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Questions & Answers transcript – 31 October 2024

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Q&A

Operator: We will now take our first question from the line of Simon Hales. Please go ahead. Simon.

Simon Hales: Thank you. Morning, everybody. So just a couple for me, please. Zoran, you mentioned obviously you've raised the guidance range there for the full year today. Obviously the revenue growth guidance has been raised at the top end, but you haven't raised the top end of your operating profit guidance despite perhaps a lower cost – COGS backdrop. Why haven't you raised that profit guidance? Why isn't it – why aren't we seeing the full drop through to profitability of what could potentially be a better revenue picture?

And then secondly, just a couple of technicals. You mentioned the impact of the fire at Bambi. How do we think about the full year impact that that is potentially having on the business now, you gave, I think sort of a worst case scenario of about a 200 bit headwind back at the half one stage. And then associated or maybe slightly separate to that. Last week we heard about the product recall of some Coke products in Austria. How should we think about the impact that could have on your Q4 Established business?

Zoran Bogdanovic: Hi, Simon. Thanks. Let me start. And then Anastasis will also give some details based on your questions. First of all, let me just say with the top line, as you see, we have done and guided for a range is simply because we do see that it's a very dynamic environment across the market. First of all, I want to emphasise that I'm very pleased that because of our very strong execution and performance in the nine months, we felt confident to upgrade the guidance, but equally, we remained very mindful that there is still two months very important trading season ahead of us. And knowing that we do see some sensitivity of consumers in several markets we simply cannot with certainty know how a consumer might react and evolve. That's why we see this range.

And let me answer the Austrian question and then Anastasis can close the loop on the how this flows through together we connected with the Bambi impact. On Austria, this is one unique case where it's a result of a technical fault which was really extraordinary situation, and we have acted immediately based on one consumer complaint and reacted very fast. And the whole – all the products are either at the retail warehouse – retail outlets are blocked and pulled into their warehouses or the product is locked in our warehouses.

So while in the communication to the public, we have talked about the total theoretical number of bottles affected, because of the nature of incident, we are very certain that maybe only a small number of bottles might be affected, which we are going to check with the procedure that we have developed with the local authorities. And we are going to – after the product is verified, we are going to return it back to the market ensuring absolute full safety for our consumers.

So having that in mind, we do not expect any material impact. Reminding you that Austria is a 3.5% of our total Group and 13% in the Established; and whatever the impact may be, it is fully embedded in our guidance.

Anastasis Stamoulis: Yeah. Hi, Simon. Well, as Zoran very well said, we still have two months to go, which are critical with the certain volatility in the market and sensitivity. You're right, we have upgraded the revenue slightly more than the EBIT. And of course we are well aware of that. What this implies on the margins, when we look at from the two extreme ends of the ranges, right.

Now, we did our previous guidance. There were also this dynamic of the extreme of ranges, so nothing really changes from that perspective. Now that said, there are two elements that are impacting EBIT more than revenue. So as Zoran was highlighting, the fire of the Bambi plant and the impact of Austria as well, they have more of an EBIT impact rather than a revenue impact, and they are fully covered within the guidance ranges we provided today.

Now, overall, we are very confident that we will be able to execute the plan and deliver our guidance for the full year.

Simon Hales: Understood. Thanks ever so much.

Operator: Thank you. Our next question comes from the line of Edward Mundy. Please ask your question, Edward.

Edward Mundy: Good morning, everyone. And just want to echo, Zoran, your words to – thanks to Jo for all the help over the years and wishing you the very best for your next stage of family life. So two questions please. I'll ask the first one first. Just a really big, big picture question, Zoran, for you. And you sort of highlighted a relatively mixed consumer backdrop, but the business is still very resilient on volumes, price mix categories across the piece. But given your advanced data and analytics, what gives you confidence that you're not going to get a volume elasticity impact like what we're seeing across a lot of other parts of consumer staples as we go into 2025?

Zoran Bogdanovic: Good morning, Ed. Thank you. Look, I mean, that's the whole story why we recognise that both revenue growth management and data insights analytics in combination, they serve the purpose to give us all possible insight and granularity of understanding consumers and micro segments across the market so that we can fully adjust and tailor the – both affordability and premiumisation initiatives that we have across the market. So this is very dynamic and, as I like to say, always on RGM approach that we have. So I can only say that how this works is that we have already anticipated the importance of affordability for the year. That's why this was embedded as a starting point in our business plans for the year. As we go through the year, we continuously monitor what is happening in every single market, and we are adjusting the plan. That also means that we are adjusting not only the possible intensity but also the nature of the promotions that we are doing in the market, which play an important role. So there is a whole range of affordability initiatives as at the moment we all see that there is importance on that, but it's also blended with premiumisation. So I cannot put my finger on how much we will be able to grow the volume. However, as we said this year, at the beginning of the year, we were – we felt confident that we will drive and have positive volume, and I'm very pleased that we will deliver on that commitment and what we laid out at the beginning of the year. And I have the same feeling for the next year that we are aiming for the positive volume situation.

Edward Mundy: Thank you. My follow up is really around Energy and also spirits. We're seeing quite a big slowdown in the US Energy category, but there's no slowdown at all in your business. Is it just lower levels of penetration? Is it the relative affordability and some of your more affordable brands that's leading to that difference?

And then on spirits, perhaps any learnings from the Finlandia deal and your broader spirits portfolio? How easy has it been to integrate these into the business and what benefits have you managed to get from a commercial standpoint, from having spirits alongside your other parts of the portfolio?

Zoran Bogdanovic: You are touching on two important parts of our total 24/7 portfolio strategy. So Energy we will be this year – just to lay out one fact, it's going to be the ninth year, ninth consecutive year of strong double digit growth in Energy. And I can't fully say the situation in the US; I've seen fantastic execution of Energy last week in the US. However, we know that in a number of our markets, we have still ample space for growth, knowing that in many markets, even though we are gaining share, there is still a lot of share that is opportunity to capture. Secondly, the category itself is growing with a very good pace. And this is the result of the fact that the cohorts are expanding and the consumer base is continuously expanding, which is result of a continuous reformulations, introductions of new recipes, which also include now zero-sugar variants, innovative flavours that Monster Energy team is every year bringing very relevant properties. So I can say that – and last thing that I said – forgot to mention, I really want to highlight that we play intentional multi-brand strategy. So playing with two brands or even in three brands in some markets is really done in a very specific manner so that we hit the relevant price points and we target the relevant consumers. When you combine that with our strong focus on cold drink and equipment execution in the market, I can see that these are the ingredients which we don't take lightly, and we constantly keep very high and strong focus behind this category. And we are confident and optimistic about what we can do with energy over the next uh next couple of years.

Turning to Premium Spirits, which as a category are growing for – because of two reasons. One is the Finlandia, I'll come back to that, and second is also how we are developing and growing business with our brand with our partners, brand owners, meaning Brown-Forman, Edrington, Bacardi primarily.

Turning back to Finlandia, I'm really excited and very pleased that this whole transition has been going very smoothly. Now, this is also because we have in-house capability of the team that is dealing with Premium Spirits. So acquiring Finlandia for us was not a new thing. However, we already knew the brand. We knew the characteristics and dynamics of this whole category. And this year we are taking over from previous distributors starting the business. And I'd like to say that the car is still in the garage getting ready for a ride next year as we are taking over businesses and we are on the marketing front preparing exciting things. So, more to come. But I can just wrap up to say that we feel very pleased and very confident with what we can do with this brand. And last point, especially because it is so – as a standalone brand is great, but also in terms of mixability and how it combines with a number of categories and brands that we have in our portfolio, this is where the exciting combination and potentiality exists.

Edward Mundy: Thank you.

Operator: Thank you. Our next question comes from the line of Matthew Ford. Please ask your question, Matthew.

Matthew Ford: Hi, Zoran. Hi, Anastasis. Hi, Jo. So I'll just – my first question, and I'll come with a follow up as well. Just on the markets in which you're seeing kind of consumer pressure. Obviously you've called out a few and you called out several at the H1 stage as well. If we kind of compare your comments today versus those made three months ago, are there any markets where you've seen things get sequentially worse in terms of the consumer pressure and kind of macro situation? And are there any markets that you'd call out where potentially we're seeing an improvement? That's my first question.

Zoran Bogdanovic: Hi, Matthew. We don't see anything dramatically different than H1. I would note we do see that this consumer sensitivity on pricing. I mean, this is not something that two months you will see, then two months you don't see it. It's a period where in few of these markets it's there. And I can only highlight that in Italy, we do see that consumer sensitivity is there maybe to a slightly bigger extent than we thought three or four months ago. But based on that, we have adjusted and have been adjusting our plans. But equally, I want to point out that I'm very pleased with the last four months' consecutive share gain that in such markets we are gaining, which is proving that our quickly adjusted and adapted plans are really in tune with the market situation and development. So this leads me to say that we are used to operating these kind of situations, and all the levers and drivers within revenue growth management really help us to adjust to this whatever consumer situation we are seeing across the market.

Matthew Ford: Right. That's great. And then my follow up is just on COGS. Obviously you've lowered the cost per unit case outlook for 2024, but any early thoughts on the outlook for 2025? Clearly there have been some movements recently on sugar and energy prices and gas. So yeah. Any thoughts on the outlook for 25 from here?

Anastasis Stamoulis: Yeah. Well, first of all just to close 2024. Yes, we have updated our guidance to a low single digit. Of course that's based on our confidence since we are coming with a very high coverage position in terms of hedges, we're about 100% for the year. So that helps a little bit of predictability. And also I would like to remind us all that in the first half of the year, we had also benefited from a foreign currency translation on the reported COGS per case, right, due to the weaker currencies in the emerging markets. So we look at the full year basis, then we are going back to a low single digit.

Now for 2025, obviously it's too early to provide the guidance. We will be doing that during our full year results in February. What we can comment right now is that we still expect a certain level of COGS inflation. I mean, lower than the previous year, but still there is there. We have already engaged with our hedging positions, and we are – we can say that today we are at a higher covered position than we were on the same period last year, especially when it comes to sugar, we are over 60% covered when it comes to sugar. Yes, we have seen some reduction of the sugar prices this year. We expect that there. But still, as I said, we would see an inflationary pressure on COGS per case.

Matthew Ford: Right. Thank you very much.

Operator: Thank you. Our next question comes from the line of Mandeep Sangha. Please ask your question, Mandeep.

Mandeep Sangha: Hi. Good morning, Zoran and Anastasis, thank you very much for the questions. Just want to maybe deep a bit deeper in a couple of your markets. Maybe if we start with Nigeria, obviously, it's been over a year since we had the first FX depreciation, and nearly a year since we had the second one at the start of the year. Now that FX is somewhat stable, how were you sort of thinking about the outlook for sort of early next year? And as FX is stabilised, have you seen any change in sort of the competitive environment as maybe pricing has been passed on and the competitive dynamics have changed?

My second question really is just around Egypt. I think as we come into the fourth quarter, we begin to lap the early impacts of the boycotts that sort of started this time last year. How should we sort of think about those developments into Q4, but obviously, again, into early next year? And how are you seeing maybe the intensity of the boycott impact in the market today versus sort of earlier in the year as well? Thank you very much.

Zoran Bogdanovic: Thank you. Mandeep. So with Nigeria, first, I really want to call out how I'm really pleased with the fact that – with a pretty high price mix that we are driving in the market for obvious reasons of inflation as well as devaluation. We are also delivering and generating very good volume growth. And I think that really comes as a result of very well thought through actions based on insights and very strong capabilities that we have this in market, which we have built over the last several years. Also what supports the growth and performance over there in the competitive landscape is also marketing plans that are done in partnership with The Coca-Cola Company as well as Monster Energy Team. So we have all the levers there, and that has resulted that for quite some time we are continuously gaining share. So coming specifically to your question, we don't see that anything dramatic or different has happened in the last three months, and we don't foresee anything different happening. We are very alert to monitor and see the competitive situation. Also, what can happen in Nigeria, and that same goes for Egypt is that sometimes certain competitor may have a leg in their own pricing that they do which we are closely monitoring not to be outside of the market, but that's part of our RGM approach. So that's the only thing I would call out is the whole phasing and the rhythm that happens between the players in the market. And we are very mindful of that. So for Nigeria going forward, we always said that this is a double-digit growth revenue market, which will come as a result of all levers and price and volume and mix. And we don't see any reason why Nigeria next year also wouldn't be a growth year.

Moving on to Egypt. It's a more challenging situation simply because of macroeconomic environment that this country has been going through with inflation and devaluation. So, that has impacted consumer, but also the whole geopolitics of the of the neighbourhood, resulting in the boycott. The case for us, as well as for other international Western brands, is that it impacts the most known brands. So Coca-Cola brand is most affected. But this is now the beauty of intentionally increasing portfolio. We do see that other parts of the portfolio are affected to a lesser extent or are not affected. So that helps us to manage the business. One good example of not affected part of the portfolio is the Energy category, which we started two years ago with two brands of Monster and Fury, which are performing above our expectations. So it's a portfolio management while continuously developing our capabilities in the market. We've seen in Q3, just to answer your question, we've seen continued boycott because the situation on the ground in the neighbourhood is not – has not been reducing or calming down. And in our plans, we are factoring in that this boycott situation will stay for some time, unfortunately. However, we are working extremely closely with our customers, with all the partners, suppliers. We are really a local business in Egypt with thousands of people that we employ. Customers and suppliers etc. And we are building a business not for the next year, but for many years to come. For us, it's not a 100 meter run, but it's a marathon. And we are really preparing this car for a good and long ride.

Mandeep Sangha: Super. Thank you very much.

Operator: Thank you. Our next question comes from the line of Charlie Higgs. Please ask your question, Charlie.

Charlie Higgs: Oh, good morning, Zoran, Anastasis, Joe and – Jo, thank you very much for all the help over the years. I've got two questions, please. One on channel dynamics and then one on Italy. So are you able to give any more colour on how the at-home channel and the away-from-home channel performed in Q3, and if you saw any significant differences in how consumers were spending in Q3 versus in the first half of the year, please? That's my first question.

Zoran Bogdanovic: Hi. Good morning, Charlie. Look I'm very happy that actually dynamic between channels at-home and out-of-home has been pretty good. Both channels have been positive cross all three segments. And I'm particularly pleased for the out-of-home. As you know, this is a very special – has very special focus in our plans and our, I believe, competitive advantage. So the fact that also there but also in at-home we have managed to have a growing situation is because of all the plans that I mentioned in my earlier response of how quickly we are adapting to – with customers to our promo plans, types of initiatives that we have and execution in the market. So, that's on that part. What was the second part, Joanna?

Charlie Higgs: Thanks. Yeah, the second was Italy. I think volumes down low single digit, but cycling a very soft comparative last year. And appreciate there's some bad weather in Q3 and portfolio trimming, but kind of longer term, I remember the CMD you spoke about Sparkling being a big driver of growth. Do you just see this as a near-term headwind? And then hopefully next year we get back to a more normal year in Italy? Thanks.

Zoran Bogdanovic: Yeah. Look, I think that first of all, with the mood and conviction and belief that we have about Italy that you could see at our Capital Markets Day, today, it's no different. This is a fantastic market where we have been for the last four or five years growing every year with a double-digit revenue growth. And we see abundance of opportunities. Now also, the fact is that last few years have been unusual overall and equally in Italy, where, because of the macroeconomic situation, consumer habits have been also challenged and they have evolved. And for that reason, we have been also adjusting our plans because over the last two or three years, we said intentionally we have prioritised price mix, which we found extremely important. And from this base that we have done over the over this two or three years, we are now going into evolved game plan where we are in a different manner balancing volume and price mix, meaning that we are putting more emphasis on driving volume and addressing the affordability in the market with a whole range of initiatives that we have there at play, whether the evolution of the multipacks or single-serve single bottle promotions, types of promotions that we have. So the fact that at the moment we do not have volume growth is not worrying sign because simply reading what we have done but also what the whole market has done, we can understand that there has been a temporary impact on the consumer. But all this has been factored in our year to go plans as well as for the next year. So I remain confident that our revenue generation is going to continue in a strong and higher than the group average way.

Charlie Higgs: Thank you.

Operator: Thank you. Our next question comes from the line of Olivier Nicolai. Please ask your question, Olivier.

Olivier Nicolai: Hi. Good morning, Zoran, Anastasis and Joanna. Two questions, please. First of all, could you comment on the regulatory environment into next year, such as the planned sugar tax in Italy and Slovakia, or the various DRS scheme, which are going to be put in place in a few countries?

And secondly a bit of a boring question, I'm afraid, but you have a cumulative three years inflation in Nigeria and Egypt, which is above 100% now. Should we expect IAS 29 classification in those markets for next year? And what kind of impact it will have on the on the P&L and balance sheets? Thank you.

Zoran Bogdanovic: Hi, Olivier. I'll start with the first one and then I'll hand over to Anastasis. So on the regulatory front, as you know, sugar tax in Italy has been postponed again until July 1st, 2025. And then, well, let's see as we get closer to the date what happens. And then we know that next year we have a couple of other DRS coming on stream, I think Poland, Greece. and I would just say that our experience in situations when there is introduction of the sugar tax or excise tax or DRS, firstly, we have the clear method and approach how we prepare for that. Every single country that has gone through that so far, Ireland several years ago, Poland, Romania now, Hungary, Ireland again this year with DRS proves that when we approach this with a necessary and required discipline and preparation of our plans we know that then we execute really well, and we know that every such introduction results in a temporary one-year slowdown for us as well as for the whole market. And we also see that in every such case, we are coming out stronger than before. As in every such case, we have been gaining share, which is a result of a very well-thought through plans that we do. It goes without saying that any such sugar tax or excise tax is passed on in our pricing; but that price, how we do that pricing is not one size fits all. It really is tailored and it's bespoke for every single market. So we know that the regulatory framework is something that's kind of becoming a new norm, but we are addressing that very well in advance. And I can say that for all these upcoming new situations, we have already well designed and prepared plans. Anastasis?

Anastasis Stamoulis: Yeah. Good morning, Olivier. So indeed, we are very mindful of the inflation situation in Egypt and Nigeria and the possibility of that becoming as hyperinflation markets. Now for 2024, we know that – I think yesterday EY came out with a report that both Egypt and Nigeria do not meet the criteria to be characterised as hyperinflationary markets for this year. However, yes, there is this possibility for 2025, and we are currently working with our auditors and preparing if that's the case how will this impact our alternative performance measures and how will it be impacting our reporting going forward. So we will be able to share more once we have more visibility on this. And secondly, when we'll be providing our 2025 guidance, if that's part of the case, we will be adjusting accordingly.

Olivier Nicolai: Thank you very much.

Operator: Thank you. Our next question comes from the line of Philip Spain Spain. Please ask your question, Philip.

Philip Spain: Hi. Good morning everyone. Thank you very much for taking my question. I just had one follow up, please, just on the markets where you mentioned you're seeing some consumer sensitivity to pricing, like Italy and Switzerland, and you talked about adjusting your plans there. Could you just give more details on what that looks like? Is it just adjusting around kind of pack mix and promo, or are you also seeing some price cuts in those markets, and what you're seeing maybe competitors do in response as well? And also just actually sorry, related to that if you're seeing any pressure from retailers on the price as well, or if it's just in response to how consumers have been reacting. Thank you.

Zoran Bogdanovic: Yeah. Thank you. So, look, there's a whole variety. It's a whole variety of things that we are deploying. For example, as I said, in Italy, we launched a single 330 ML can sales. And then we are also starting our flex promo single to 600 ML pack that we have there. Then, for example, you have a – we downsized what used to be two times 175 promo from down to two times 1.5 litre. So for example, in Italy those are some examples. That then also we do not do any price cut in terms of the price rollback. However, what we – how we address that is through promo mechanisms and intensity of the promotions, which also in Italy is not the same across the country because there is a different dynamic in south versus north, and we are able to capture those insights as we are constantly checking old data on penetration, on frequency. We follow volume per trip. And also this is the type of work that we are doing together with retailers. And because of such relationship, that's why all the conversations that we have had not caused any stoppage or blockage in Italy or any other country, because together with them we continuously adjust. I would also like to give you one fact that from 2021, up until this year cumulatively in Italy, we are a number one FMCG company creating the creating the biggest impact. So that's also one good result of the way how we work retailers and variety of plans that we deploy.

Philip Spain: Thanks very much. Yeah.

Operator: Thank you. We have come to the end of the question and answer session. Thank you all very much for your questions. I'll now turn the conference back for closing comments.

Zoran Bogdanovic: Well, thank you, Operator and I would like to thank everyone for taking the part in today's call and giving us all the questions. And we look forward to catching up with you again soon. So wish you all a very good day. Bye-bye.

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