CCH – 2024 Half year results
Questions & Answers transcript – 7 August 2024

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Questions From:

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Andrea Pistacchi (Bank of America)

Charlie Higgs (Redburn Atlantic)

Edward Mundy (Jefferies)

Q&A

Operator: Thank you. If you wish to ask a question, you will need to press star one on your telephone and wait for your name to be announced. To withdraw your question, please press star one again. Please stand by while we compile the Q&A roster. This will take a few moments. We will take our first question, and the question comes from the line of Sanjit Aujla. Please go ahead. Your line is open.

Sanjit Aujla (UBS): Good morning, Zoran and Anastasis. One question each for both of you. For Zoran, on Established; can you just give us a bit more context around the volume improvement and the sharp price mix normalisation we have seen? I would love to get your take on the underlying dynamics across those geographies, please. And if anything's materially changed with the consumer over the last few months', disaggregating weather.

My question for Anastasis is just really understanding a bit better the mark to market effects impact on EBIT in the Emerging segment. Can you just help us, a), quantify that, b), clarify if it is non-cash or cash, and what would Group organic EBIT have been in the first half excluding this impact? Thank you.

Zoran Bogdanović: Good morning, Sanjit. Thank you. So in the Established [segment], we are very pleased that we see volume growth in Q2 as part of the plan, and what we guided that for the full year, we see positive volume in all three segments, including Established. This was enabled by very strong performance that we see in Greece and also very good volume performance of Italy in Q2, and also low single digit in Switzerland. So in balance, this came as a result of what we said that we will be doing this year, where we will be mindfully adjusting our algorithm between price mix and volume so that we do more of volume support, through well-designed promotions in this in this segment. With that, I'll hand over to Anastasis to give more colour on the on the price mix, particularly for Q2.

Anastasis Stamoulis: Good morning. Good morning, Sanjit. Good morning, everybody. For Established in quarter two, we have seen that organic price mix grew by 4.5% in half one and we expected a slowdown in quarter two. And that has to do with the carryover pricing impact in quarter two being lower than the impact we have seen in quarter one, cycling a higher base from 2023. As I mentioned on the call, also we have a category mix negative trend in quarter two, as we have seen a stronger performance of Water with volumes up 8%, mainly coming from countries like Greece and Switzerland. At the same time, we have a country mix, which was also negative, with stronger volume performance coming from Greece, whereas we saw slightly weaker performance in Switzerland and Ireland. To that extent, this was partly offset by a positive package mix, which was up 80 basis points on single serve. Now when it comes to promotional investment for the period, I mean, this is something that we have been using as part of our revenue growth management. And the promotional intensity in our markets was slightly higher than prior year, but it was in line with our plans. Let us not forget that also in the Established segment, we included the support for the transition to the DRS model in Ireland and a second step up of promotions in Italy. So in general, we are very pleased with the actions that help to deliver volume growth in quarter two, as well as I said. I think that that's on that one.

I know there is a second one when it comes to OpEx, right?

Sanjit Aujla: Yes.

Anastasis Stamoulis: Maybe give a little bit more colour on the OpEx for the first half of the year. We saw an increase of OpEx as a percent of revenue by 130 basis points. As I said in the call, the main driver has been related to currency weaknesses in the Emerging segment, which required us to mark to market, basically remeasure, balance sheet items to adjust for these devaluations, specifically an intercompany loan in Egypt, which is a non-cash item, but a balance sheet adjustment. We are taking steps to protect against this in the future. We have better visibility and availability of the hard currency now in Egypt following the currency devaluation, which means that we can convert many of our suppliers' contracts into local currencies from hard currency in the past. Although in the past we have seen, we know that it was not possible to engage in hedging on the currency in Egypt, we see early signs now with the free float of the rates, so hedging may soon be possible. We are also exploring this. This is one half of the of the case of the story on the OpEx as a percent of revenue.

The other important thing we need to highlight is that we continue to invest ahead of the curve in our business, especially expanding our sales force in markets where we are really targeting out of home, and at the same time investing behind our Premium Spirits and the Coffee business. I think I need also to highlight, at this point, that it is well known that we have a very strong record of improving OpEx as a percent of revenue. For example, we have improved by 300 basis points over the last years, and we are very confident that we will be returning to improving this metric again. We have upgraded our organic EBIT growth to 7-12% today, and this is capturing that we are also assuming a better leverage when it comes to the second half of the year, compared to the first half, on OpEx as a percent of revenue.

Sanjit Aujla: Great. Thank you very much.

Operator: Thank you. We will take our next question. Your next question comes from the line of Simon Hales. Please go ahead. Your line is open.

Simon Hales (Citi): Thank you. Morning, all. Firstly, I wonder if I could just sort of follow up on those last comments around margins, just if you could provide some specifics as to the scale of the mark to market impact at all that the FX had in the first half on your numbers. Then associated with that, obviously, you also saw big sort of positive margin development in the Developing segment itself, obviously, helped by lower COGS sort of coming through in the period. How should we think about that into the full year? Is there any reason to think that that ongoing strong operational leverage in that region won't continue?

Then maybe a second one, perhaps for Zoran, around Finlandia and Premium Spirits. Clearly a strong performance in the first half. You've raised the scope contribution you now expect for the full year from that business. Can you just share a bit more detail of what you're doing there? What's driving that improvement in the profit delivery and your mid-term confidence in that push into Premium Spirits more broadly?

Anastasis Stamoulis: Okay. Hi Simon. Good morning. First of all, to your question on the impact of the remeasurement on the overall OpEx percent of revenue. We say it is about half of it. So of 130 basis points, just half of that is connected to the remeasurement effect. Then you had the question in connection to the Developing segment performance. You are right, we're very pleased with this performance. A large part of this comes from good operating leverage that we had on a very strong organic revenue growth of 11.5% while we continue to invest in this market. As an example, in Poland, we increased our sales force and our local warehouse capacity to support the new categories, and the spirits launch with Finlandia.

However, we also saw very good gross profit margin expansion, benefiting from lower inflation and input costs compared to the previous years, also any recovery that we have been seeing on the challenging inflationary dynamics over the last years. For example, Hungary is a market where in the past, on average, we were facing about 16% of inflationary pressure. We are currently at 4% in 2024. Czech also 13%, and we are currently at 2.3%.

Now, we have also said in the past that we had a good opportunity for EBIT margin expansion in the Developing segment in the mid-term, especially after the implementation of the sugar taxes in Poland and Hungary in the last three years. We are very pleased to see that we are getting this through. I have to highlight that the strong performance in the Developing, but also the Established segments really demonstrate the benefits of our diversified portfolio of these countries. Also pleased to see that despite the significant FX weaknesses from the Emerging segments we are still able to deliver EBIT growth for Group level even in a short period of time. Very pleased with the Developing performance as expected.

Zoran Bogdanović: Yeah. Simon. Good morning. Just to say on Premium Spirits and Finlandia, we overall see a good performance. For Finlandia, when we took over the business on November 1st ever since we have done an integration which is proceeding very well. We have been now, as I mentioned in my remarks, started the distribution of Finlandia in a number of markets that – where we didn't have Finlandia before. Overall, Finlandia is margin accretive business, addition to us, on top of the fact also that it really supports all our mixability activities and initiatives with the various parts of our NARTD portfolio, which makes it very interesting and especially relevant brand across our central Europe countries.

Now, in terms of what I think you mentioned in terms of this increased number, it is a matter of scope. After the call, our IR team will be happy to give you more details on that.

Simon Hales: Got it. Thanks very much, sir.

Operator: Thank you. We will take our next question. Your next question comes from the line of Andrea Pistacchi. Please go ahead. Your line is open.

Andrea Pistacchi (Bank of America Merrill Lynch): Yes. Hi, Zoran, Anastasis. Two from me, please. The first one your EBIT guidance, which implies quite a wide range for the second half, I think around 7-17% growth in the second half. Now, of course, you flagged the uncertain environment, but with good visibility on your cost base, in what areas of the business do you see more uncertainty and what scenarios and assumptions are you baking in for the top end and the low end of the range? Then a simple question on Egypt, where you delivered strong, I mean, good double digit volume growth in the second quarter after a softer Q1. Can you talk a bit about the environment there? Has the boycott impact eased? Update on what you're doing, I mean, Energy rollout and what you expect for the rest of the year. Thank you.

Anastasis Stamoulis: Good morning, Andrea. Let me start on the first one on the EBIT range guidance. Yes, after the strong start of the year, we are with the growth of 7.5%. We need to remind ourselves that this was on tough comparatives. Half one delivered last year was on the abnormal scale. We are upgrading the full year guidance from EBIT growth from 7-12%. Now we have said also in the past that we expect EBIT growth to be weighted more towards the second half of the year. However, we have left, as you said, this wide range of guidance, because we do see still a very dynamic environment with macroeconomic and geopolitical backdrop to remain a challenge and even more uncertainty when it comes to the consumer environment.

Let us say the from the ranges, if we were to look at what drives the lower part of the range, that would clearly indicate the deterioration in the consumer environment, that would impact volumes. There are some markets in Europe where we are seeing increased signs of consumer sensitivity to pricing, further, deeper foreign currency headwinds with devaluations that could impact profitability and a worsening of the geopolitical environment, we see what is happening out there. Also within our guidance range, we are also capturing about 200 basis points of headwind related to the impact from the business disruption as a result of the fire in our Bambi plant, something that we highlight in our subsequent events.

If we were to move on the top end of the range of the guidance, of course that would be by seeing a stronger momentum across the markets, especially in the rest of the Q3 period, and any improvements in the currencies as we see happening ahead of us.

Zoran Bogdanović: Hi, Andrea.

Andrea Pistacchi: Could I just follow up quickly on two clarifications on what you just said, Anastasis, please? On the Bambi fire impact, you are saying the guidance includes a potential up to 200 basis points, i.e., two points of EBIT impact from that. Then you talked about you are seeing probably some signs of deteriorating consumer softening in some markets, maybe Zoran you can elaborate on that also. Thank you.

Anastasis Stamoulis: Yes. I mean the Bambi part. Yes. On the Bambi part, we are estimating about 200 basis points on the low end of the guidance because we have a certain business disruption and we are progressing with the activities, with settling any business losses, disruptions with our insurance company, and there is always a timing delay to that.

Andrea Pistacchi: Yeah, okay.

Zoran Bogdanović: Hi, Andrea. I'll build on just to close on clarification you asked on the consumer, just to say that look across the number of territories that we have across three segments, it is not a one size fits all. We do see in a couple of places some more softness for which we also said that we see a little bit of cautiousness because of higher price sensitivity. We do see that in Italy, Switzerland, Austria and this pool of markets. Also, some of them are impacted because of the DRS implementation and sugar tax introduction, whether that is Ireland, Hungary or Romania as usually happens. On the other side, there is a whole pool of quite resilient markets where we see continuously good performance.

All in all, in the context of what Anastasis was saying, this just gives us some cautiousness, knowing that we also have another two months in the important quarter and then obviously whole Q4. Needless to say, but I will that we are very confident in the ability how we will navigate through these various backdrops in which we are operating.

One of those is Egypt as you said where I'm really pleased how Egypt has performed in the in the first half, bouncing back in Q2. In spite of the quite volatile environment there, I give a huge credit to the tremendous work that is done on the ground from the team on capabilities, on customer relationships, on commercial policy, route to market, revenue growth management, all the things that you hear us very often talking, this is exactly what is happening in Egypt, and it does make a difference. Environment is not easy with the devaluation and still currency being active as we see also these days.

On top of that, there is still a level of boycott that is ongoing in the same trends as we have seen before, which particularly means that as for other companies, international brands or mostly US brands are affected. In our case, this means that it is the Coca-Cola trademark that is more affected than others. However, the rest of the portfolio compensates for it. I am very pleased with the performance that we have seen in rest of Sparkling, with Fanta and Schweppes, particularly. Also, we have a very good performance of Energy in the country with two brands now, and also after one year of doing necessary steps, mindful steps on the Water category, we see now also very good performance of double digit performance of Water in Egypt. Overall, we remain very agile and, and we will adapt to the circumstances as they happen in the country. However, that is what we see at the moment and I am absolutely convinced of the importance of Egypt for Hellenic, not only for this year but even more for all the years ahead. Thank you. Andrea.

Andrea Pistacchi: Thank you very much.

Operator: Thank you. We will take our next question. Your next question comes from the line of Charlie Higgs. Please go ahead. Your line is open.

Charlie Higgs (Redburn): Hi, Zoran. Anastasis. Hope you are both well. I had a question on channel mix, please and if you could perhaps comment there either at the Group level or by region, if you are seeing any changes in where consumer habits are buying products and within maybe the 13.6% organic sales growth in H1, how that was balanced between the at-home and the out-of-home.

Then my follow up is just on Nigeria. I was wondering if you could comment on the consumer there, what you're seeing on the ground. I think you talked about volumes up low double digits, but returnables are up 27%. I would assume maybe some pressure on the PET lines. And can you maybe just reiterate your pricing ambition in in Nigeria? Is it to try and offset the FX devaluation we have seen in Q2? Thanks.

Zoran Bogdanović: Good morning, Charlie. Let me start with channel as you said. We are very pleased that we saw volume growth in both out-of-home channel as well as the at-home channel. I would particularly call out that we are pleased to see also the performance in out-of-home in Developing and Established and of course in Emerging. We see growth from both, even on balance, a little bit higher growth in the out-of-home. That is quite encouraging and it is in line with our continuous investments that we are putting behind this part of the market. We called some of those in our remarks. And also strong investments and targeted campaigns and activations that we have in out-of-home, but of course, also in at home. Both of those are positive, and that's how we are planning also going forward.

Moving on to Nigeria. Very pleased, very pleased with the performance of Nigeria in spite of the volatility that we saw with currency, but also with some of the strikes in May. Now also we see some movement related to cost of living protests. However, I would really, first of all, call out very strong team on the ground that acts very fast and with strong expertise, together also with our partners from The Coca-Cola Company, we are quickly adapting to this environment. When the evaluation happened, we have quickly reacted in a matter of days of activating the plan, which was already kind of half-cooked, because we did expect that the evaluation will happen sooner or later. And of course, this reflected it was embedded in our revenue growth management framework, which was then activated with price increases that we are taking.

This connects also with the question that that you said on pricing that it is absolutely normal that we are taking price in Nigeria. We have done so so far, and we will be doing that.

However, now with data insights and analytics capability, which really helps us with different granularity and insights that we have, that informs our revenue growth management plans. That is why pricing that we are doing is done in a very mindful way differently by region, differently by category, differently by packages. That is why we have been so far quite successful in driving price mix in a very good way. We will continue to do so. To conclude, we really remain positive on how Nigeria will perform this year.

Charlie Higgs: Thanks, Zoran.

Operator: Thank you. Once again, if you wish to ask a question, please press star, one one on your telephone. We will take our next question. Your next question comes from the line of Edward Mundy. Please go ahead. Your line is open.

Edward Mundy (Jefferies): Morning, Zoran. Morning, Anastasis. One question, one follow up. The first is around the Candler Cup, which you won in both Greece and Cyprus. Could you perhaps talk about what you're doing from an execution standpoint and those markets that led to that prize being awarded to you? Are there any things that you're doing in Greece and Cyprus that can be rolled out to the rest of your operations? It's the first question.

The follow up is coming back to spirits. I think page 36 of the release shows that it is about 1.5% of your volume growth, but about 20% of your sales growth. It is quite accretive to revenue per case and your core business. The question is really that you are probably aware that a bunch of spirits companies have lost control of the supply chain and are going through a pretty bad destocking cycle. Could you perhaps talk about some of the safeguards that you've got in place given you have been doing spirits for quite a long time? Perhaps the fact you own the distribution, that you have got good data and insights, what is it that allows you to not go through that type of destocking cycle? What gives you confidence that you have better visibility of inventories relative to perhaps some of your spirits peers?

Zoran Bogdanović: Good morning Ed. On Candler Cup, needless to say, we are we are really proud of our business unit of Greece and Cyprus for winning the Candler Cup, which is the global bottler competition, and it is the second one that we have won after Romania for 2017 year. I think this is really a reflection of, as you might have seen, ongoing good performance that we had for the last few years in Greece. It is a reflection of how our bespoke capabilities that we develop on a Group level are executed with excellence on in the market across all channels, customer intimacy and raising the bar continuously. I would just say that it is a one team spirit and very holistic performance because to win in such competition, it is a matter of many parameters that have to be consistently performed. It is a matter of what we always talk about and that is in the core of Hellenic, which is the execution excellence. I hope for a couple of more over the next years and hopefully also in another continent, we will see. From our end, we will do hard work, as always.

Moving on to Premium Spirits. From our end, we cannot see an issue of, or anything related to, destocking. We work very closely with the brand owners that we partner with. We have a very good diligent planning routines with all brand owners. We have not seen any of that. Actually we have a continuity of the stock and we are also mindful on the stock levels that we have in the market. No issue there, actually quite pleased with the performance of this whole category.

Edward Mundy: Very good. Thanks, Zoran.

Operator: Thank you. This concludes the question-and-answer session. I would like to hand back for closing remarks.

Zoran Bogdanović: 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 bite sized webinar. We look forward to catching up with you again soon. Thank you very much. Have a great day and goodbye.

Operator: This concludes today's conference call. Thank you for participating. You may now disconnect.

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