

CCH – 2022 First quarter trading update

Conference call Q&A transcript – 12 May 2022

CORPORATE PARTICIPANTS

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Questions and Answers

Nik Oliver - UBS

Hey, good morning and thank you very much for the question. With regards to the revenue per hectolitre, obviously, a very impressive number. Is it possible to breakdown how much of that was price and how much was some of the mix benefits that you alluded to?

Ben Almanzar, Chief Financial Officer

Certainly, Nik. Thank you. Look, pricing was the largest contributor, accounting for more than half of the improvement in organic growth of the NSR per case, that is followed by package mix and category mix as well. We took pricing early in the year in all of our markets across Q1, bar a few exceptions, like Poland and Romania, which actually implemented their pricing in Q4 last year. We are accelerating that shift into single serve. It is a trend that continues in the market and also in the quarter, so that is why you see that package mix being also a strong contributor, nearly 25% of the improvement. Category mix is also adding to the improvement and that is driven by categories in Sparkling primarily with Coke and flavours, but also energy that continues to grow very well, indeed.

And the last thing that I would call out there, Nik, is actually that the geographical mix typically for us weighs down on NSR per case, and this time, in Q1, that was not the case. Because the dilution that you might see from a market, for example, like Russia, was offset by other markets like Poland growing ahead.

Nik Oliver - UBS

Great, no that is really clear. And then just one follow-up on a country level. Nigeria, obviously, was very strong, and particularly in the context of some of the comments we have heard from your listed peers. Just any words you can share on what is driving that very strong performance in Nigeria?

Zoran Bogdanovic, Chief Executive Officer

Thanks, Nik. Look, Nigeria consistently delivers very strong performance, because as I highlighted on a few other calls, I think a number of levers that we are doing in the country, especially market-focused together with Coca-Cola Company, are really very well thought – designed, so therefore, we see that our primary focus behind Sparkling is giving results because we are doing a very well balanced approach between affordability and premiumisation.

Everyone pretty much understands that affordability in a country like Nigeria is very important, therefore, we are really focusing on our returnable glass packaging over there. Also, no-sugar variants are helping us in the affordability play. We have also introduced several brands. For example, in the Energy category, introducing more affordable options exactly because of the affordability. Predator proves constantly quarter by quarter that it is an important contributor to our growth.

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On the other side, a focus on Adult Sparkling has from last year, and now this quarter, proves to be a right big bet, and I am very positive that this is going to continue so. Energy overall, is another premiumisation element, and Juice is performing very strong. So this is complemented with our continuous investment behind prioritised capabilities in Nigeria. Revenue growth management started in Nigeria. This is now complemented with data and insights, and one of the critical use cases we have done across Hellenic, again started in Nigeria, is segmented execution which is strengthening the way we really execute in every single outlet. Also, route-to-market development where we have done significant investments over the last several years. And last but certainly not least, is our continuous investment in capacity to enable this growth.

So, in conclusion, I am very positive with developments in Nigeria, especially taking into account that this performance that we see, with low double-digit in Q1 of this year, is at the back of very strong comparatives of Q1 of last year.

Nik Oliver - UBS

Cool. Thank you, really appreciate all the colour. Thanks a lot.

Fintan Ryan - JP Morgan Cazenove

Morning, Zoran, Ben and Joanna. First question for me, please, back in February, when you last updated, you were talking to high single-digit COGS per case inflation for the year. I appreciate the Russia-Ukraine situation is quite volatile. However, excluding Russia-Ukraine, the rest of the business, how has your view on COGS per case inflation moved since then?

Ben Almanzar, Chief Financial Officer

Let me take that up. Thanks, Fintan. So look, we guided the full-year results to COGS per unit case inflation at the upper end of high single-digit. However, we also flagged at the time that COGS per case could move up to low double digits driven by that tightening commodity environment and also by the impact or potential impact of geopolitical tensions at that time turning to full-blown armed conflict. And clearly, that is the scenario where we are right now.

So to share a little bit more colour about the things that we are seeing, well, we are well hedged in key commodities. Inflation still moves up, because we have suppliers passing higher conversion and transportation cost. Naturally, we are using all of our strength in terms of long-term relationship to continue to negotiate and minimise that impact.

The other thing that we are seeing, obviously, is that labour cost inflation and increased prices for utilities, things like electricity, like fuel, like gas are also translating into higher production costs in our factories. To a lesser extent, concentrate also adds to our COGS per case inflation and that is why we are very focused on mitigating actions, growing the business, pricing up – as you saw from Zoran – improving the mix – all visible in our numbers that we are presenting now in Q1. And it is that ongoing cost discipline that I want to call out on productivity, driving OPEX efficiencies, other key levers that we are activating to protect profitability.

Fintan Ryan - JP Morgan Cazenove

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Great. Thank you. And my next question is just in terms of the consumer environment so far, I guess into Q2 and your views, and particularly thinking in regards to some of the markets adjacent to Russia, Ukraine, you highlight that Romania volumes are just up low single-digit in Q1. Are you seeing any impact on consumer sentiment, demand, in adjacent markets over the recent weeks and any sort of risk you think of down trading for the rest of the year?

Zoran Bogdanovic, Chief Executive Officer

Thanks, Fintan. So far, first of all, as I mentioned, in spite of all pricing that we have taken, we have seen no volume impact, neither this year or last year. But we are mindful of the whole situation and how this might evolve throughout the year, maybe at the back end of the year, so we are pretty alert and monitoring the whole situation. However, so far, we have not seen that consumer demand and impact has been visible in our business, and as much as we are observing also the various other peer companies.

Thus, so far, we have not seen that. However, certainly, we will stay alert with all our monitoring and possible actions that with which we might need to adapt to the evolving situation.

Fintan Ryan - JP Morgan Cazenove

Great. Thank you very much.

Andrea Pistacchi - Bank of America

Yes. Good morning, Zoran and Ben, I have two questions on Russia actually, please. The first one, and I appreciate you will be sharing more with us later in the year, but if you are able to talk a bit about the fixed cost structure that you have in Russia and to what degree you think you will be in a position to downsize the fixed cost given the new reality on revenue reducing number of production facilities, potentially headcount, distribution? So that is the first question, if you will please.

Ben Almanzar, Chief Financial Officer

Thank you, Andrea. Let me start by saying that when we think about Russia it is difficult to provide much information at this stage, because we are really in the middle of assessing all feasible options for Russia, and therefore, it is early to talk about the range of possible outcomes. You asked very clearly about the fixed cost structure. And if you think about a market like Russia, COGS specifically is primarily variable. So maybe 10% of that COGS will be fixed. And if you think about the OPEX, then probably around 60% of that is fixed, the rest is variable. And essentially, we are working through the options for the market and will come back at a later date to provide more granularity.

Andrea Pistacchi - Bank of America

Okay. And then please, my other question on Russia, probably this can be addressed, is about the situation now in terms of shipments. You said, obviously, you stopped purchasing any

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concentrate on the 8th March. What is the situation now with your levels of concentrate of finish goods? When will we start to see effectively a sharp decline in your Russia sales?

Zoran Bogdanovic, Chief Executive Officer

Thanks, Andrea. So let me just reiterate that – and it is an important fact, that after the 8th March, when the Coca-Cola Company made a decision and announced the suspension of the business that we have immediately stopped buying any concentrate base and from then on, we are in the process of depleting the stock. And as you appreciate very well that combination of concentrate and finished goods and what is in the retail, this is now the process of depleting that, following which we will end up with a much smaller, significantly smaller presence, focused on local brands.

So this gradually, flavour by flavour, and SKU by SKU, is happening on a weekly basis. And I would just say that only in the next few months this process is going to be completely over. Yeah, and that is it.

Andrea Pistacchi - Bank of America

Can I just say, are you considering making any accounting changes in the way you treat Russia? Could that be an option?

Ben Almanzar, Chief Financial Officer

Look, we are evaluating all options and depending on the model that we end up in Russia, that may merit accounting changes as well. We will come back in due time.

Andrea Pistacchi - Bank of America

Okay. Thank you very much. Thanks.

Sanjeet Aujla - Credit Suisse

Yeah. Hi Zoran, Ben. I would like to dig a bit deeper into the performance in the developing segment where you have seen a nice acceleration there. Are you able to just talk about some of the key drivers of that? That is my first question, please.

Zoran Bogdanovic, Chief Executive Officer

Hi Sanjeet, yes. Yes, gladly. Indeed, first of all, the developing segment has done really well. And we know that the most sizeable market in the development segment is Poland, which really had a fantastic performance in Q1, which was primarily driven by Sparkling, which is growing above 40%. And I am really pleased to see that it is a consistent performance across all parts of Sparkling, especially Coke Zero, which grew over 50%, Adult Sparkling strong performance. Energy continues with a strong performance over 40%. You know that with Coffee, this is the

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second most important market in Europe for Costa, and that is an important and growing part of our business. And we also had a good development of premium spirits business, which is complementing very well our core business.

So I would also highlight that while last year there was a situation of the whole sugar tax, it was not easy to see what is happening under the hood if you will in Poland. Our team has done a fantastic job in being focused on key priorities, on developing and continuously investing behind our capabilities in revenue growth management, in data and analytics, route-to-market. There have been excellent marketing plans that have been executed. So now when we exited the full year of sugar tax impact, I think it is visible that the whole background work that was happening and focus on the market execution really is yielding results.

The team continues to fine-tune its brand pack architecture based on our readings, so that is why you see we are having an introduction of a new range of multi-packs. We used to have six-pack. Now, we have four-pack. Also, we have done another wave of smart pricing in December 2021, leveraging very well pack elasticities and while defending our multi-serve price points.

So, all in all, I would say on Poland, that it is a well-rounded performance, and I am personally, and the whole team, are quite confident about Poland's performance for the year.

However, I also want to highlight that also Hungary in Q1 had a quite strong performance of volume being in the twenties, Czech in the low teens, and both of those markets as well, had a quite good performance in price mix, which was in the mid-teens and above. So when you blend all of that, it was a really strong performance for the whole developing segment.

Sanjeet Aujla - Credit Suisse

Got it, thank you. And my follow-up is just on Egypt, please. I think you spoke about integration being ahead of initial plans. Can you give us a sense of how volumes are trending year-over-year and I guess revenues more broadly, and how concerned are you about the foreseeable future there, just in light of the big step up in food inflation?

Zoran Bogdanovic, Chief Executive Officer

Yes. First of all, I do not want to miss the opportunity to reiterate how pleased and happy we are to have Egypt now in the whole Hellenic portfolio. Our expectations of this market are very strong and that is why from day one, we have focused with our Group resources as well as the team on the ground in Egypt on the well thought through and phased integration, which as we said is going ahead of the expectations.

Egypt Q1 performance volume-wise was in the low teens and that also is very encouraging, but also the focus on price mix in Egypt is important. Also, given the recent movement in the currency that we have observed, Egypt as well is part of the whole inflationary situation that our team immediately is doing adaptations. And price mix, from day one, is one of our priorities in the market. And we do plan to play a balanced approach with price mix as well as volume.

Sanjeet Aujla - Credit Suisse

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Great, thank you.

Ed Mundy – Jefferies

Morning, Zoran. Morning, Ben. Morning, Joanna. So my first question, really for you Zoran, there is a huge amount for the business to absorb, given the uncertainty from the conflict. How do you ensure that you do not cut investment behind, you know, brands, categories and growth initiatives in markets outside of Russia and Ukraine, as you try to protect the overall Group P&L?

Zoran Bogdanovic, Chief Executive Officer

Got it. Hi Ed, I was just re-clarifying. One of the things is that it is the usual way of how we play the game throughout the year, as we see how a situation develops, and how we are doing the dynamic resource allocation. In this case, particularly, because of the circumstances, we are very mindful to stay the course in the rest of our markets and further amplify investments in prioritised markets where we are expecting the biggest and most scalable impact. Now, that means that we are further fuelling Italy – very good momentum, especially behind the out-of-home route-to-market development together with Coca-Cola Company programmes behind Coke and Meals, Adult, Energy development.

Another example is also preparation for the season. That is why in markets like in all our seasonal markets, but an example is, let's say, Greece, where we are doing even more for the preparations of the season and especially encouraged by some early signs that we should expect a positive and good season.

Also, we are doing more fuelling in Poland. And overall, in markets where we have prioritised investments together with Coca-Cola Company, we are also doing more behind the Adult Sparkling portfolio, which is one of the ways how with mix we are further mitigating the inflationary impact, so that it is not only pricing, but that we are together driving the price mix overall.

I would just summarise that very focused disciplined investments behind additional investments behind priority markets and part of that is already visible in Q1, but I do expect more in the rest of the year.

Ed Mundy – Jefferies

Great, thank you. And as a follow-up, look, I appreciate it is too early to provide guidance, but there has been quite a large correction in consensus expectations which sort of seems to remove Russia-Ukraine in its entirety. Look, I appreciate it is still very early in the year, and there is still a fair amount of volatility out there, but given the strong start, I think you said the other 27 markets are delivering well and ahead of expectations and the encouraging recovery trends and potential for further pricing in the year, does the street EBIT expectation of €684 million, is that materially different to your scenario planning?

Ben Almanzar, Chief Financial Officer

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Let me take that one, Ed. Look, as we said, because we are evaluating the different options and the options of Russia influence how we are going to be landing in the year. It is a little bit early for us to comment on the guidance itself, that is why we removed it in March. And again, what I would say is to reiterate the message from Zoran, that we are performing really well in Q1, we are prioritising investments in the remaining markets, and therefore, that gives us confidence that we will continue to make progress there. And if you think about timings, we are aiming to restate that guidance for the half-year results if we can.

Zoran Bogdanovic, Chief Executive Officer

Ed, I would just add that while the situation understandably I think is very complex, and to have visibility for the whole Group from that angle is really not easy, however, we continue to focus on the right things – investing behind the right priorities that are important for our short-term, but equally for our long-term results and organisational development. I just wanted to reiterate that part.

Ed Mundy – Jefferies

Great, thank you.

Mitch Collett - Deutsche Bank

Morning, I only have one question, and I guess, quite similar to Ed's. Given the strong start you have had, if you strip Russia and Ukraine out, do you think your previous guidance is applicable to the remainder of the business, so I think that was 5-6% FX-neutral revenue growth ex Egypt, is that still possible ex Russia-Ukraine, and then I think you said low-to-mid-single-digit EBIT growth ex Egypt, given the strong start are both of those numbers achievable for the business, ex Russia, Ukraine, and Egypt?

Zoran Bogdanovic, Chief Executive Officer

Yes. Hi, Mitch. Yes. The answer is yes. So our remaining 27 markets fully fit into the algorithm that we have shared for our growth story 2025 there. And what we said when we entered the year, that we see ourselves to be above 6%, and we do see that being valid for our remaining 27 markets.

Mitch Collett - Deutsche Bank

And the EBIT part, is that also still applicable?

Ben Almanzar, Chief Financial Officer

On the EBIT, Mitch, we remain really focused on growing the business and keeping on growing that EBIT organically. You have seen that there is significant pressure in the cost line. You are seeing also us taking decisive action across our pricing mix, OPEX, and productivity. So again, as

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I mentioned before, we are working towards having a clearer picture of what the business outlook will be by the half-year results, and we should be able to update you then if not before. Obviously, we do not want to do this prematurely before we have considered all the feasible options in Russia and the rest of the business.

Mitch Collett - Deutsche Bank

Okay, thank you.

Charlie Higgs – Redburn

Hi Zoran, Ben, Joanna, hope you're well. My first question is on the channel mix dynamics you are seeing. I was wondering if you could comment on how the out-of-home channel finished in Q1, perhaps relative to 2019, and then maybe a bit of colour on the at-home channel and how you see that developing? I think you talked about accelerated growth in E-retail and expanded shelf space and maybe that does not return to 2019 levels.

Zoran Bogdanovic, Chief Executive Officer

Hi, Charlie. Out-of-home channel on the level of our whole Group has been performing quite well, it is 24% above last year, and actually versus 2019 is 14% above, and that is driven by the Emerging segment, while Established and Developing are still -8%, -6%, respectively, below 2019. However, in the absence of something else happening again on the COVID front, we are positive that also Established and Developing are on a good trajectory to get to the 2019 level and then surpass it.

However, in conclusion, on a Group level, we are already about 10% above 2019.

Now, a very good thing is that while out-of-home recovery is happening, that at-home channel continued performing quite well, in a healthy way. We see that at-home Q1 versus last year is +5%, and that is at the back of also at-home performing very strong in Q1 of last year. That demonstrates, I believe, that some of the trends that have emerged from COVID, especially in the way consumers are behaving and consuming products in a variety of occasions now at home are kind of sticking in there, and that is why we are also tapping into that through our tailor-made plans exactly to be part of those occasions at home.

Overall, both of those performing quite positively.

Charlie Higgs – Redburn

Thank you, that is very helpful. And then my follow-up is just on the Coffee category, where you posted 75% volume growth. I was hoping you could talk a bit more about that, maybe split by Costa versus Caffe Vergnano, and then what you are expecting for the rest of the year as that out-of-home channel reopens?

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Zoran Bogdanovic, Chief Executive Officer

Yes. First of all, very, very pleased about the strong performance of Costa. That comes as a result of front loading our investments, building the teams and capability filled with experts, building the technical aspect, machines, and our approach of multi-channel practically across all channels. So, I am very pleased about that performance, even more by the positive feedback from customers, consumers, repeat purchase, our continuous gains in the distribution. Now, when we do not have COVID restrictions, we can play a very well balanced approach between the at-home and out-of-home, and that is why our continuous gains of customers and recruitment of customers in the away-from-home is happening continuously and month by month is increasing. Already, in Q1, we have gained, let's say, 750 additional customers versus where we left it at the end of last year.

And as a reminder, we are already in 17 of the markets with Costa. Now, this is very well complemented with the Caffe Vergnano proposition. As a reminder, there is a clear brand stratification where Costa plays in the mass premium and Caffe Vergnano plays in the high premium segment. And not only why they complement each other, because they are not only two different price points, but they are also two different types of coffee propositions, texture and profiles. We believe that this makes us stronger, that multi-brand approach is exactly the one that can help us to tap and enter various types of customers that with only one brand it would not be easy to do.

Our focus with Vergnano is primarily in the out-of-home type of channel. However, overall, our coffee approach remains and will be that we develop this sizeable category across all channels.

Charlie Higgs – Redburn

Great, thanks Zoran.

Zoran Bogdanovic, Chief Executive Officer

Thanks, Charlie.

Richard Felton - Goldman Sachs

Hi. Good morning, everyone. My first question is a follow-up on COGS. I appreciate the colour you gave earlier on the call. But if you could remind us, firstly, of where you are in terms of your hedges for the year, and then, secondly, on the higher conversion costs which are being passed through from suppliers, I think that is linked to higher energy costs, but could you remind us how big those conversion costs are as a proportion of your overall COGS breakdown?

Ben Almanzar, Chief Financial Officer

Thank you. So let me start with giving you some perspective where we are in terms of the hedging. We have made progress versus where we were when we last spoke with the full-year

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results and now we've covered over 85% of 2022 major commodities associated with input costs. We feel good, that we are in a good position as we enter half two.

And your second question, which was around energy conversion as a proportion, what I would say is that it is probably best for us to talk about COGS per unit case, rather than to get drawn into the individual lines of COGS, it gives you a better perspective. And as I said before, we are looking at a low double-digit COGS per unit case inflation.

Richard Felton - Goldman Sachs

Great, thanks that is clear. And my second question, you mentioned that you have been taking your planned pricing so far without much negative impact on volume. But as we do move through the year and the pressures on disposable income start to build, and we see the impact of higher energy prices and food prices on the consumer, are there any markets in particular where you are worried about seeing more of a volume impact start to emerge?

Zoran Bogdanovic, Chief Executive Officer

Good question, Richard. First of all, we have not seen anything like that yet. Secondly, we don't take the same level of pricing across the market. It is very specific per market. So it can happen that in some quarters or semesters because of the competitive dynamic maybe that could impact something. I just want to say, I can't really say now that I would highlight any specific market where we couldn't take the price. It is rather to which level. And within even the market that doesn't mean when we go with price, we will take it on all packages or that it will be all channels.

So that is the sensitivity and that is, let us say, detailed planning that we take into account so far, and we will be doing so going forward.

Richard Felton - Goldman Sachs

Great. Thanks very much, guys.

Yubo Mao - Morgan Stanley

Hi, Zoran. Hi, Ben. Hi, Jo. Most of my questions have been asked actually, but maybe just a quick one on market share dynamics which, Zoran, you have touched on earlier, but I think Q1 still accelerated share gains. Can you talk about in which markets did you see the largest gains and how confident broadly are you in terms of maintaining that momentum going forward, especially as the macro picture turns a bit more challenging and if we see some down trading later in the year?

Zoran Bogdanovic, Chief Executive Officer

Hi Yubo. Yes, first of all, I think as we highlighted in the press release on a total Group level, I am personally very pleased with the share performance. And then first thing to say is that all our

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largest markets are having sizeable share gains. And, of course, because they are more sizeable they are impacting most the total Group numbers. Thus, when you see Poland share gains both in Sparkling and NARTD, they are 7% and 5%, respectively, Nigeria has strong share gains, Egypt is having very strong share gains. We are seeing Switzerland, Serbia, Romania, so there is a whole range of markets. And actually, in a big majority of markets, we are gaining share in Q1. Primarily, I would highlight primarily in the value shares but also volume shares.

Yubo Mao - Morgan Stanley

Thank you. And maybe quickly on the outlook for the year, how confident are you in sustaining that momentum?

Zoran Bogdanovic, Chief Executive Officer

Look, outlook for the year that we always – listen, we always play to win. We stay alert on all competitive dynamics. We have strong plans with the Coca-Cola Company for the rest of the year. We are excited with programmes and marketing support that we are getting. Execution is our bread and butter and when you merge that, that is what is feeding our play to win and our winning ambition for, not only for this year, but for any other year.

Yubo Mao - Morgan Stanley

Okay, thank you very much.

Zoran Bogdanovic, Chief Executive Officer

Thank you. So listen, I will just shortly want to thank everyone for your time and attention for today's call, we really appreciate it, and we look forward speaking with you at the next occasion in August. So thank you very much and wishing you all a good day. Thank you.

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