CCH – 2023 Third-quarter trading update
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Edward Mundy (Jefferies): Morning Zoran, morning Ben. First question is really around revenue per case, which has seen a really good step-up over the last couple of years. I think at the Group level, you are up 18% versus pre-pandemic levels. And then the Established there was 30%. And clearly the proof of the pudding is you are still taking share within NARTD and Sparkling. But what I would love to understand is, based on all your monitoring tools and what type of framework you think about to ensure that you get that right balance of affordability, how do you think about it relative to, let us say, soft drinks or relative to CPG? How do you think about ensuring that your brands still remain affordable, despite the very significant expansion in revenue per case?

Zoran Bogdanovic: Thank you, Ed. Good morning. Revenue per case, which was an absolute priority over last year and this year, is derived both from pricing as well as mix. Now, last year and this year, in this price/mix, combination price had a more dominant role, but I would not disregard the importance of mix, and especially as we will go forward where we will see more balanced also ratio between price and mix. So that plays a role. And needless to say that there are so many levers within mix in various territories we are activating, whether that is on the package with various types, multipacks that we are constantly adjusting as we are flexible, as we are tailoring the plans, category mix where we are focusing, and also channel mix.

So we constantly monitor, as part of the RGM framework, competitiveness in each market, what competition does, what we need to adjust. And this is also where promotions play a critical role, either for more tactical actions or for some deeper actions where and for as long as it is needed.

So I would say that so far, our RGM framework and management has really proven that it is working very well. I feel very confident about it, and I am very pleased that we have achieved our objectives, while at the same time growing both NARTD and Sparkling share, which is a good sense check of how we are balancing all these balls that we are juggling.

Edward Mundy: Thanks. And second question is really around the European consumer. I think you flagged; a bunch of the markets are under a little bit of pressure. Does that represent a significant step-down relative to the first half? I appreciate weather was quite a big factor during the third quarter. And I suppose that same part of that question, if we do see a more difficult environment, could you just remind us what your playbook is to make sure you continue to hit your algorithm over the medium term in a tougher environment?

Zoran Bogdanovic: On one side we do see that the consumer power is a little bit softening, which is natural, given the fact of price increases of all the players in the market across all categories. So we do see that and that there is some kind of a slowdown. We called particularly several markets where this is more visible than the others, but it is visible across Europe that the whole NARTD as well as Sparkling categories are having a slowdown.

Now, that only informs of how we are reacting, based on the consumer sentiment what is going on in each of the markets. And we are immediately adjusting our plans, which packages we emphasise, what kind of promotions we are doing. And that is why I am really pleased that actually, even in these circumstances, we are having now two consecutive quarters of volume growth, and especially to see that volume performance in our three priority categories is positive. And I am very, very encouraged by that.

And just to close on that, Ed, is to say that we are aware that because where the consumer is, that we have to pay more attention on affordability going forward. Therefore, we said that going forward, we will see more balance split between price/mix and volume, as we will be giving more space to the programmes and initiatives that will be behind volumes, exactly for the reason where consumer at this moment is.

Edward Mundy: Great. Thank you.

Simon Hales (Citi): Thank you. Morning Zoran, morning Ben, morning John. So just a couple for me. Ben, maybe I could ask you first, just around the changes in the financial charges line. Again, clearly a further improvement in the guidance this quarter, building on what you said at the Q2 stage. I am just curious to understand what continues to drive that improvement, given the backdrop we have got of a raising rates environment elsewhere. Is it all just interest-income driven?

And then secondly, I just wonder whether you could just give us a bit more colour about the performance of the Russian business in the period. I see in the statements clearly you have seen some organic growth Q3-on-Q3, but I would just be interested in a bit more colour there, Zoran, if you can share that.

Ben Almanzar: Very well. Thank you, Simon. So I am going to start with the finance cost and give you some colour about what is driving it, and then I will hand over to Zoran to say a few words about the Russia performance.

So our guidance implies an improvement of €15 million in finance costs, as you have seen for the full year 2023. And this is really mainly driven by the increasing interest rates, as you rightly point out, which benefits our strong Group cash position. And I want to underscore here and make it clear that the impact of Russia here is minimum.

Zoran Bogdanovic: Hi Simon. Let me just provide input on your second question. Really nothing new to add related to Russia versus what we have been discussing on the previous calls. Just to reiterate that we are looking here at quite smaller business. On a two-year stack, we are 40% down on volume, even though logically versus last year, we are above for the obvious reasons, as in Q3, we have transitioned from the Coca-Cola brands and started with our own, but we are talking about 40% lower volume in the quarter. But everything else is the same. And nothing else new to share. Thank you.

Simon Hales: Great, thank you.

Matthew Ford (Exane BNP Paribas): Hi Zoran, hi Ben. Just one question on the outlook for next year. So obviously you have reiterated your outlook for 2023. Just looking forward to 2024, which areas of the business do you foresee presenting the most difficult challenges from here and where do you expect to see the most tailwinds? And then just tagged onto that, how do you expect the outlook for COGS in 2024 based on your current level of hedging? Thank you.

Zoran Bogdanovic: Thank you, Matthew. It is still really early for us, and we will reissue and give a better colour on the 2024 guidance when we give out 2023 results in February next year after we really put this year behind us, and we will have better reading of everything that is going on, as we are witnesses of how much is really going on. And I will just say that despite the ongoing macro challenges, we are confident in setting a strong platform in 2023, from which we will build on from 2024, and we regard all our segments as playgrounds of driving growth. So we will give more colour in February, if you can appreciate that. Thank you.

Fintan Ryan (Goodbody): Good morning, Zoran, Ben, John. First question for me, please, if you could just talk about the performance in Egypt. So predictive, there is quite easy comps from last year, but given the growth in Waters, how we should think about this with that portfolio mix going forward, and that given that last year, the profitability in Egypt was quite constrained, would you be factoring in margin improvements year-on-year from that Egyptian business?

Zoran Bogdanovic: Hi, Fintan. So first of all, encouraging to see Q3 performance from Egypt, which comes as a result of us really doing a number of things from the moment we started having this wonderful business in our Group. First of all, I reiterate how we are excited to have Egypt as a market, which has tremendous long-term potential. But evidently, Egypt is going, macro economically, through a challenging period which last year, saw devaluation, this year and also now significant inflation. But at that backdrop, it provided a genuine sense of urgency with which we fast-tracked the way we build our prioritised capabilities, our bespoke capabilities in the country.

And we see that that already starts to bear the fruit, especially in the area of revenue growth management, which we regard as the most critical framework for any market. And Egypt is no exception. And that is why we are seeing the performance of Sparkling in the country, and also Water played a good role in Q3 because we have done some significant price increases and adjustments, which were needed in the category to make it more economically viable. And that has been achieved with a good success.

So in both of those categories of Sparking and Water, we have done necessary steps and good to see that now that bears the fruit. Also, we have launched two brands Fury and Monster in Egypt because that was the first priority category where we recognised the opportunity, and we are quite pleased how, so far, these introductions are performing.

I would also highlight the extent to which we are really training and educating our sales force as a critical population to drive our results. They have gone through our sales academy, reaching, gaining their license to sell, as we call it. That is very important in how we upscale the sales force. Also, the way we have reset the whole approach, working with wholesalers in the country, which is a very important segment of customers, I am really pleased how the team has done the adjustments for a healthy growth.

So these are some of the things that really are colouring of what we do in Egypt. Needless to say that we are intensifying our investments – coolers in the market that we are doing, that is also focused on digital commerce with e-wholesalers. So I would say on many fronts, we are working very hard and very busy in strengthening the business. And I am concluding to say that I am quite optimistic about the outlook in the years going forward.

Fintan Ryan: Great, thank you, Zoran. And then quickly then on Nigeria, just given the pressures that a number of the major beer companies are talking about in the market, I wonder, could you talk about how you are continuing to significantly gain share of growth from the consumer and would you still be confident on driving volume growth into Q4 and into next year?

Zoran Bogdanovic: Yes, Fintan, the very first thing I will emphasise on Nigeria are the bespoke capabilities that we are developing and heavily investing behind, in Nigeria. I always like to remind that Nigeria, if not the first, is always among the first countries where we start and pilot many areas of our capabilities and the way we have developed revenue growth management capability, also route to market, and now data, insights, analytics is really critical. We have seen how that carried us through the COVID times and then in post COVID. And at the beginning of the year, when the country had issue with the bank notes, because of our proximity, frequency of visits, intelligence of where we need to go, what we do and that it is not one size fits all, but we take very segmented approach in the way we plan our initiatives, how we execute them per different region, how we are now doing pricing in a pace and well-planned waves between different regions, I think all that is very important in how we execute locally adjusted marketing plans from The Coca-Cola Company – where I really need to say that we like the way the global marketing programmes are adjusted to the local reality and local consumer. And we are actually really encouraged to see how our partners from The Coca-Cola Company are doing that. And as a result of that, we do see that we are jointly increasing the number of weekly plus consumers, which is a good fact.

So when you put that all together, I cannot make one point is a sole driver, but all these together is giving us a confidence that this quarter, we will see a volume growth. We are cycling very low volume comps in Nigeria from last year. And also our planning for next year is taking both into account price/mix, but also volume. So both of those are critical for our revenue generation next year in Nigeria.

Fintan Ryan: Perfect. Thank you very much, Zoran.

Zoran Bogdanovic: Thank you, Fintan.

Alicia Forry (Investec): Hi there. I think most of my questions have been answered actually, but I wondered if, just coming back to Egypt, would it be possible for you to break out at least roughly how much of the growth there was due to the new launches that happened and how much is the underlying health of that market? And perhaps as you just did with Nigeria, if you could dig into a little bit about the consumer backdrop in Egypt a bit more, that would be helpful. Thank you.

Zoran Bogdanovic: Good morning, Alicia. Even though we are excited with the new launches in Energy, but those still are really not material to call them out. So it is the underlying performance of two well-established categories of Sparkling and Water that is driving the result in Q3. Consumer sentiment is not easy, given the fact that we are talking about very high general inflation, but especially food inflation is even higher. And we do see that the overall NARTD category market performance is in a small decline, while it is good to see that even in these kind of circumstances, that Sparking category is still in the positive trajectory. So we appreciate to see that level of resilience on the consumer side, but we fully acknowledge the sentiment and the burden that is on consumer, and that is reflected in our plans and adjustments of our brand pack price architecture that is being done in the market. And we feel that really that plays a role to address the consumer needs at this moment. Thank you.

Andrea Pistacchi (Bank of America): Yes, hi, Zoran, Ben. So two questions please. The first one on Established volumes, which obviously you had a difficult quarter in Q3 held back by the weather. Could you comment on to what degree trends may have improved in September, particularly in Italy, as the weather was less of a drag?

And the second question is on 2023 guidance. So Q3 was another quarter of strong top line growth. You have not, of course, changed the guidance. Your guidance this year implies quite a bit lower margins in the second half, and historically, margins have been higher in the second half than the first half. So how do you really square this and what do you see, with two months to go, as the main areas of uncertainty for your performance in the year?

Zoran Bogdanovic: Good morning, Andrea. Let me start with your first question and then I will give Ben the pleasure of the second one. So on Established, first of all, I really use the opportunity to say how pleased I am with the progress that we are making in the Established segment. Just to say that couple of years ago, if you would ask me how would we be able, or to which extent in such inflation environment to pass on pricing and improve our revenue per case, I probably would not be as confident as I am today to really see the testament and the result of revenue growth management that we are doing across all Established markets. And I am very pleased that our conscious choice of focusing on price/mix has delivered desired results of very strong revenue per case, where both pricing and mix played a role.

We knew that this is going to possibly create a temporary impact on volume but it was a conscious choice. And also, to mention that we know that we were cycling very, very strong volumes in this segment of Q3 of last year; if you remember, we were cycling 10%. So all in all, very pleased with the performance and in line with what our plan was. And going forward, like for the rest, we are going to see a more balanced ratio between price/mix and volume as in all segments, but also in this one.

Ben Almanzar: Hi Andrea. After a strong first half where we saw organic EBIT growth of 18% that was led by good execution of price increases and that resilient volume performance that you saw earlier in the year, now our guidance for the second half implies a slowdown in organic growth. And that is primarily driven by moderation in revenue growth, driven by price/mix, as Zoran has earlier said. And basically the other thing to consider is that on the cost front, while inflation is subsiding, we must also account for more significant transactional FX head winds that we see in the second half, coming from things like the ruble, the naira and the Egyptian pound. So that is why the guidance remains as it is.

Andrea Pistacchi: Zoran if I can ask just one super quick follow-up, please, on Italy and the sugar tax? I think I was reading it is possibly being postponed again. Do you know, is that confirmed? Is that right? And are you hearing of potential sugar taxes in other markets?

Zoran Bogdanovic: You are right. You are right, Andrea, in Italy, at the moment, this has been pushed to July 2024. And we remain working with industry on this case, but it has been pushed to July and then we will probably have a more accurate status of that at our next call. And then as you said, in any other markets, we do see that in Romania. In Romania, we expect – and there was going to be sugar tax from January. And that is something that we have anticipated now in the preparation of our plans, and we are taking that into account, and plans will be completely addressed that.

Andrea Pistacchi: Thank you.

Zoran Bogdanovic: You are welcome.

Good, and let me just recap a few key points from the call. We had another good quarter of sales growth with resilient volume growth, as well as strong revenue per case expansion. We are iterating our guidance for 2023, providing a strong platform from which to build on in 2024 and beyond. Thank you all for your attention, and with that, I close the call and wish you a good day. Thank you.

Operator: Ladies and gentlemen, thank you for joining. The conference is now over. You may disconnect your telephones. Thank you.

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