CCH – 2022 Third quarter trading update
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Questions and Answers

Mitch Collett (Deutsche Bank): Morning, Zoran. Can you just give us some colour on 2023? I appreciate you have not finished 2022 yet, but it would be just good to get some puts and takes. You have got a full year of Russia operating in the new model, potentially less of a COGS headwind. Can you give us some colour on how we should think about 2023 at this stage?

Zoran Bogdanovic: Good morning, Mitch. Let me just say a few words and then Ben will build further. As I mentioned, so far we see a limited impact on the consumer from the whole environment and the inflationary pressures. I am reiterating how pleased I am with how we navigated through 2022, and feeling fully ready for whatever may be ahead of us in 2023. We do expect that we will be probably feeling more of a consumer impact in Q4 and into 2023. For that reason, we have fully ready overall holistic plans, including further dynamic flexible pricing across all our markets, that I have strong confidence in how we will execute them, equally as we did this year.

And in terms of Russia, you know that this year it is fully really not comparable given the whole evolution and us starting with a significantly smaller model there, which next year will have an impact versus this year.

With that, Ben, please.

Ben Almanzar: Thank you, Zoran. Mitch, as you rightly alluded, it is a bit early to provide guidance for 2023. We have not landed 2022 yet, and there are still many moving parts. Now, let me provide a bit of colour just to give you some sense of what we are seeing.

We are planning for another inflationary year, with COGS per case likely to be up double-digit. We rely on pricing-led RGM to drive quality revenue to ensure we make the right decisions. As we navigate the 2022-23 inflationary environment, our primary focus is going to be on absolute EBIT. We will consider it a very good performance if we achieve organic EBIT growth in 2023. As per usual practice, we will come back in February when we can say more about next year's guidance. But, we remain optimistic about the midterm prospects of the business.

Sanjeet Aujla (Credit Suisse): Hi, Zoran, Ben. I would just like to understand a little bit more how you are balancing the need for further price increases, on the one hand, with also the need for affordability. I think your assumption is that volume elasticities will impact at some stage. How are you balancing the net effect of that, and can you achieve affordability measures in a revenue-per-case accretive way?

Zoran Bogdanovic: Hi, Sanjeet. In short, I believe we can. Now, my personal and the team's, source of confidence is the way we have been building the whole revenue growth management capability, which is far more than just doing pricing. Pricing is an important – an essential element, especially in this kind of inflationary environment. And for that reason, we have been doing well-planned and orchestrated price increases across our markets.

Evidence of how we have done that so far, is no customer disruption, as this is done with a strong augmentation and in partnership with customers where we always aim for providing value to shoppers and consumers because of the whole holistic approach which surrounds pricing; whether that is a promotional plan, might be pricing promotions or price-pack architecture or value-added promotions, and, of course, the whole marketing plan that we create together with the Coca-Cola Company.

All that comes together. And within the whole RGM, there is a critical part of paying attention both to affordability as well as premiumisation even in these kind of times. Now, affordability is something that really is, even more, coming to the surface, which is no surprise. In all markets, we are paying attention to that. And there are many things that we can do, whether we are changing the pack architecture, where we are doing more proliferation of the smaller single-serve packages because we do see the importance of the absolute price point that we want to hit. And it seems that absolute price point, because how people in these kind of times manage their own absolute spend on basket, proves to be even more important than price per litre.

Then, we are introducing smaller multi-serves. And across our markets, we have done moves which prove to be working quite well. In my prepared remarks, I mentioned Poland with Zero 85. In a number of markets, we went from 1.25 litre to 1 litre, 1.5 litre to 1.25 litre. Thus, we are doing that, together with also reducing the size of the multi-packs, whether it is on single-serves or multi-serves.

And then also paying attention on the price promotions. This is where our data and insight and intelligence that we are gathering on return-on-investment analysis is showing what type of promotions, in which type of market are serving us best, so that we both achieve the value for us and customer, but equally that shoppers and consumers get the value they are looking for.

There is a whole variety of things that we are doing there. And let me just conclude that this is what gives me confidence and belief that we can continue a good healthy orchestration of driving our price mix, but also paying more attention to affordability the consumer might increasingly need going forward.

Simon Hales (Citi): My first question, Zoran, can I come back to your comment just around the consumer behaviour that you are seeing? Obviously, you talked about having seen limited changes. However, I wonder what you mean by limited? What changes have you started to see in some of your markets, perhaps through Q3 and into the early part of Q4, given that you were flagging that you do expect things to be more challenging in the fourth quarter and into next year?

Zoran Bogdanovic: Hi Simon. So, in a few markets, primarily in Africa, Nigeria, Egypt, and then to some degree, Romania, where we do see that consumers are either a bit slowing down on the purchases or there is a shifting buying pattern, which we are closely monitoring. The way, also, people are more cautious on the savings, pre-planning their spending. These are some of the things that we have seen in the past and we observe them now in a few markets, and we did say that it is limited number of markets because in, actually, majority of our markets, we have not yet seen, across our categories, the impact of this impactive consumer behaviour. We stay alert to monitor that and make any necessary adjustments to that.

In the remarks, I mentioned Nigeria and Egypt because we know that the Nigerian and Egyptian consumer is less resilient than the one in Europe, having less household savings than those in Europe. And we know that this would be expected behaviour in these kind of times. That is why, in my answer to Sanjeet, we do pay increasing attention to the affordability but because of the segmentation, which we are doing in the countries, this now allows us to balance this with things that are addressing consumer segments where affordability is not so much an issue. Therefore, our more premium offerings, whether in Sparkling or Energy, are still having a good performance, even in these types of markets.

I hope I gave you a bit more colour on this.

Simon Hales: I wonder if I could just follow up with the second one, maybe for Ben. I think, Ben, you talked about 2023 COGS being up double digit. I wonder if you could share where you are from a hedging standpoint on your core commodities.

Ben Almanzar: Yes. Thank you, Simon. Basically, when it comes to hedging, if you look at 2022 we are well covered. We have now hedged over 90% of this year's major commodities associated with input costs. We continue to look for opportunities to hedge in 2023, primarily focusing on sugar, aluminium and resins, and we will be in a position to give an update in February like we often do.

Edward Mundy (Jefferies): Morning guys. Zoran, a question for you. You mentioned in your press release that you are the number one contributor to revenue growth within FMCG across your retail customers. How does this compare versus a few years ago and how does this help you navigate, alongside your key customers, a potentially deteriorating consumer environment and allow you to deploy your RGM and digital capabilities?

Zoran Bogdanovic: Good morning, Ed. I cannot be fully factual because I do not remember. However, this last couple of years, I would say last two, three years, in a number of our markets, but in totality, we are very pleased to see that we are number one revenue-generating player in FMCG space. I see that as a direct correlation of investment into resources, capabilities, systems that we are doing with the key account management capability, which is one of our prioritised capabilities. And that is for the simple reason that more than 50% of our revenue is coming from that key account retail space.

It is a conscious effort of getting the best possible people to lead and populate these critical roles. And the best reward is to see customer partnership levels, loyalty and programmes and things that we do together, which actually materialise in this achievement that we also claimed. Meeting customers and hearing their feedback, this is what gives a great source of confidence. And this is one of the reasons why, also, so far we have not seen any customer disruption when it comes to price increases because we have a continuous, frequent intense partnering where we are, together, reading the environment, creating the plans. Joint business planning is one of the things that we do with the increasing number of customers, which is not only with one-year horizon but multi-year horizon. And that is the proof point of how, together, we are partnering, which is way beyond the transactional way of working with customers.

Charlie Higgs (Redburn): Hi Zoran, Ben, Joanna. My first question is on energy drinks, please, where you have seen 30% volume growth off a 29% comp last year, which is obviously very, very strong. I was wondering, how sustainable is this growth? Have you got a strong pipeline of innovations coming up for 2023? Is the growth of Predator accretive to your energy drinks growth at the moment or does it potentially cannibalise a bit from Monster Energy? Thanks.

Zoran Bogdanovic: Hi Charlie. Energy category has now been for, I think, five or so years constantly growing with double-digit growth and we strongly believe that this category has, still, a long runway ahead. And that comes because of a number of factors. One is the fantastic innovation pipeline that we are getting from our Monster team that really proves to be driving incremental revenues and also serving the purpose of expanding the category to wider segments of consumers. That is why this category has evolved of being just a teenage drink, but really now is becoming a part of beverage landscape for many more consumers.

Also, reformulations, where energy now also has a number of variants without sugar. Then, also, stepping into blurring categories where you see energy blurred with juice, energy with tea. All that is helping that great-tasting product. There is a great promotional calendar, some strong marketing properties that Monster has that are really relevant to consumers, but equally, also, to our customers. Then, also showing how stratification of the brands in their own price segments really plays a role.

So, Monster, if you take a key mainstream proposition, Burn more on the premium and then, now, Predator, which plays this role of more affordable energy, which proved to be exactly the right proposition in Nigeria, now is proving, also, its relevance in Poland, so that we can compete with other energy beverage types which are in that segment, which eliminates the need that we, let us say, price promote more Monster or Burn. Even though Predator is of lower revenue per case, however it has a good profitability level, which can vary from country to country, but we are quite pleased with the bottom line that it creates.

Charlie Higgs: Thank you. Then, my follow-up question is just on Nigeria and if you could just comment on the health of the consumer and also the volume performance in Sparkling. Has that been impacted at all by the sugar tax? Are you seeing consumers move more towards returnable glass bottles?

Zoran Bogdanovic: Sugar tax has been blended in the whole price increases that us and others have been doing. For sure, it was not something that we hoped for, however, honestly, it was not dramatic, so I would not attribute too much of an impact to the tax itself.

In Nigeria, in these kind of days and when consumer is impacted more, we know that volume will, for a period of time, be sacrificed, if you will, because of driving price mix, which is absolutely critical to do now. It is in line with our expectations that for a period of time, volumes might suffer in some periods, but all that is for the purpose of generating healthy revenue. And that is why I am quite pleased to see that Nigeria, also in Q3, has continued with a very strong double-digit revenue growth that we have seen.

Yubo Mao (Morgan Stanley): Hi, morning Zoran, Ben and Jo. Thanks for taking my question. I just have a very quick one on Developing, please. The top-line momentum there has continued to be fairly remarkable in Q3 and your comments there appear to be somewhat more positive than some other beverages peers, so could you please just give us your thoughts on what has been driving that momentum? How much of that was down to favourable industry dynamics, soft drinks being more resilient, and how much was down to your execution?

Zoran Bogdanovic: Good morning, Yubo. Yes, very pleased with how Developing markets have been performing. Actually, it is across almost all of those markets that have been driving strong double-digit growth: Poland, both total portfolio in Sparkling, high 20s, close to 30s; Hungary, same thing, in the 20s; Czech, high 20s. We see that that growth is coming across all categories. I am very pleased that, actually, Sparkling is driving significant growth, which is in the low teens. Very pleased to see that no-sugar variant is growing even faster, and then, also, Energy has been performing really well. This is also segment where we see a very good growth of Coffee, as Poland is a big market for Costa.

This comes as a result of very well-thought-through plans. I would start with Poland, which last year was suffering because of the enormous price increases driven because of the sugar tax, but proper prioritisation that the System team, meaning our team and Coca-Cola team, has prioritised, focused behind key bets, which is Sparkling led by zero-sugar flavours. There was a beautiful revival and relaunch of Kinley as our Adult Sparkling proposition in Poland, giving very good results. Also Energy performance and I mentioned also, mentioned Coffee.

There was a very good balanced revenue generation between price and volume, and all the price increases that we have done in the market have gone really well without any disruption. So that also last point I want to say is complemented with our continuous investment into the market. Our sales teams, not only in the number of them that we have and that we are increasing year on year, but also the capability that we are constantly raising of their skills and knowledge, leveraging our sales academy that we have, which has the purpose of continuous knowledge refreshment and upskilling of our teams in the market, which inevitably helps customer relationships and market execution.

Yubo Mao: Understood. Can I just have a follow-up on Egypt please? It looks you have continued to outperform in what is a fairly difficult market, but the volume decline appears to have got a bit worse this quarter. Would you be able to share some colour or data points around how the overall industry has performed and the magnitude of the share gains you have achieved in the recent quarters? Thank you.

Zoran Bogdanovic: So, a really tough market or circumstances in the market, there are number of things have come together from inflation, from currency, food pricing, we know on the dependency on the wheat import, etc. Us and others in the market have reacted with the price increases, which really need to be done.

We are happy that there is a rational competitive conduct in the market. And within that context, we are very pleased that we are continuously having a positive share performance. That is great to see. I use the opportunity to say that share performance is not something that will necessarily always happen, either in Egypt or elsewhere, because we know that we want to pay attention on the healthy revenue growth.

If sometimes happens that any competitor decides to play a pure volume game, we are not going to follow that. I am not saying we are not going to react in some ways that will be meaningful. That is why I do not want to leave a flavour that share gains are something that necessarily will always happen.

We are ready to sometimes have some share sacrifice if needed for our revenue and bottom-line protection. However, coming back to Egypt, I am very pleased that the team over there has been doing a really good job in the way they have done price increases, how they have adjusted their marketing plans so that altogether, as a package, we are winning in the market.

Richard Felton (Goldman Sachs): Good morning, everyone. I will be interested to know how you are thinking about your strategy in alcoholic beverages in financial year 2023 and beyond, so the Coke System was a bit faster to market with a hard seltzer product in Europe than some of the brewers, there is more innovation on the way with Jack and Coke in the RTD space. So Zoran, it will be interested to hear how you are thinking about your medium-term strategy in alcoholic beverages and how that might impact your financials going forward?

Zoran Bogdanovic: First reminder that for more than a decade, we have been in the alcohol category, having very valuable partnerships with several premium spirits companies like Edrington, Brown-Forman, Campari in almost all of our markets. This helped us that for more than a decade, we have built the capability, experience of operating in this category, and also really experiencing through clear results how we drive incremental revenue, not only through premium spirits propositions but also through complementarity of premium spirits in our core portfolio through mixability, how that is also stimulating the growth of our core portfolio, be it Adult Sparkling, Coca-Cola as a mixer, either in the HORECA or also in the socialising occasion at home.

Now, coming back to the question related to midterm going forward, we really are very pleased that The Coca-Cola Company has entered into the space of light flavoured alcohol beverages where our hard seltzer of Topo Chico's just the start. As you said, there are some nice innovations coming up there and one of them, and one of them is this great blend of Coca-Cola and Jack Daniels. And we do have, in our plans, to launch that in selected markets.

To start with, we look forward to see the global launch in Mexico later in the year, but we are also part of the plans and preparations to roll it across several of our markets. Personally, I believe that year by year, the relevant propositions for our consumers will be bigger and bigger. And that is the shared vision between Coca Cola Company and us together.

Andrea Pistacchi (Bank of America): I've got a question and then a follow-up. The first question, please, is on top line. I know it is early to talk about 2023, so just wondering if you could share any thoughts on what you think the top-line growth may look like, maybe not exactly quantifying, in 2023.

I think CCEP last week obviously, they have got a different geographic footprint, but they talked about their markets potentially growing around high-single digit next year, very much, price driven. How do you think about your markets?

Zoran Bogdanovic: You remember that our 2025 algorithm of the corridor of 5-6% where, as we have seen, we will be quite ahead of that this year.

In spite of the environment and some of the limited impact in some of the markets, we do feel there is a momentum in the business reflected in the top line, and reflected in the share gains, and also in the way customers are recognising that. I believe that, even though it is quite early yet, and we are very mindful to see how the environment will evolve, but I can only say that my expectation would be that we would be ahead of the corridor in terms of the top line that we have for 2025, which you remember is between 5% and 6%.

Andrea Pistacchi: Thank you. And the second question is on the increased guidance for 2022. If you are able to say, maybe not exactly, of course, but what is mainly driving this? Is it a really strong performance in the core business versus a better performance maybe in the Russia/Ukraine part of the business? And also, is it a stronger Q3, or maybe even an expectation that – as you will see in the environment, you have not really seen an inflection point – an expectation that Q4 may be be more resilient than you could have been thinking a couple of months ago?

Zoran Bogdanovic: Yes, let me start and then probably Ben wants to also build. Andrea, , first of all, readiness and preparation of our plans for this year where core element of the plans have been so well executed. But then also with everything that has happened from February, how we have quickly adapted to create acceleration plans in a number of our markets that were not affected by this crisis, was also an important element. And how quickly we have work with The Coca-Cola Company team in creating acceleration plans in a number of markets, whether Italy, Poland, Greece, blended with our desire to create best the possible summer plans like never before, which gave excellent results.

This was helped by good recovery in the out-of-home channel for those markets that were not yet fully opened last year. Also, the element we have to be thankful for, for very good weather that we have experienced during summer and even last October, we enjoyed very good weather in a number of our markets. Consistent investments behind our top strategic priorities of Sparkling, Energy, Coffee, and even as a more not-so-visible-success that we see with Powerade in Sports category that has be performing really, really well in a number of markets where we have it.

And last point I will say is also that capabilities do matter. The fact that we are continuously strengthening our RGM so that we can really drive that healthy revenue does matter. And also the fact how it is now fuelled with data insights analytics, that connectivity is great. And further, when you put that triangle of revenue growth management, data insight, and route to market, that makes interconnected trio on which we are having great focus, investments and resources.

I personally believe that that is not so visible, but we feel how much that helps us to drive the revenue growth.

Ben Almanzar: Just a quick build, all of these elements that Zoran mentioned, Andrea, drove a strong period of trading over the summer and better-than-expected financial performance in Q3. When you couple that with ongoing favourable currencies through the period, despite all the uncertainty, and obviously we remain very, very attentive at macroeconomics and geopolitical risk, that lead us to raise the guidance and we are now expecting that €860-900 million, which includes the full consolidation of Multon since August 11.

Zoran Bogdanovic: Ladies and gentlemen, thank you for your insightful questions and good conversation. Let me just conclude this call with a reminder on only three key messages.

Firstly, the trading in this quarter has been ahead of expectations and we have increased our 2022 guidance accordingly.

Secondly, while so far we have seen only limited evidence of a consumer slowdown, we are alert to this risk and are fully ready to adapt with well-prepared plan.

And finally, we built a more agile and resilient business over the past few years, better able to meet both the challenges and opportunities that lie ahead. We remain well positioned for future profitable and sustainable growth and creating shareholder value.

Thank you very much for being with us and wishing you a great day.

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