CCH – 2022 Half-year results
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C O R P O R A T E   P A R T I C I P A N T S

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Questions From:

Simon Hales - Citi

Sanjeet Aujla - Credit Suisse

Mitch Collett - Deutsche Bank

Richard Felton - Goldman Sachs

Edward Mundy - Jefferies

Alicia Forry – Investec

Yubo Mao - Morgan Stanley

Charlie Higgs – Redburn

Gen Cross - BNP Paribas Exane

Questions and Answers

Simon Hales (Citi): Thank you. Morning Zoran, morning Ben, morning Joanna. Thanks for the presentation. I wonder if you could talk a little bit, firstly, with regards to your guidance range for 2022, please? Obviously, it is a very broad range that you have set out there. It is helpful to have it, but could you talk a little about the assumptions you are making to get you to either the top end or the bottom end of the range? I am thinking especially with regard to how you think about the consumer backdrop, perhaps, into the back end of the year, given the toughening macro environment. Associated with that, maybe for Ben, you mentioned, obviously, the full consolidation of Multon from now, could you just walk us through some of the moving parts there and how it will impact EBIT for the year?

Then my follow-up question, if I could throw it at you now, was just how do we think about COGS pressures into 2023? Is there anything you can give us at this point in terms of the level of inflation you expect, how hedged you are, etc., already for 2023?

Ben Almanzar: All right, Simon. Thank you. So let me start with your first question on the guidance and the implied EBIT that we see in there. So we have guided to a comparable EBIT of €740m to €820m, and this encompasses a range of possible scenarios for the business and the external risk we face. Notice that our guidance incorporates that expectation of COGS per unit case inflation in the mid-teens, and we are also prudently assuming a degree of consumption slowdown in Q4.

So the lower end of that EBIT guidance, we will need to see a consumer environment that weakens far more than expected, a material slowdown in demand from September and through Q4. The COGS per case inflation may creep towards the higher end of the mid-teens, and on FX our current expectations are based on spots and our hedged rates, which imply an FX impact well below 2021. This could change, given the volatile macro and geopolitical backdrop that we are operating.

Now, if I move you to the top end of that EBIT guidance, what we will see is a continuation of strong topline momentum across our markets, we will see that the expected volume slowdown in Q4 is less material than anticipated and, very importantly, no incremental inflation in half two beyond that COGS range that we have defined, okay?

So if I move on to your next question, which is on the consolidation of Multon. So, basically, look, Multon already appears in our EBIT. We have been consolidating 50% of the net profit of Multon into our Emerging and Group EBIT; that is to do with the share of results of integral equity method investments line. From today, we will start consolidating Multon as a subsidiary at 100% of each line. This means that, in 2022, we will have a scope impact from Multon for four and a half months, so that will be 100% of the volume and revenue. For EBIT, we will have four and a half months on the additional 50% of EBIT, plus, if you are being precise, also we need to include the tax in there. We provide disclosure on this in our annual report. If, basically, you do the math, what I am talking about is an impact in the mid-teens million.

Half-one share of results were higher and it will be reasonable to think that Multon drove much of that in half one, but notice that it benefitted from FX, so about one quarter of that EBIT delivery, as well as the pricing action that we implemented in the market. So net-net you should be thinking about €15 to €20 million when it comes to Multon.

Your last question, Simon, was around how do we see inflation developing and what are the expectations for 2023 specifically.

It is early to provide guidance on 2023. That said, we are preparing for another year where we will see inflationary pressures, but less than we have experienced in 2022. For 2023, we are slightly better hedged than usual in major commodities ex-Russia, and we continue to look for opportunities to increase that, as the year progresses.

Simon: That is brilliant. Thank you ever so much.

Sanjeet Aujla (Credit Suisse): Hi, Zoran, Ben. My first question is just zoning in on some of your emerging markets, in particular Nigeria and Egypt, where I think volumes have decelerated a little bit in Q2 there. So just love to get your take in terms of how you are managing the trade-off between volume and price mix in those businesses and if you are seeing any signs of consumer demand softening, or whether that slowdown is a function of just tougher comps kicking in? That is my first question.

Zoran Bogdanovic: Hi, Sanjeet. Thank you. First of all, to say that the emerging segment continued to be a very strong growth driver for us in the second quarter with a very strong double-digit growth if I exclude Russia and Ukraine, and this comes from a good blend of volume, but even more of price mix, which clearly reflects, as also Ben highlighted in his remarks, that our revenue generation was more driven from price mix, and within price mix from pricing.

Now, namely Nigeria, we had a very good high-single-digit performance in the first half. Let me just remind that that was against very strong comps that we had last year. However, I would emphasise, in Nigeria, very strong price mix that we are seeing in the first half, which is in the high twenties, and that is again against also quite strong comps of last year. So, that is a very conscious and mindful play that we have in Nigeria. We haven't seen so far any slowdown or down trading, as we have carefully crafted the plans with both affordability as well as the premiumisation part of the portfolio and we stay very alert to observe if anything will change and if we would need to react with some more affordability. But as we highlighted in our remarks, we do expect that because of the whole situation and pricing that everybody is doing, not only us, that we would see probably after the summer, end of Q3 and definitely in Q4, we do see some slowdown coming. The only thing is to see the magnitude of it.

That is what I would highlight. And just to conclude that I am very pleased with the performance of Nigeria, which now continues to be quite in continuity for some time.

Sanjeet Aujla: Great. And just on Egypt, to what extent is the macro environment presenting a bit more of a challenging backdrop then, perhaps what you were anticipating when you consolidated?

Zoran Bogdanovic: Firstly, I just want to say that we are very privileged to have Egypt as a part of Coca-Cola Hellenic. And firstly, let me say that the whole integration that our central team together with local team are doing are ahead of the plan. There is a great deal of passion and commitment and drive that everyone is putting behind it. You rightly said the whole macro environment has become more challenging with inflation going from mid-single-digit to mid-teens, and we have seen also the currency devaluation that now has reached to around 21%, and on top of that, we know that Egypt is a big importer of wheat from Ukraine. In that case, basic foods like bread and corn have seen inflation and that is in some way hurting consumers' disposable income, which means that we had to prioritise our price mix actions and also do the pricing which anyway was in our plan, but this was brought forward just in reaction to the environment as it has evolved.

And that just proved that our prioritisation of capabilities strengthening and building in Egypt, which starts with revenue growth management, route to market, and data insights and analytics just proved right. Thus, as we speak there is intense work going on, that I am very pleased about the progress. And in spite of this somewhat more challenging environment, I remain nothing but confident about the potential of this country going forward and we are going to sail through that.

Sanjeet Aujla: And just a follow-up just on Russia, clearly, evolving the business model there towards a local portfolio. Can you just talk a little bit about the economics of that business just given – and I guess a big chunk of your cost would have been concentrate, and, clearly, that is no longer there. However, should we anticipate the level of medium-term profitability, margins you can get out of Russia with the new portfolio to be comparable to what you had in the past or perhaps not so?

Zoran Bogdanovic: Yeah, sure. Let me start and then, Ben, please jump in with some more colour there. So, with local brands benefiting on the fact that these are well-established local brands they have solid profitability and that combined with the fact that also we started with some cost right-sizing actions gives us the view that this business can and will be immediately self-sufficient. Just a reminder that with close to 50% volume decline in Q2, in any circumstance, we would react with cost actions. However, in this circumstance, we have especially reacted with immediate actions, which are doing the cost right-sizing and that gives us this view, as I said, on the economic self-sufficiency.

I will hand over to Ben to clarify a little bit more on the margin.

Ben Almanzar: Yeah, absolutely. Thank you. Look, on the 2022 financials, what we expect is the new model to be immediately self-sufficient, as Zoran rightly said. Therefore, we do not assume that Russia will be loss-making this year. That said, H2 will be much reduced versus H1, and let me explain some of the drivers.

In January and February the business performed extremely well. Then we enter a phase of retreating inventory of TCCC brands until the end of July. We stop investments in Russia. We cut promos and marketing spend. We increase prices and prioritise the most profitable SKUs and will not invest new capital into the market.

Now from 11 August, we are starting the new model as a local business. That local business will focus on juice and water rather than looking into expansions. We are consolidating 100% of Multon, as I have previously mentioned, and as a consequence of that, we are also taking a non-cash charge of €188 million in the form of impairments and write-offs which are essentially the impact of this decision.

And as we look ahead, in H1 2023, it is likely to face a similar trajectory than what we are seeing in H2 2022 on challenging comparatives. Therefore, even with 100% of Multon for the whole year, the EBIT contribution from Russia is expected to be lower next year. Again, as Zoran said, the local business will develop its portfolio with possible brand extensions, further adapt the cost base, and essentially that is how we see Russia playing out.

Sanjeet Aujla: Great. Thank you, Ben and Zoran.

Mitch Collet (Deutsche Bank): Hi there, I would like to ask a question that I think is a follow-up to that one. So the Russia business in 2023, obviously, is going to be facing a period when you still sold Coke product. Can you perhaps help us quantify how much of a drag you expect that to be in 2023, and maybe a way to do that would be to give us a sense for the level of profit that you achieved in Russia in the first half or indeed even the first quarter, just so we can try and get a sensible estimate for 2023, once that bit is effectively scoped out. I know it is not the scope but just help us get to the right answer for 2023.

Ben Almanzar: Thanks, Mitch. Look, it is early and we are only starting with the business. So, 2023 we are aiming as a Group is for EBIT growth, but I will not provide granularity specifically on Multon and Russia.

Mitch Collet: Okay, understood. Thank you.

Richard Felton (Goldman Sachs): Thanks. Good morning, everyone. My first one is a follow-up on input costs. Obviously, you have nudged up your guidance of COGS/case to mid-teens this year. Can you just remind us what part of your COGS are not hedged for 2022? And then perhaps related to that, what percentage of your COGS is linked to energy either through direct usage or indirect usage? That is my first one.

Zoran Bogdanovic: You were asking first about hedging specifically. So what we hedge is essentially the PET resins, aluminium and sugar, these are key drivers of our input cost. And if you think about 2022, we are well hedged with over 85% on major commodities associated with input cost. Obviously, as the year progresses, we will continue to look for opportunities to ensure that we are well covered.

You had a second question?

Richard Felton: Yeah, maybe just as a follow-up on that. In terms of your exposure to energy cost for the rest of this year, is that something you have good visibility on, or is that something that could cause a bit of a difference compared to the mid-teens guidance that you have issued today?

Ben Almanzar: No, look, like other CPGs, we are experiencing both direct and indirect energy costs. We think it is more helpful to share how we expect COGS/unit to evolve instead of getting drawn into the specific levels increased by individual lines. However, clearly, energy inflation is one of those drivers pushing cost/case into those mid-teens increase that we are communicating today.

Richard Felton: Okay, very clear. Thank you. And my second question is a slightly broader one on mid-term targets and 24/7 portfolio strategy that Zoran outlined at your CMD in 2019. Obviously, since then, the business has had to deal with a huge amount of volatility between COVID and geopolitical events, but if I look at the organic growth that CCH has delivered since then, it has actually been slightly better than the 5-6% target that you outlined. Now, today, I know you have got slightly more pricing, you are going to have Egypt contributing to organic numbers; progress you have made on coffee and energy. So how should we think about the growth potential from a top-line perspective for CCH over the next few years? Thank you.

Zoran Bogdanovic: Yeah. Thanks, Richard, that is a good question. First of all, as a reminder, when we said in June 2019, that our 5-6% was the average growth rate that we see per year up to 2025, which meant that in some years it might be below the range, but, also, we clearly said that there will be years where this will be above. And clearly, this year, excluding Russia and Ukraine, clearly, is such a year where we see double-digit growth rate. Now, it is too early to tell how we look into next year, as Ben said, but we are confident. We are confident about our algorithm that we guided for and actually, we are confident to be at least on the upper end of it.

Richard Felton: Great. Thanks very much.

Edward Mundy (Jefferies): Morning, everyone. Zoran, just a question for you. You have been in the business for 25 years or so, and you have seen a number of cycles. You were there after the global financial crisis when Europe really took a turn for the worse. And I guess the risk back then, was consumers left the category and went back into water, tea or coffee. Could you talk through how the business is different relative to history in terms of the portfolio, perhaps some of the RGM capabilities, digital, give us some of your insights and how does that really help you protect the business going into a potentially softer consumer environment?

Zoran Bogdanovic: Hi, Ed. Thanks for reminding me on my tenure, but good question. Look, in this close to 26 years, I have seen a dynamic and tectonic evolution of the business. When I compare how our portfolio has evolved, to start with, as you mentioned, it is dramatically different. We are truly becoming a 24/7 total beverage company. I am pleased and proud together with The Coca-Cola Company, we are leading this development, respecting consumer needs and really catering all possible caterings to them.

Some years ago, we did not think we would be in coffee or that we would be flavoured alcohol beverages. I think it is a super exciting development and that portfolio evolution is one of those reasons why I believe that this industry that we are playing in has excellent growth potential both in terms of the revenue and bottom-line. So that is one thing.

Second thing is that capabilities are on a very different level, and it is a result of the conscious choice and investments that we have been making for a number of years. When I compare revenue growth management, for example, now and versus five, ten years ago, it is night and day.

Today, this is a serious capability with serious resources, tools, systems and methods that we are doing, complemented with something that even myself maybe five years ago did not think we would have today a team of data scientists, translators who are leveraging the abundance of data that this company has, and that we can really now use to our advantage. Because to remind that no other company I believe can do that, because it is not only about buying external data, but it is also the data that our huge number of market and business developers that our everyday visiting customers are collecting.

Also, route to market which is today also being digitised. Only two years ago, we did not have a team so dedicated and focused behind digital and digital commerce like we have today, and such a resource capability and teams are driving the strong growth that we are seeing in our digitised revenue.

So portfolio, capabilities, I have to mention also the way this company has been committed to the sustainability agenda for more than a decade, with serious investment and commitment, contributes to the evolution of this organisation.

And lastly, I know you are also quite passionate about that topic, it would not happen without the evolution of the culture and development of our people. I know this can sometimes sound theoretical, but I truly believe that this is what gets us through – COVID of this world and the whole crisis that we went through and we take this as our lighthouse capability and we are super committed behind that. And I see that as the critical catalyst of this organisation today and going forward.

Edward Mundy: Thanks Zoran. Just as a follow up: clearly we have not had an awful lot of rain over the summer. There is talk of droughts and a lot of pressure. Can you talk to any pressure you are seeing from a water perspective? How is the company able to navigate that environment?

Zoran Bogdanovic: You mean water availability for our production?

Edward Mundy: Correct, yeah.

Zoran Bogdanovic: Yeah. It is a good observation. However, we did not have any issues with that, either with water or any other raw material and thanks to fantastic partnerships with our suppliers but also, especially in the water-scarce areas, we are doing various methods and systems, not only for us but equally for the communities where we operate. So, we did not have any issue, neither do I foresee it.

Edward Mundy: Great, thank you.

Alicia Forry (Investec): Hi, good morning Zoran, Ben and Joanna. Thanks for the question. I wanted to dig into the single-serve impact on the business in H1. It sounds like it was a big driver of, presumably, volumes profit. That is something you specifically targeted with your RGM initiatives. I am just wondering how much of that, in H1, might have been due to your own efforts to push this part of the portfolio and how much might be due to the out-of-home reopening in many of your markets.

Zoran Bogdanovic: Hi, Alicia, yeah, spot on. It is a result of two things. First of all, this year, we are benefiting from the reopening of the out-of-home. You know that out-of-home is the strength of our single-serve offering. Therefore, we are seeing significant growth of single-serves, which mean, let us say, in Q2, we continued with growth and an increased mix of 3.8%.

The second driver is the fact that every year we are highlighting how much we focus on single-serve and therefore, we are increasing every year the contribution of single-serves in our total mix. That is not only because of out-of-home part of the market, but also the focus we are putting behind more and more single-serves for at home, whether as a single pack or through various formats of single-serves in multipacks. Which we also very often do cross-category merchandising, various cross-category bundles and offers, especially benefiting on the understanding how, during COVID and post-COVID, some of the consumption patterns at home have evolved and there is an opportunity for the single-serves.

So, overall, it is good to see that our single-serve mix has increased more than two percentage points versus 2019.

Alicia Forry: Got it, thank you. My follow up, if I can, is on the relaunch in Switzerland into fully-recycled PET packaging. I wonder if you could talk a little bit about your experience during that transition, reaction from retailers, anything that you may have communicated to the consumer, or just anything you can share on that very significant development, there?

Zoran Bogdanovic: Yeah, excellent. First of all, even though it is early, however I think the approach that the Switzerland team has done in the way they have prepared this and launched this is exemplary on how this should be done in a 360 way. By that I mean that, first of all, we do what is right in terms of the packaging and in line with our commitment, but also, it also serves the purpose of partnering with customers and then doing the proper communication so the consumer is aware what is being done and that whole communication approach overall has been done hand in hand with The Coca-Cola Company team because it is our joint commitment.

So customers' willingness and drive for this has been very strong. That is why I would say it was a perfect environment and situation in which this has landed well and therefore this initial traction is quite good.

Alicia Forry: Thank you.

Yubo Mao (Morgan Stanley): Morning Zoran, Ben and Joanna. Can I have a quick question on Ukraine? Your Q2 volumes were down 45% but obviously the business is recovering. Can you tell us about the rates and how the operations have recovered in July and August? Thank you.

Zoran Bogdanovic: Hi Yubo, for sure. First of all, a reminder that, in Ukraine, our actual undisputed priority is the safety of our people and supporting them. Because of everything that is going on in Q2, we have seen, as expected, acceleration of the decline, which was close to 50% in volume terms, which, due to the restart of our plant in May, which then gradually ramped up through June, at the request of our employees and customers and to support the community, we started also selling in the parts of Ukraine where it is safe to do so. That is why we have seen that decline is not as big as what I said in Q2. I said that it halved in what we have seen, let us say, in July. There is still no doubt that it is double-digit below last year. However, I just want to reiterate that is not something that we are observing as a part of our performance management.

Yubo Mao: Absolutely. Can I have a follow up on OpEx, please? Can you perhaps talk about the moving parts in the savings you have achieved in H1? I was just wondering what the split was between lower SG&A and marketing? Thank you very much.

Zoran Bogdanovic: You said OpEx, right?

Yubo Mao: That is right.

Zoran Bogdanovic: Yeah. Ben, do you want to start?

Ben Almanzar: Okay, thank you. So, we have really maintained a good level of disciplined OpEx. As I mentioned initially, we have continued to invest in marketing, so that saving is not driven by marketing. So we have increased marketing by 9% in the first half versus the prior year. The rest is driven by, really, cost discipline and combined, obviously, with the positive leverage of driving the business and the top line.

Yubo Mao: Understood. Thank you very much.

Charlie Higgs (Redburn): Hi Zoran, Ben, Joanna. Thanks for the question. My first one, again, is going back to Russia and I was just wondering if you could talk about the asset base in Russia. I know you have put through some impairments. Is the plan to keep the existing ten factories and then starting production lines, in case situations do improve and your Coca-Cola portfolio is allowed to come back? If you could maybe just talk about that, please.

Zoran Bogdanovic: Hi, Charlie. Sorry, can you just clarify: I did not hear quite exactly? You said in Russia, to clarify what? I did not understand.

Charlie Higgs: Yes, so in Russia are you keeping the existing ten manufacturing plants? Or are you going to sell some of those, like some other multinationals have done?

Ben Almanzar: Okay, thanks Charlie. Let me start with that answer. We are not planning to sell our Russian plants. We have impaired them, as you saw part of them, in terms of the asset base, reflecting the new business model, but no, we are not considering disposing of them.

Charlie Higgs: Okay, thank you. My follow up was just on the very strong value share gains you had in H1 of 210bps in sparkling, even with the price increases you put through. Could you maybe just talk a bit about where those are coming from? Is that mainly because you are outperforming in single-serve versus competitors? Is it also happening in the at-home channel as well? I would just like some more colour around those very strong share gains, please.

Zoran Bogdanovic: Absolutely Charlie. First of all, in terms of across the group, the share gains have been driven by all brands in sparkling and Coca-Cola and flavours and adults. That is one thing to note. As well as that, let us say, critical categories of non-sparkling are driving good share gains, starting with energy. That is almost a full percentage point up. There were very good share gains in juices, 1.6 percentage points. Also, in water, where we focus clearly on value, we are having share gains.

That is across the categories. In terms of the countries, our especially big markets are driving good share gains, like Poland, Nigeria, we mentioned, in Egypt, Ireland, Switzerland, also including Italy. So there is a big majority of markets where we are having share gains, which is quite encouraging, at the back of share gains we also had last year.

Charlie Higgs: Perfect, thank you very much.

Gen Cross (BNP Paribas Exane): Hey there. Sorry, if we could just go back to the Russian business, if I think about the shape of the business going forward, could you talk a little bit about either what the historical volume growth profile is or what you expect mid-term volume growth to be? Thank you.

Zoran Bogdanovic: Historically, which you can see, as a reminder, Russia was a mid-single-digit type of volume growth market. Now, it is very hard to estimate what this would be going forward. It is a tectonic change in what is going to be a significantly smaller business. So it is very hard to predict how this will be and we will be able to give you more fair and accurate input on that question probably in six months.

Gen Cross: Thank you very much.

Zoran Bogdanovic: You are welcome.

Thank you all for your time, questions and interest.

We believe that the results we announced today underline the fundamental attractiveness of the markets where we operate as well as the strength of our execution and capabilities. I strongly believe we are well prepared to adapt and seize future opportunities in our industry.

We look forward to speaking to you all again soon and I wish you all a great day. Thank you.

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