CCH – 2023 Full-year results
Conference call script – 14 February 2024

CORPORATE PARTICIPANTS

Zoran Bogdanovic – Coca-Cola HBC AG - CEO

Ben Almanzar - Coca-Cola HBC AG – CFO

John Dawson - Coca-Cola HBC AG – Interim Head of Investor Relations

Operator

Thank you for standing by ladies and gentlemen, and welcome to Coca-Cola HBC's conference call for the 2023 full-year results. We have with us Zoran Bogdanovic, Chief Executive Officer, Ben Almanzar, Chief Financial Officer, and John Dawson, Head of Investor Relations. At this time all participants are in listen only mode. There will be a presentation followed by a question-and-answer session. If you wish to ask a question, please press star one on your telephone keypad at any time and wait until your name is announced. I must also advise that this conference is being recorded today Wednesday, February 14, 2024. I now pass the floor to one of your speakers, John Dawson. Please go ahead. Thank you.

John Dawson - Coca-Cola HBC AG - IR Director

Good morning and thank you all for joining the call.

In a moment, Zoran will share his highlights of 2023. Ben will then take you through our financial performance in more detail and discuss the outlook for 2024 before handing back to Zoran who will look in more detail at the growth opportunities for the business before we open up the floor to questions.

We have just over an hour available for the call today, and we should have well over 30 minutes for questions. We would ask you therefor to keep to one question and one follow up question before joining the queue again.

Let me remind you that this conference call contains forward-looking statements, and these should be considered in conjunction with the cautionary statements in our slide pack, and in our results statement issued earlier today.

With that, now let me hand over the call over to Zoran.

Zoran Bogdanovic - Coca-Cola HBC AG – CEO

Thank you, John. Good morning, everyone, and thank you for joining the call.

2023 was a strong year for Coca-Cola HBC, with significant strategic and operational progress. It's a privilege and pleasure to be the voice for a committed team who have worked tirelessly to sustain our track record of growth – delivering record levels of revenue, profit and earnings.

My two key takeaways for you today are simple; our growth strategy is working AND our portfolio, operations and teams keep getting stronger and stronger.

On almost all metrics we look at and review, our growth strategy is delivering great results.

- Our NARTD and sparkling drinks markets are growing, despite adverse economic headwinds in most markets. This is happening because we are working with our partners to drive consumer activation and drive per capita consumption. More on this later.
- Within this, our market share continues to grow, with an additional 110 basis points of NARTD and 80 basis points share over the last 12 months.
- And we have delivered this while improving price and mix, maintaining affordability and improving our NPS scores with our customers.

As well as delivering results today, we have invested for future growth.

- Firstly. Invested in our portfolio, strengthening our three priority categories, led by Sparkling, working through our powerful partnerships, particularly with The Coca-Cola Company, to drive innovation and consumer activation, as well as making selective acquisitions, like the acquisition of Finlandia.
- Secondly. Invested in our bespoke capabilities through targeted capex and building stronger teams by leveraging the benefits of our Dolphin and Oxygen programmes we discussed at our investor day in May, re-designing and simplifying the organisation and processes for growth.
- And thirdly. Invested in sustainability – investing in long term programmes that make a meaningful difference to our impact on the environment and the communities in which we operate.

Our operational progress is driving strong financial results.

Our organic revenue growth of 16.9% was very strong, with solid volume performances from our strategic priority categories, and good price mix improvements.

Volume leverage and good cost management helped deliver nearly 18% organic growth in EBIT and a record high comparable EBIT. As a result of the strong organic growth, our EBIT margin grew 50 basis points on a reported basis to 10.6%. A much stronger outcome than we had anticipated earlier in the year.

We also delivered a record Free Cash Flow of €712m which helped reduce net debt to €1.6bn. This enabled us to increase our returns to shareholders and initiate a €400m two-year share buyback programme, demonstrating our confidence in future growth, and consistent with our capital allocation priorities.

Overall, the combination of improved profitability and strong capital discipline helped improve return on invested capital by over 230 basis points to 16.4%.

A strong performance.

Ben will take you through the drivers of this in more detail. Before I hand over to him let me share some commercial highlights, starting with our category results.

Sparkling continues to be our main growth engine, representing around 70% of our portfolio. Sparkling volumes grew by 2.5% overall, with growth accelerating in the second half of the year. Trademark Coke grew volumes, led by high single digit growth in Emerging markets. Coke Zero grew across all segments. Sprite also grew well, with a particularly good performance in Developing markets. Adult Sparkling benefited from the relaunch of Kinley, helping deliver mid-single digit growth in Established markets.

Turning to **Energy**, volumes grew by nearly 30%. Growth was strong in each segment, but particularly Emerging, with the continued success of Predator in Nigeria and successful launches in Egypt of Monster and Fury. This was the eighth successive year of strong double-digit growth.

Volume growth in **Coffee** was also very strong, up over 30%. We continued to make good progress on out-of-home customer recruitment, adding 5,000 outlets in the year. Our segmentation strategy with Costa and Caffe Vergnano is working very well.

I would also call out a very strong performance from Sport Drinks and Premium Spirits.

Turning briefly to our segments, we have delivered consistent strong revenue and EBIT performance from all three segments. In particular, Established and Developing delivered good improvements in EBIT margins, even as we continued to invest in long-term growth.

As I said at our capital markets day last year, we are very confident in our strategy and now, as we see in these full year results, it is evident that we are on the right track – driving growth and creating value for our customers, consumers and shareholders.

Let me now hand you over to Ben who will talk more about our 2023 performance, before I return to discuss our medium-term growth ambitions.

Ben Almanzar - Coca-Cola HBC AG – CFO

Thank you, Zoran, and good morning, everyone.

In 2023, our organic revenue growth was 16.9%, a very strong performance given continued cost inflation, and the global macroeconomic and geopolitical challenges.

Against this backdrop, achieving volume growth of 1.7% across the business was a very positive result, and with an encouraging trend in the fourth quarter, where we saw volumes up 6.8%.

Revenue per case grew 15%. Of this, pricing continued to be the largest contributor, accounting for the majority. Package and category mix were also accretive with continued improvements to our single serve mix.

2023's revenue performance followed 14.2% organic revenue growth in 2022, and over 20% in 2021.

2023 Comparable EBIT was 1,084 million euros - exceeding 1 billion Euros for the first time in our history. On an organic basis, comparable EBIT grew 17.7% in the year.

Major contributors to these results were a good conversion of our revenue growth management initiatives together with effective actions on input cost inflation, albeit partially offset by transactional FX impacts. In addition, we delivered modest improvement to operating costs as a percentage of revenue.

While we continued to invest in the business in pursuit of our vision of being the leading 24/7 beverage partner, our cost management actions contributed to an 80 basis point improvement to gross margin and a 50 basis point improvement to comparable EBIT margin. On an organic basis, our comparable EBIT margin improved by 10 basis points.

On a reported basis, our average comparable EBIT growth is more than 10% since 2019, showing our sustained, long-term focus on increasing the financial fitness of this business and creating shareholder value.

Let's now look at the drivers of performance by segment. To keep it simple, I am going to discuss these figures on an organic basis, as you can see on the slides.

In the **Established** segment, revenues grew by 12.3%.

Revenue per case was up 15.1%, driven by price increases weighted to the first half. Positive category and package mix also helped. We continued to focus on single-serve activation, resulting in a 320 basis point improvement in single-serve mix.

Established markets volume declined by 2.4%, reflecting tough comparatives particularly in the middle of the year, but with an improving trend towards the end of the year. Sparkling volumes were slightly lower versus the prior year, largely reflecting comparable growth of over 9% in 2022. Within Sparkling, Coke Zero and Adult Sparkling delivered good mid-single digit growth.

Energy volumes expanded by mid-teens despite very tough comparatives, with good growth in Monster. Coffee also grew strongly – up mid 20s – despite lapping strong growth in 2022.

Stills declined by high-single digits, driven by the Water category, especially impacting Italy, where we made conscious choices to prioritise profitable revenue growth.

In terms of countries, I would call out Greece, delivering a good performance in Sparkling with high-single digit growth driven by Coke Zero, Fanta and Adult Sparkling. Results were helped by a prolonged tourist season. Ireland and Switzerland also grew volumes in the year.

As we've previously said, improving margins while investing in growth has been a key priority for some of our Established markets, particularly Italy. I am therefore very pleased that our Established segment improved Comparable EBIT margins by 100 basis points.

Turning to the **Developing** segment, revenues were up over 18%. Revenue per case increased by 20.2%, driven by pricing initiatives, and positive category and package mix.

As I highlighted this time last year, we are focused on growing the share of multi-packs of single serve. We are now reaping the benefits of this, with a positive contribution from package mix for the segment as a whole.

Volumes were down 1.7%, but with an improving trend. The full year performance largely reflects cycling very strong growth in 2022.

Across the categories volume trends were broadly consistent. In Sparkling, Coke Zero delivered good growth and Trademark Coke was slightly negative – a good outcome given the very strong comparatives and underlying market conditions. Monster also delivered mid-teens growth. Coffee grew strongly throughout the year.

In terms of country performance, I'll call out Poland where volumes increased by 1.5%, despite lapping high 2022 comparatives. Sparkling grew low-single digits, led by double-digit growth in Coke Zero and Sprite, and an encouraging performance from Coke Zero Sugar Zero Caffeine launched in 2023. Like Italy, we made deliberate choices to focus on profitable growth in Water at the expense of volume with good success.

Developing segment comparable EBIT grew 26.9%, with operational leverage and cost control more than offsetting input cost inflation. This is a testament to the hard work of our colleagues through excellent execution.

In the **Emerging** segment, revenue grew by almost 20%, driven by both volume and good price mix. Revenue per case increased 15.0%, reflecting proactive actions to manage the impact of currency devaluation and cost inflation.

Emerging markets' volume grew 4.3%. Sparkling volumes were up by mid-single digits, with good growth in Nigeria, Ukraine and Egypt. Energy volume grew strong double-digits, and we were very satisfied with the successful launch of our position in the category in Egypt.

Still volumes were broadly unchanged year-on-year, despite the substantial price increases in Water in Egypt during half one.

In terms of country performance, I am particularly pleased with the volume growth improvements delivered in Nigeria. Our results demonstrate the depth of expertise and strength of our team in the country as they achieved strong market share gains while tackling the impact of significant currency devaluation.

Comparable EBIT grew by 11.7%, and Comparable EBIT margin was down 80 basis points organically, reflecting the net effect from currency headwinds.

Moving further down the P&L, I'm delighted to report that comparable EPS grew 21.8%. This was supported by strong profit delivery and effective management of financial costs, capturing the spread between our largely fixed cost of borrowing and the benefit of rising interest rates on our cash deposits.

As expected, our comparable tax rate of 27% was at the top end of our guided range.

Consistent growth in comparable EPS leads us to recommend a dividend of 93 euro cents, up 19% from 2022, in line with our long-term payout ambitions of our dividend policy.

Capex increased by €85 million in 2023 to €675 million. Looking at some specific investments during the year, we expanded manufacturing capacity, adding seven lines, two of those in the high-growth Energy category.
We also increased our footprint of energy efficient coolers – now over 54% of our fleet - to help support broader market presence and drive single-serve growth.
And we invested in our sustainability goals, including rPET production and packaging solutions as Zoran mentioned, and he will expand on that shortly.

Capex finished at 6.6% of revenue - at the lower end of our target range, largely reflecting the strong topline growth.

Free cash flow increased by €67 million year on year to €712m - another record high, driven mainly by profit.

Our balance sheet remains very strong. At the close of the year net debt to EBITDA was 1.1 times, even after completing the Finlandia deal in November.

Our priorities for capital allocation are very clear. To be the leading 24/7 beverage partner we make thoughtful choices, ensuring that we deploy capital efficiently and effectively in the service of profitable growth.

For example, we continue to invest in acquisitions that further improve our portfolio, or our capabilities, particularly around strengthening our route to market for customers and consumers. Finlandia was a good example of a targeted portfolio enhancement, and we remain open to seizing the right opportunities as they come up.

Our capital discipline has also allowed us to drive higher returns to shareholders. In November, we launched a €400m share buyback programme, reflecting the Board's long-term confidence in our business performance, the prudent financial management of our balance sheet, and our commitment to return capital to shareholders responsibly. To date, we have returned €42.6 million through the share buyback.

Taken together, I'm pleased to see not only increased shareholder returns, with strong growing dividends while maintaining a high level of investment in the business. But also record ROIC performance even as we managed through another challenging year. This gives me great confidence in the future.

Outlook 2024

All-in-all, we delivered a strong outturn in 2023, well ahead of our initial expectations for the year.

As a result, it represents an even better platform from which we can build the future and deliver our medium-term growth targets.

2024 will be an important year on that journey and we expect another good performance.

At this early stage, we expect group organic revenue growth to be within our target range of 6 to 7%.

On a comparable basis, COGS per unit case should increase low to mid-single digits. We continue to face transactional FX headwinds, particularly after the latest devaluation of the Naira, but the COGS line will also benefit from translational FX.

Taken together, organic EBIT growth should range between 3 and 9%.

Before I hand you back to Zoran, let me just say how much I have enjoyed my time here at Coca-Cola HBC. It's been an honour to be the CFO of such a dynamic, high growth business. I know I leave the company in a very strong position and wish Zoran and the rest of the team many years of future success.

Thank you and with that, over to Zoran.

Zoran Bogdanovic – Coca-Cola HBC AG – CEO

Thank you, Ben, and on behalf of the Board and Company I'd like to take this opportunity to thank you for your contribution over the last three years. I have appreciated your counsel and support and I know you will be missed by the company. On behalf of all of us, thank you and best wishes in your next endeavours.

I am immensely proud of our team as we delivered a third year of double-digit growth and record profits. They have worked together as one team, guided by our purpose of opening up moments that refresh us all, investing to achieve our vision, and aligned by our values, with the experience of our customers and consumers at the heart of everything we do.

I would like to thank them for their tireless efforts. I would also like to thank our customers and partners for their ongoing support throughout the year which motivates us to keep raising the bar.

As I touched on in my opening remarks, the growth we've delivered in 2023 is the result of strong foundations we've been building and leveraging for over a decade. Deep understanding of our markets, combined with our agility, enables consistent and superior execution, through periods of market stability as well as over periods of significant change.

Driving growth and managing risk is in our DNA. Whether over a one year, three year or five-year view, the ability to drive topline growth underpins our fundamental success. As we have said many times, key to this is our approach to revenue growth management. Combined with our unique 24/7 portfolio, the result is consistently strong growth.

This consistency of execution underpins the confidence we have in our growth algorithm.

In short, growth is at the heart of the business, its people, its capabilities and its processes – driving market growth, gaining value share, and improving price and mix, balancing premiumisation with affordability.

The consistency with which we have been able to deliver high levels of growth across our strategic priority categories of Sparkling, Energy and Coffee is also testament to this. And we are making active choices to prioritise these categories, as we continue to see the highest potential growth from them.

For example, in Sparkling, the foundation of our long-term growth, we've delivered consistently high levels of revenue growth, on a one-, three- and five-year basis.

Underpinning this has been the strength of our partnership with The Coca-Cola Company. Working together we've delivered strong consumer centric marketing plans and execution initiatives to grow per capita consumption, product innovations to address consumer needs, and impactful relaunches – like Kinley – to refresh engagement.

Together, we manage a much stronger, and more innovative pipeline of new products – for example the zeros and double zeros – flavour and format driven product variants, sustainable packaging solutions and much more.

This partnership, and what we achieve together, continues to be the cornerstone of our growth – growing our market, and growing our market share.

Turning to Energy, our ambitions here are unchanged. We expect to build Energy into a double-digit contribution of our business over time.

We will do this by driving significant growth through increased consumption and an expanded footprint.

Our objective is to establish a leadership position in all our markets, so we are keenly focused on growing our share. We're doing this with a segmented approach to brands, deploying Monster, Predator, Fury and Burn as appropriate.

Emerging markets will continue to play a big role in the future. Development of the brands in Nigeria, and now Egypt, will be a big contributor to growth.

We're also seeing significant opportunities to develop a category leading position in zeros as well.

Energy also offers us the opportunity to bring more bottling in house, as we gain scale and efficiencies with volume growth. This will also help us support the fast introduction of new product innovations.

Turning briefly to coffee, our opportunity remains significant. We are investing ahead of the curve to build our right to win to really capture the potential of this huge category.

The segmented strategy, with Costa playing in mass premium and Caffe Vergnano in super premium is working well. Supported by investments in data, insights and analytics and in-market telemetrics, we are continuing to build our capabilities to sustain strong growth.

As Naya, our Chief Operating Officer, discussed at our Capital Markets Day last year, the investments we're making in our bespoke capabilities drive our growth algorithm.

We are building our prioritised capabilities in an interconnected way.

At the heart of this is our objective to drive personalised execution at every outlet.

A good example of this is a project we've been running to integrate new consumption data sets, developed by The Coca-Cola Company, into our segmentation analytics to identify consumer profiles where we can undertake targeted activation at scale but with highly relevant and thoughtful programmes.

Doing it in this way optimises the resources deployed and maximises the conversion of the targeted profile. In this example, the focus is on matching our identified consumer profiles to an analysis of outlets to focus down on the 'Dinner-at-home devotee' and the 2,650 stores where they're frequent shoppers. Targeted actions can then turn them from Intenders to Weekly plus consumers.

It's a great example of the many ways The Coca-Cola Company team and us can drive market share gains and support the successful growth we've seen in Nigeria, for example, despite the other challenges in the region.

Taken together, the combination of our 24/7 portfolio, the attractive growth characteristics of our markets and strengths of our bespoke capabilities contribute to us delivering a proven track record of growth across all three segments.

And the consistency of that growth has been key, even with a sizeable position in emerging markets. Our ability to execute commercially, with our long-experience of managing through different economic conditions, delivers consistent, high-levels of revenue growth over-time.

Last year we made great progress on sustainability. Romania became our first market to have all three elements of packaging circularity, with 100% recycled bottles, in-house rPET production and a Deposit Return Scheme. By the end of 2023 we had deposit return schemes in six of our markets, with the Republic of Ireland live in February.

We are driving packaging innovation. In Austria we commissioned a new RGB line for both our universal 1 litre and new 400ml refillable bottles. We also introduced an industry-leading, innovative paper solution to replace shrink plastic on multi-packs of 1.5 litre PET bottles.

You can see on the slide that our 2023 sustainability performance was recognised externally by leading scores from major ESG benchmarks. Let me call out just one, the 2023 Dow Jones Sustainability Indices which ranked us for the seventh time, as the world's most sustainable beverage company.

And I'm really proud that in December we launched the Coca-Cola HBC Foundation, focusing on supporting our local communities. We've made an initial donation of 10 million euros and I'm looking forward to reporting back to you on the projects we're supporting over the next months and years.

Looking forward, we have all the building blocks in place to deliver strong growth and margin improvements in the future. Our medium-term targets, building on our strong performance in 2023, combined with a disciplined approach to capital allocation, creates a platform for strong compounding earnings growth.

Thank you for your attention.

With that, let us now open the call up to questions.

---- [Q&A transcript will be available on the company's website ----

Zoran Bogdanovic – Coca-Cola HBC AG - CEO

Thank you, operator.

I would like to thank everyone for taking part in today's call.

Let me just briefly conclude, we're very pleased with our performance last year, and we feel exceptionally well positioned to continue our growth story in 2024 and beyond.

Thank you very much and goodbye.