite competitive, there is also an element of the fact that - let me start externally, just to say that market growth is driven by a fairly positive macro and overall consumer demand. The market is pretty much open across all channels. There are some capacity restrictions, so it's not, you know, totally 100%, however, already, at levels where they are, is quite good for trading to happen.

Also, one more element that we see from statistics in the country is that consumer confidence, there is a growth in Q1 '21 versus the same quarter last year, and also the consumer sentiment about the future is better than it has been in the last quarter of 2020. And we've seen that these kinds of statistics, in the past, our team has seen that, you know, they are a good indication of the consumer sentiment, where the consumers are and the market.

So, we completely connect that with the fact the market is growing, and it's in a good shape. And, within such markets, we are, our team there, is very disciplined with strategies that are, you know, executed in a very disciplined way, which means focusing, for example, on meals, which is a critical occasion in Russia. There is a big focus on both affordability proposition as well as premiumisation.

I mentioned earlier in my answer how for example the Adult strategy within Sparkling is really showing in Russia very well the impact. In Q1 we have doubled the Adult Sparkling, as a result of that concious, deliberate, strategic choice, in which we started investing two years ago. Because we have done a total package revamp, flavour extensions, change of glass and PET. Marketing with Coca-Cola Company has been different, so all together that is driving it.

We see in Russia that both affordability options as well as premium smaller packs are growing. Like for example, cans are about 20%. Glass is about 20%. You might remember that some 18 months ago we've done a downgrade from 1 litre to 0.9, exactly as a result of our RGM that Russia is one of the role models, and we see this package performing extremely well. In Q1 it was more than 50% growth rate.

So, we also see that also Juices in Q1 have performed quite well on a like-for-like basis they grew double-digits. So, we see that you know, being consistent with strategies while building capabilities from revenue growth management, continues work on route-to-market, Russia is also doing on big data advanced analytics, so all that is playing a role together with continuous upskilling of our teams on the ground. And you know, that gives the result.

And I'm very confident about the future of our business in Russia even though it remains highly competitive, but I believe that with our capability development and strength of the team over there, I have no doubt that we will continue with very good growth in Russia.

Ewan Mitchell, Barclays

That's very helpful, thank you. And perhaps my last question, given the CCBA transaction has kind of come off the table for you and that the foray into Alcohol with Topo Chico but also your Premium Spirits is that somewhere that you're actively looking to allocate more capital or is it something that you're seeing how it develops and playing as it goes?

Ben Almanzar, Chief Financial Officer

The second part, the question on the capital allocation I'll answer if that's okay.

So, our priority Ewan, the first one is organic investment to support growth. And therefore, that implies capex for coolers and the infrastructure allows to grow the business organically. Then we have the progressive ordinary dividend policy that pays 35% to 45% of our comparable net profits. Then there's obviously the M&A options, both bolt-on and extension into transformation and new geographies.

So, I think to that point you know, sustaining the business is going to be our first priority when it comes to capital allocation.

Ewan Mitchell, Barclays

Thank you, that's very helpful.

Telephone Operator

The next question comes from the line of Pinar Ergun calling from Morgan Stanley. Please go ahead.

Pinar Ergun, Morgan Stanley

Good morning. Just a very quick follow-up on that capital allocation question. At what point would you consider returning cash to shareholders given that CCH's leverage is at the low end of its peer group?

I appreciate you've just highlighted your capital allocation priorities but any colour on what would trigger that, how long would you wait for a potential external growth opportunity to come along, etc? That would be very helpful, thank you.

Ben Almanzar, Chief Financial Officer

Thank you, Pinar. Zoran previously referenced the fact that having strong balance sheet puts us in a very good position when it comes to seizing opportunities as they become available.

We've spoken in the past that we have an active pipeline, and I can remind you of the businesses that we have acquired in the recent past like Bambi and Lurisia that have been very successful and are accretive to our Group results.

Now, if after a cycle over the mid-term we see that we have exhausted all of our options then we can always consider the additional capital return in the form of an extraordinary dividend.

Pinar Ergun, Morgan Stanley

Thanks very much.

Zoran Bogdanovic, Chief Executive Officer

Pinar, I'll build here on Ben, just to reiterate that you know, we are quite busy and keen with explorations of a number of opportunities that as we are quite keen to keep investing in the business to really nurture it for the growth. And in that regard, I still want to reiterate that the appetite and the willingness to find the right opportunities. And you know, I remain hopeful that there will be some opportunities for the usage of that capital.

Pinar Ergun, Morgan Stanley

Great, thank you so much.

Telephone Operator

The next question comes from the line of Alexander Gnusarev, calling from VTB Capital. Please go ahead.

Alexander Gnusarev, VTB Capital

Greetings to everybody. I have just a quick couple of questions.

The first one, what was your penetration of Out of Home channel in total volume for Italy, Greece and Ireland pre-pandemic? Or you could just say this amount for the Developed markets. This is the first question.

Zoran Bogdanovic, Chief Executive Officer

Hi, Alexander. Sorry, can you say what was our penetration of what?

Alexander Gnusarev, VTB Capital

Out of Home channel in total volumes?

Zoran Bogdanovic, Chief Executive Officer

Out of Home channel in total volumes, you know, there are various markets. In some markets it will be below 30%, in some markets 30% to 40% and then there are kind of more Established markets which are about 40%.

So, Greece would be an example of a market where Out of Home is about 40%. Italy in the similar way so that's where we are.

Alexander Gnusarev, VTB Capital

Perfect. The second question, when you passed your new tax, new sugar tax in Poland, the prices, how much did you increase them in the first Q 2021, year-on-year terms?

Zoran Bogdanovic, Chief Executive Officer

In average around 28%, but it really depends. On certain packages it's let's say 33%, on some other package it's 15%, 16% but in average across portfolio it's around 28% increase.

Alexander Gnusarev, VTB Capital

Perfect. And the last question from my side, did I get it correct that your volumes in Russia were down well single digit because of this deconsolidation of your Juice business, right?

Zoran Bogdanovic, Chief Executive Officer

Yes, that's why we also talk about our results like-for-like because that really gives a true operational apple-to-apple comparison.

Alexander Gnusarev, VTB Capital

And if you speak apple-to-apple, did you gain market share in the first Q 2021? And if so, how much is the increase in percentage points?

Zoran Bogdanovic, Chief Executive Officer

We've been growing share in a majority of the markets. I don't know, do you mean on a specific market or overall?

Alexander Gnusarev, VTB Capital

Just Russia, just Russia.

Zoran Bogdanovic, Chief Executive Officer

In Russia, we have been growing our shares for the full year of last year. We have in Q1 a minor decline of the share, however, that's according to plan and phasing as we have imagined our game plan between the quarters. And I remain quite positive on the fact that we will be also growing share this year in Russia.

Joanna Kennedy, Director, Investor Relations

Hi Alex, this is Joanna. Thank you for the questions but if you have any further questions on Russia perhaps, we can take them offline with IR?

Alexander Gnusarev, VTB Capital

No, that's enough from my side. Thank you very much.

Telephone Operator

The next question comes from the line of Mitch Collett calling from Deutsche Bank. Please go ahead.

Mitch Collett, Deutsche Bank

Hi there. I've only got one quick one, I'm conscious we're over time already.

Can you perhaps give us an idea what level of pricing would be required to fully offset the input cost pressure you detailed earlier this year? And knowing what you know now assuming no change, what level of pricing would be required in 2022 to ensure no margin impact from the current level of input cost rises? Thank you.

Ben Almanzar, Chief Financial Officer

Well Mitch, perhaps let me start with the answer.

When we think about pricing, we don't think about a blunt tool. We've referenced in the past the capabilities of RGM, and that is very, very important because we price up yes, to offset inflation, yes, to offset commodities prices, but also, to make sure that we seize on the right opportunities for the market depending on what's possible, given the competitive set.

So what I would say there is that when we consider again our hedging positions, the result in mid-single digit inflation in input costs and we offset that versus the work that we have been doing on pricing in the different markets and very importantly, driving the right mix of businesses in the right packs and channels. Then that results in an algorithm that works and allows us to maintain the guidance for the year of the small improvement of the EBIT margin.

Mitch Collett, Deutsche Bank

Yeah, understood. And I appreciate it's a lot more complicated than I made out. But I'm just trying to get a sense for earlier you obviously said that you're used to this level of inflation and clearly, you're not worried about profitability this year otherwise you wouldn't have said what you've said in the guidance. It's just, I'm trying to understand how manageable the cost pressures are you're seeing today for next year and whether or not it's going to be easy enough for you to offset those cost pressures in 2022 as it sounds like you're going to in 2021?

Ben Almanzar, Chief Financial Officer

Look, it's a great question. If you look at Q1 for example perhaps as an indication to try to be helpful, and you think about the things that are driving the business in Q1 and therefore the margins, you have, we are growing volumes. And then through that combination of pricing and driving the right mix of categories, then those things are pushing up our revenue.

Then you think about the things that are working against our revenue or weighing it down, then you have FX, you have the comparative of Multon, and you have an adverse channel and pack mix as a consequence of the lockdowns.

So, if you fast-forward for the remainder of the year and for 2022 effectively. You would expect the things that are weighing down on the business apart from FX that should be coming back. So, this is why when we think about 2021, it gives us the confidence but very, very importantly it helps us prepare for 2022. The commodities environment is pretty volatile, and you know it is still early to see how things are going to pan out in 2022 and beyond, but we're getting ready.

Mitch Collett, Deutsche Bank

Okay, that was helpful.

Zoran Bogdanovic, Chief Executive Officer

And Mitch, this is Zoran. I just want to reiterate one important thing which I really can't emphasise enough, and that's the revenue growth management capability that we have been building over years because exactly this type of capability in every single market is a way how we read the market, how we adjust and how we play the ball in every single market because it is not that one size fits all, the impact even from commodities and various other things are different by market.

However, because we have our RGM capability and teams in each of the markets when these things like commodities, etc, happen this just becomes one additional variable that revenue growth management work is taking into account and based on that we take unique actions for every single market.

So, I just wanted to emphasise that piece. And that's a critical component and capability that we have, and we are just further building.

Mitch Collett, Deutsche Bank

Understood. That's very helpful, thank you.

Telephone Operator

The next question goes to the line of Osman Memisoglu calling from Ambrosia Capital. Please go ahead.

Osman Memisoglu, Ambrosia Capital

Hello. Just a quick two questions.

The first one, for your largest three markets, Russia, Nigeria, Italy, any comments or colour on a short-term update after Q1 would be helpful, particularly with Russia and Nigeria price increases, are you seeing any difference in uptake in volumes? And I guess with Italy with recent easing of restrictions, any colour you can provide there. And with Italy, do you think that sugar tax will happen next year? Thank you.

Zoran Bogdanovic, Chief Executive Officer

Hi Osman, in short, I can say that overall our trading in the start of Q2 has been quite positive and this includes the three mentioned markets, so fully as we planned and as we expected it started quite well. And the pricing that has taken in the countries has been done quite well, embedded and there were no, let's say, no hiccups or anything. So, everything went quite smooth.

Related to Italy tax, as I mentioned earlier, from our visibility, we do see that sugar beverage tax should and most likely will start from 1 January 2022. If anything changes in that regard you know we will let know in one of the future calls but at the moment our teams are planning with that timeline.

Osman Memisoglu, Ambrosia Capital

And should we expect a similar level of price increases to Poland?

Zoran Bogdanovic, Chief Executive Officer

It's not as big. No, it's not as big as Poland but we are looking if that would happen as it stands today, that would be some mid-teens price increase, approximately.

Osman Memisoglu, Ambrosia Capital

Okay. And the second one, a very quick one, I know it's a trading update, but any colour on how your capex, working capital developments have been so far? I'm guessing you're picking up investments in coolers as you have guided earlier. Any colour would be appreciated.

Zoran Bogdanovic, Chief Executive Officer

Ben?

Ben Almanzar, Chief Financial Officer

Yes, perhaps I can help there. When it comes to capex, we have a guiding range of between 6.5 and 7.5 as percentage of revenue. We're probably going to grow towards the upper end of that range this year as we continue to again invest behind growth initiatives for the business.

And when it comes to working capital, you might recall that during our full year results we talked about how we had a favourable phasing that came in Q4 of 2020 and from customers paying earlier than we initially expected and that we would see some of that coming through particularly in the first half of the year. And I can confirm that we're seeing some of that and it will be visible during the half year results.

Osman Memisoglu, Ambrosia Capital

Perfect, thanks very much.

Telephone Operator

Thank you for standing by. The next question comes from the line of Andrea Pistacchi calling from Bank of America. Please go ahead.

Andrea Pistacchi, Bank of America

Thanks. I have just a very quick housekeeping follow-up. And sorry, when I booked it, I didn't realise the call would last so long. But you've talked about Poland and the sugar tax there. The low 20s volume decline in Poland though seemed a bit worse probably than at least what we were expecting.

Now, you also referenced a temporary delisting there so I'm just wondering what sort of impact this delisting could have had on the quarter and whether the dispute there with the Retail is now resolved?

Zoran Bogdanovic, Chief Executive Officer

Yeah, yeah, it's fully resolved. Nothing major, it was just I would say a part of the regular negotiation and coming to a win-win solution that eventually has been achieved very well and you know the trading fully resumed. So, it did have some impact, but you know now between the impact of the tax and this, I can't really tell exactly how much it was, but I wouldn't over-emphasise it in any way.

And if anything, Andrea, I would just say that this volume impact even though it is low-20s however, it even came a little bit better than we expected for the first few months. So all in all, I reiterate that in Poland how everything is evolving is fully in line with the expectations.

Andrea Pistacchi, Bank of America

Super. Thank you very much.

Zoran Bogdanovic, Chief Executive Officer

You're welcome.

Telephone Operator

We have no further questions coming through at this time, so I'd like to hand the call back over to your host for any closing remarks. Thank you.

Zoran Bogdanovic, Chief Executive Officer

Thank you. Thank you for your time today. We believe that the results announced today despite the continuation of COVID-19 related restrictions for most of our markets underline the fundamental attractiveness of our markets and industry as well as the importance of the careful prioritisation which has ensured resilience even in the current challenging operating environment.

While clearly there are uncertainties and challenges to come, we are well prepared to continue to adapt and capture the considerable growth opportunities in our industry.

Now, 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 all again soon. Thank you.

Telephone Operator

Thank you for joining today's call, you may now disconnect your lines.

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