CCH – 2024 Half-year results
Conference call script – 07 August 2024

CORPORATE PARTICIPANTS

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Title slide

Operator

Thank you for standing by ladies and gentlemen, and welcome to Coca-Cola HBC's conference call for the 2024 half-year results. We have with us Zoran Bogdanovic, Chief Executive Officer, Anastasis Stamoulis, Chief Financial Officer, and Joanna Kennedy, 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 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, August 7, 2024. I now pass the floor to one of your speakers, Joanna Kennedy. Please go ahead. Thank you.

Joanna Kennedy - Coca-Cola HBC AG - IR Director

Good morning. Thank you for joining the call.

In a moment, Zoran will share his highlights of the first half of the year, before Anastasis takes you through our financial performance in more detail and discusses the outlook for the balance of 2024, and finally Zoran will return for a strategic overview before we open up to questions.

We have just over an hour available for the call today, which should leave around 30 minutes for questions. We will therefore ask you to keep to one question and one follow up before joining the queue again.

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

Now let me turn the call over to Zoran.

Zoran Bogdanovic - Coca-Cola HBC AG – CEO

H1 – Strong growth and share gains

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

I'm very pleased with our progress in the first half of 2024. We've continued to execute our strategy, delivering strong performance in a mixed-market environment, and continuing to invest in our portfolio and capabilities.

As always, the key to our continued success are our committed, passionate and engaged people, who have remained incredibly adaptive and resilient. Also, a very big thanks to our customers, The Coca-Cola Company, Monster Energy and all our other partners for their trust and collaboration in jointly driving sustainable growth.

Execution of our strategy drives strong financial performance

I'd like to call out three things that stand out for me for this period. **First** the strong and high-quality organic revenue growth we've delivered, with volume growth of 3.1%. Growth was led by the **three prioritised categories** across our 24/7 portfolio –

Sparkling, Energy and Coffee. And we are gaining share, with NARTD up 170 bps and Sparkling up 80 bps year to date.

Second, the **resilient EBIT** performance, even while navigating challenging environments in several markets, and we'll discuss that in more detail in the coming slides.

Third, the ongoing **investment** we're making in our **24/7 portfolio and bespoke capabilities** in support of our growth strategy.

Strong topline growth with resilient profitability

The numbers we reported today show our growth strategy is working. Organic revenue is up 13.6% in first half with organic volumes up 3.1%. We have delivered continued topline momentum, building on a strong start in Q1, with an acceleration of volumes in the second quarter.

At the same time, we have continued to grow EBIT. Organic EBIT grew by 7.5%. And that is on top of tough comparatives in 2023.

During the first half, we achieved strong performance despite significant FX weakness in two markets, Nigeria and Egypt. These headwinds contributed to a lower comparable EBIT margin by 30bps. Currency movements are a reality of some of our markets and we have the tools and techniques to manage them in the best possible way. As we've said before, Emerging markets offer tremendous growth opportunities, and we are investing to unlock them.

Sparkling – another strong half

Sparkling remains the most important engine of growth for our company, and has performed well this half, with organic volume of almost 1% against a strong comparative. And with value share up 80bps.

Once again, we have worked closely with The Coca-Cola Company to develop our summer plans. The focus has been capitalising on a summer of sport with targeted marketing campaigns during Euro 2024 and in preparation for the Olympics. In Austria, we ran a consumer promotion to win tickets to the Euros for our biggest customers and you can see here the players on the one litre multipacks. And, we activated the entire Sparkling drinks portfolio in Poland by offering consumers the chance to win tickets to Paris 2024.

We're also building the connection between our portfolio and our consumers' favourite music and festivals. For example, the wrist bands promotion shown here, which gives consumers fast-access passes and '**Only-Coke-Can-Do'** special experiences.

Adult Sparkling continues to be a positive contributor to volume and revenue per case expansion and we've benefitted from several innovations in Schweppes and Kinley, including alcohol replacement offers such as Blueberry Mojito in Romania, or strengthening our zeros proposition in tonics with new launches and campaigns. And we launched Three Cents in a further nine markets over the period, targeting the **cocktail occasion** in the super-premium segment.

Energy – great growth

Energy continues to perform very well, even with tough comparatives.

Our segmented portfolio in Energy allows us to target the offering to different markets, demographics and affordability needs. We have seen strong performances from Predator and Fury, our Emerging market focused affordable offers, as well as from Burn, our premium brand.

Monster also continued to do well, with particularly strong results in Egypt. And we launched Monster Energy Green Zero Sugar in 16 markets, opening up another area of growth for the brand.

Coffee – continued progression in out-of-home

Coffee volumes grew 21.6% and we continued to focus on out-of-home customer recruitment, adding 1,500 new outlets in the period. Costa had a solid start to the year, growing in out of home, while Caffe Vergnano delivered another strong performance with volumes up by 56%.

Stills and Premium Spirits – performing well

Still volumes grew by 5.2%.

I'm particularly pleased to see the strong recovery in volume growth from Water. We took the decision in 2023 to drive more value in the category through targeted brand positioning, as well as package and price adjustments in several of our markets. Following the initial expected volume declines, we are again seeing growth, with first half volumes up high-single digits. We are focusing this growth on profitable sub segments, accelerating single serve for the at-home occasion and the out-of-home channel.

In Sports Drinks we delivered strong mid-teens growth. Powerade campaigns have been targeted around the Olympics and we are significantly increasing sales distribution and activation.

Premium Spirits volumes grew by 17.3%, with a particularly good performance in the Developing segment. We took over the distribution of Finlandia Vodka in 19 markets, enhancing our premium spirits credentials and opening up incremental mixability opportunities for our NARTD portfolio. I am particularly excited about Poland and Czech where Finlandia has a great presence, and where we weren't distributing before we acquired the business.

Continuing to invest in Sustainability as a growth enabler

And as we continue growing sales, it's important that we grow in a sustainable way, and continually strive to increase collection of the packaging we put on the market. For that reason, packaging circularity remains at the top of our agenda. Deposit Return Schemes, or DRS, are one way to ensure both high packaging collection rates, and supply of feedstock for recycling.

DRS went live in Hungary and Ireland in January and February respectively this year, with promising starts in both countries. In Ireland, for example, around 335 million beverage containers have been collected since the first of February, with daily returns reaching 3.2 million on average in July. We are encouraged by the positive results in the first eight months of DRS operation in Romania, and in June alone, over half the plastic bottles placed in the market were returned for recycling. In general, we are finding that the transitions to DRS are progressing in line with plans and customers and consumers are responding positively.

I am pleased to share that in July, we were awarded a $130 million loan by the EBRD to finance capex and working capital requirements in Egypt. This loan recognises our long-term commitment to Egypt and also our sustainability credentials in this market. The loan will also support our ongoing investment in people and in developing sustainability solutions, for example continuing to fund our #YouthEmpowered and 'She Leads' programmes, and continuing to invest in our energy-efficient coolers and sustainable packaging innovation.

Let me now hand over to Anastasis to take you through the financial results in more detail.

Anastasis Stamoulis - Coca-Cola HBC AG – CFO

Targeted execution drives strong organic growth

Thank you Zoran and good morning everyone.

In the first half we achieved **strong organic revenue growth, up 13.6%,** with an acceleration in Q2 versus Q1.

The quality of this revenue remains high with **3.1% organic volume growth** in H1, and with volume growing organically in **all three** segments in Q2.

Organic revenue per case increased by +10.2%, keeping pace with Q1. Overall, pricing remained the most important driver of revenue per case as we took action to mitigate ongoing inflation, currency devaluation, and changes to regulation and taxation in specific markets. We also saw the impact of carry over pricing from the prior year. Mix was also positive, with continued improvement in single-serve mix which expanded 130bps in the first half.

It's worth highlighting that while revenue per case expansion was similar in Q1 and Q2, this was driven by an acceleration in the Emerging segment in Q2, as we continued to take actions to manage the currency devaluations in Nigeria and Egypt.

Robust organic EBIT growth of 7.5%

H1 EBIT grew 7.5% on an organic basis, driven by strong performances from both the Established and Developing segments.

As Zoran mentioned, we have managed currency devaluations in Nigeria and Egypt during the first half of 2024, and I'm really proud that the business was able to navigate the impact and produced **another year on year expansion in Comparable EBIT,** both on an organic and reported basis. And **even** on a **short-term basis**, **within months** of the devaluations.

Let's go through the drivers.

Comparable gross profit expanded by 6%. We benefitted from reduced COGS pressure compared to what we've recently seen in the business. This was as a result of some easing of the rate of inflation of our key commodities, as well as an FX translation benefit from costs denominated in emerging market currencies.

This easing COGS pressure, combined with strong revenue growth, allowed us to deliver a 100 basis point expansion in gross profit margin.

Moving on to opex. We've seen comparable operating costs expand by 8.7% in the first half of the year, and as a result an increase in opex as a percentage of revenue. The main driver of this has been currency weakness in the emerging segment, which has resulted in a mark to market adjustment on balance sheet items with a negative impact to the P&L in the Emerging segment.

Aside from this impact, we've also continued to invest ahead of the curve in the opportunities we see for our 24/7 portfolio. In H1 we expanded our sales force, in particular focusing on the out-of-home, as well as invested in premium spirits and coffee.

Overall comparable EBIT margin declined 30 basis points versus 2023, and down 60 basis points on an organic basis, driven by the higher opex. CCH has a strong track record of improving opex as a percent of revenue. And we fully expect to return to improving this metric as a key driver of the margin expansion that we target for our medium term guidance.

Now moving to the segments.

Established markets – Solid performance on all metrics

Established markets revenue grew 4.4% driven by price/mix. We are still seeing the positive impact of carryover pricing from 2023, as well as some additional pricing taken in the first half of the year.

Q2 price/mix saw an anticipated decline relative to Q1. This has been driven by cycling very strong expansion in Q2 2023, as well as negative country mix, driven in part by the strong growth from Greece and relatively weaker performance from Switzerland. We also saw strong performance in Water compared to flat Sparkling volumes, which drove negative category mix. On the other hand, we continue to benefit from actions to drive positive package mix, expanding single-serve mix by 120 basis points in the first half of the year.

Volumes were steady in the first half with a pleasing return to growth in Q2 on an easier comparative. Overall, Sparkling was down slightly, although our continued focus on Zeros delivered good growth on a tough comparative. Energy was up high single digits, and I'm pleased to report that Stills grew too, with Sport drinks growing high-single digits.

The Established segment saw organic EBIT growth of 11.1% and a 70 basis point expansion in Comparable EBIT margin. This was driven by good leverage from top line growth as well as lower inflation in COGS per unit case.

Developing Markets – Strong EBIT margin recovery

Revenue in the Developing segment grew by 11.5%, with volumes up 3.1%. Revenue per case increased by 8.1%, benefitting from carry over pricing, ongoing pricing during the period and also improved category mix.

Sparkling and Energy were the main contributors to volume growth. We are also encouraged to see growth in our premium offerings in the market in particular Powerade, and also Kinley which has benefitted from the brand relaunch.

Comparable EBIT grew substantially by 62.3%, with Comparable EBIT margins up 310 basis points, benefitting from good leverage from top line growth as well as lower inflation in COGS per unit case.

Emerging markets – Robust performance in a challenging environment

Revenues in the Emerging segment grew by 22.7% and price mix was positive at 17.6%, mainly driven by pricing to manage the impacts of currency devaluation, and also benefited from positive category and package mix.

Volumes were robust, growing 4.3%. Sparkling continues to be the growth engine in the Emerging segment, and both Stills and Energy also contributed positively.

In Nigeria volume grew double digits, as we continued to execute well in a challenging macroeconomic environment. In Egypt we saw good recovery of volume in Sparkling in Q2 as well as ongoing strength in Energy throughout the period. In Water in Egypt, our strategic decision to focus on profitable growth has been successful, and the category grew following the reset last year.

It is our execution and deep knowledge of Emerging markets that sets us apart at times like this, and we are immensely proud of our teams' hard work and commitment to deliver in a highly dynamic environment.

Comparable EPS of €1.04 – managing FX headwinds

Moving further down the P&L, we can see a slight decline in comparable earnings per share in H1, to deliver 1.04 Euros per share.

Finance costs were higher year on year, mainly related to FX. We expect second half finance costs to be lower than the first half. We have adjusted our finance costs guidance to the range of €60 to €75 million.

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

Strong Balance Sheet and increasing shareholder returns

Moving to the balance sheet. The first half saw a year on year decline in capex, in line with our planned phasing. We still expect capex as a percentage of sales to be within our guidance range of 6.5 to 7.5 percent by year end.

We generated free cash flow of €220 million, a decline year on year due to the phasing of net working capital.

Our balance sheet remains very strong with net debt to EBITDA below our guided range of 1.5 to 2 times. We continue to return cash to shareholders, paying a €0.93 dividend in June, an increase of 19% versus prior year payment. And we have also returned over €160 million to shareholders through our share buyback since its start.

Outlook 2024

Let me say a few words on our outlook before passing back to Zoran.

While we are mindful of the challenging macroeconomic and geopolitical backdrop, including a more uncertain consumer environment, we are **upgrading guidance** for 2024.

This reflects: our strong first-half performance **and** high confidence in:

- our bespoke capabilities;
- our 24/7 portfolio; and
- the potential across our diversified country footprint.

We now expect Organic revenue growth of 8% to 12%, and Organic EBIT growth in the range of 7% to 12%. We have not changed our guidance on COGS per case which is still for a low to mid-single digit expansion.

Thank you and with that, back to Zoran.

Zoran Bogdanovic – Coca-Cola HBC AG – CEO

Driving best in class execution

Thanks Anastasi.

Continuing to win in dynamic markets

The first half performance shows that our 24/7 portfolio combined with our bespoke capabilities can deliver in a range of market conditions.

As Anastasis mentioned, we continue to operate in a highly dynamic market environment, with some increased uncertainty. In the face of this we are confident we can continue to win in the marketplace.

When it comes to affordability, we are ready with enticing entry packs, pack-size adjustments to maintain attractive price points, and affordable returnable glass offers like in Nigeria and Egypt.

And we still have significant premiumisation opportunities across the portfolio, and a very precise understanding of where to play with those offers. And innovation in Adult Sparkling, growth in Powerade or ongoing focus on premium package formats such as our premium returnable glass portfolio in Austria, are good examples we're calling out today.

We have confidence in our 24/7 portfolio and the strength of our bespoke capabilities, and these, combined with the opportunities we see across our diverse geographies, enables us to drive our growth algorithm.

Continuing to invest in bespoke capabilities 1

We shared this slide at our investor day last year and I'm showing it again now since it's a good reminder of the areas that we continually invest behind. We make these investments consistently, on sunny days and on rainy days. It is these capabilities that allow us to drive personalised execution in every outlet, and, when combined with our 24/7 portfolio and diverse markets, ultimately drive our growth algorithm.

I believe that our strong first half performance and ongoing share gain in a wide range of market backdrops demonstrates the benefits of these investments.

Across all of this is the importance of data. And we continue to invest in our leading data, insights and analytics capabilities, because we see the connections data, insights and analytics allows us to make, and the way it enhances the other capabilities you can see here. DIA is a game changer for our business.

Our investments allow us to continue to expand our data sets, and with that our insights and understanding of our customers and consumers. And data is also one of the key areas where we are working together with The Coca-Cola Company, integrating their consumer data with our increasingly detailed outlet data.

Continuing to invest in bespoke capabilities 2

We would love to share more on these topics. And to do that we are starting a series of bitesize webinars on key areas of the investment case for Coca-Cola HBC. Our first will be on 8 October and focused on Data, Insights and Analytics. I hope you can join the team then.

Delivering best-in-class growth

I'd like to conclude on the three areas I highlighted at the start

First the strong and **high quality** organic revenue growth we've delivered, with volume growth of 3.1%. Growth was led by the **three prioritised categories** across our 24/7 portfolio. And we are gaining share.

Second, we are demonstrating ongoing resilient financial performance even as we manage in a volatile and challenging environment

Third, we continue to invest in our strategic priorities and our bespoke capabilities, because they make the difference.

And finally, one more, which is in fact the most important. I would like to sincerely thank all our colleagues, customers, suppliers and our partners for their ongoing efforts and support through the year. We rise to the challenges and seize the opportunities together as one Hellenic, with our 24/7 vision and our purpose, to open up moments that refresh us all, that keeps us motivated to deliver for all our stakeholders.

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.

Please join the team on 8th October for our first bitesize webinar and we look forward to catching up with you again soon.

Thank you very much, have a great day and goodbye.