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Mitch Collett:

Good afternoon everyone. My name is Mitch Collett from Deutsche Bank's Consumer Staples Research team in London, and I'm delighted to be joined by Zoran Bogdanovic, CEO of Coca-Cola Hellenic. Zoran, the floor is yours.

Zoran Bogdanovic:

Thank you. Thank you, Mitch. Good afternoon everyone. Thank you for joining this session that I will just start with a few small remarks and then will be happy to take any questions that Mitch will have. Maybe just for those of you who might not be as familiar with Coca-Cola HBC, we are one of the largest global strategic bottling partners of the Coca-Cola company operating across 29 countries across Europe mostly, but also Africa. I'm very pleased to say that this variety of countries enabled us well, that over the last three years we had a series of strong double-digit growth. I'll be happy to say a few words about that, but just to say that in this 29 markets, we have a good representation of Established markets, Developing and Emerging markets where we are serving two million customers and 740 million consumers across the markets.

We see lots of opportunities in many of them, per capita opportunities, that is one of the largest sources of future growth. Maybe one of the unique things about Coca-Cola HBC is the development of our, what we call unique 24/7 brand portfolio, meaning a portfolio that's suited for all drinking moments, right from the early in the morning all the way to the late night and early in the morning before you go to bed. In that variety of categories that we provide to our customers and consumers, top three priorities for several years based on the facts where the largest profitable revenue pools are, sparkling, energy and coffee, and those three have been consistently being the drivers of our growth.

Now you can have the best portfolio in the world, but that has to be adequately deployed. That's why for a number of years we've been focusing with a great discipline and commitment for investments behind our capabilities, especially behind revenue growth management, route-to-market, data, insights and analytics, which really helps us to make more informed, wiser decisions as we plan the various revenue growth management initiatives. We've been also heavily investing behind digital and technology over the last several years, and that really drives transformation of our organization in how we digitally connect with our customers, consumers, how we are enabling our employee experiences, and also how we are driving continuously operational efficiencies and productivity.

I'm very proud of the investments and commitments that we make in development of our people and our culture, which is also reflected in one of our five strategic pillars. And if I would name something that I find institutional and critical for delivering these results, it is the quality of the people and talent we have.

And then just to highlight that our commitment to sustainability is an integral part of our business model. I'm very proud that for the seventh time we've been named by Dow Jones Sustainability Index as the global beverage leader, where consistently over the last 13 years, we've been in the top three beverage companies globally and on top of also in other nine top sustainability indices we rank at the very top. Last year at our capital markets day, we talked about mid-term guidance, where we stepped up the corridor of expected organic revenue growth to be 6% to 7% per year on average, and also 20 to 40 basis points of margin improvement per year on average. Just to say this year, Q1 results, very pleased that we started on a strong note with 12. 6% organic revenue growth delivered both by volume of 1.8%, and then also the price mix. With that, I'll hand over to Mitch and to have a conversation.

Mitch Collett:

Thank you, Zoran. I guess where you left off is probably the perfect place for us to start. You delivered 12.6% organic sales growth in Q1 on 1.8% of volume growth, but your guidance for this year is to be in line with your mid-term target of 6% to 7%. Given that strong start, that guidance feels pretty conservative, but perhaps you can talk about some of the puts and takes for the remainder of the year, and within that, how you think the balance of volume versus price mix is likely to play out.

Zoran Bogdanovic:

Yeah, indeed strong start with Q1, reminder that Q1 is the smallest quarter in our business. Remaining three quarters are essential, and from the point where we were in February when we are doing the call, there is still a lot that has to happen and we have to see how the things play out, and there are lots of moving pieces. In Q1, we've seen the devaluation of Naira, we've seen the devaluation of the Pound in Egypt, seeing where they will stabilize, will there be something more? How will the consumer sentiment both in Europe and in Africa develop? How will the whole season pan out with the weather where we do see that there are sometimes anomalies. We just felt that it's too early in the year to think about anything else, and we felt confident to reiterate the guidance. But with that in mind, it's also to say that where we see that consensus is we feel also comfortable with that.

Mitch Collett:

Okay. And then moving on to EBIT guiding to 3% to 9% organic EBIT growth. Again, in the context of that strong start perhaps feels somewhat conservative, but can you talk about the phasing of that growth? I think you've mentioned that in the past.

Zoran Bogdanovic:

Yeah, so 3% to 9%, absolutely. Just to say that if we would see some unexpected things happening further on the FX side or if we see that the demand gets suffocated in a number of markets, that would pull us towards the lower end. Also in the absence of these things, and if we have a normal year with assumptions that we have, then we would see that we are heading more towards the upper end. Last year, in the first six months, we had a pretty good six months actually. Usually we have our generation comes more from second half, whereas last year with all the price increases and better volume elasticities that we have delivered really caused that first half was the stronger one. This year, both in the organic EBIT growth as well as in the absolute, we see that coming more from the second half.

Mitch Collett:

Okay, understood. And thinking a bit longer term at the Capital Markets Day, as you said, you increased your organic revenue growth guidance from 5-6% to 6-7%. I guess, what was the underlying driver of that increase and how should we maybe think about the different roles that your three divisions play in that 6-7%?

Zoran Bogdanovic:

Yeah, look, there are a few things that really gave us confidence that we need to step up that corridor. One, when we had initial Capital Markets Day before that in 2019, we've seen that actual industry growth rate was even a little bit better than what we projected. The underlying industry projections for the years to come, are on a good level.

Within that, we now have a stronger and broader portfolio where our bets behind sparkling, energy and coffee, and then additionally fuel with selected priorities across specific countries with the rest of the portfolio, gives us confidence that we really have a portfolio with which we can play across all our countries, whether they might be in a downturn or in much better economical situations.

Third is in that portfolio now we have a stronger ability to play in coffee, which in '19 was on a much smaller level because only then we were only in five countries with Lavazza. Whereas from 2020 we started with Costa and then with Caffé Vergnano. So we feel much more confident with the coffee portfolio that we have now. That's an important element as well.

Capabilities is another reason. Our company today has much stronger, well-developed, much more developed capabilities that are essential for types of growth that we want to develop. As we call it in-house, the trinity of data insights & analytics, that informs revenue growth management and that gets executed in the market with route to market. How we connect these three is something that really shows us continuously now and more and more how that makes a difference across the markets. Plus, with digital and technology, we ramped up our investments and we do see that this makes a difference in our ability to drive faster growth.

Then pool of countries that have per capita opportunities. If you see a number of markets that are below the average, if we would take Nigeria and Egypt to the average of Hellenic per capita, only those two countries would drive significant growth. And that's where we are heading. Now, I don't need to mention only Nigeria and Egypt because I can give you example of Italy, which is well-established European country, but which has almost half of the per capita of Spain. There is no reason that Italy should lag behind in per capita versus Spain. So we clearly see where are the significant pockets of opportunities and when you blend all of together, it's why we see the reason that we need to strive for higher growth.

Mitch Collett:

Okay. And then I'm glad you brought up the data insights and analytics capabilities. And I guess thinking about the application of those tools within your Established segment, what are you seeing in terms of consumer affordability? And I'm very conscious that you've achieved very good revenue per case expansion. I think it's up 30% since 2019. What do your tools tell you about the affordability of your products given that there are pressures on consumers?

Zoran Bogdanovic:

I would first say that revenue growth management is a framework that we are doing since 2017 really blends so well. The insights from the market dynamics competitive analysis, and now with data insights analytics gives us even better informed info and data on elasticities, on dynamics, on simulations. So it doesn't make specific difference for Established versus other segments. It works across all. So within that umbrella, our focus on affordability, but also on premiumization is an unavoidable tango that we play with that.

So, of course, with this situation when we and everyone else has been doing lots of pricing, we pay a lot of attention on affordability solutions, whether that's from the pack architecture, ensuring that we have pack sizes that are small enough at the right price points, our multi-packs also, how they are configured, so that absolute price points play a role for consumers, the way we are doing promotions. All these data and insights is helping us to constantly see which type of promotions are working better and giving returns to us and customers. So that's been playing very well in the Established segment.

And I would say that, honestly, if I see the level of price mix that we have achieved over the last two, three years in the Established segment, if you ask me six, seven years ago that we would be doing that level of price mix in Established markets, I would say, "Mitch, I don't know how." Now I'm extremely pleased with the way how we have achieved that with a minimal volume sacrifice. And I say minimum volume sacrifice because we knew that in some places like Italy, our temporary focus primarily behind price mix is going to have some impact on volume. But it was a deliberate decision to do that. Where now through the RGM we are boosting our focus on the volume and volume-supporting initiatives and I'm confident that the Established segment this year will have a positive volume growth and Italy including.

Mitch Collett:

Okay. And staying in Established, thinking about the algorithm longer term, what's going to be a bigger contributor, volume or price mix? And I guess within that price mix, what are you more excited about, the revenue growth management opportunity or the opportunity to expand your higher revenue per unit category such as coffee and energy?

Zoran Bogdanovic:

Well, taking into account that last few years were really exceptional in a way that price mix was so much higher, we do see next year that this is going to be far more balanced. It will depend on the market. Clearly, higher inflation markets like Nigeria, Egypt will have important contribution from price mix. That will not go away. But our objective is that in some far more balanced way, whether it's somewhere 30:70 or 60:40, every situation will show, but it has to be more balanced. Our objective is to always have some price mix, but also to drive volume so both of those are important. And when we talk about revenue growth management, it's not only price mix. Revenue growth management equally takes care of the volume.

Now whether higher value categories like energy and coffee or RGM, it's hard to say or because RGM is deployed through categories. So the fact that we actually drive intentionally lots of initiatives behind energy and coffee is part of the RGM play, because it's not only about pricing, it's also the category mix that we are promoting. Then there is a package mix, there is a channel mix, so all that is blending in the RGM. So energy and coffee is included in our overarching RGM plans.

Mitch Collett:

Understood. And then you mentioned earlier the per capita opportunity in Italy, and I may have the figures wrong, but I think it's 159 servings or something like that, and I think Spain is 296. How do you close that gap? Is there any sort of cultural barrier to being able to get Italy to a similar place to somewhere like Spain?

Zoran Bogdanovic:

I think not cultural per se, but I think that it's more structural what Spain has been doing for several decades. We also have learning from each other. Spain team came to see what good things we do. We came to see what they do. One of the things that Spain has been doing consistently for long time, that Italy is now for the last several years doing much more intentionally, is focused on the out-of-home where you really need to invest more resources to visit more customers, to serve them much better, to expand better portfolio. So today, after we have added the significant resources over last three years, we have coverage like we have never had before and, as a result, our out-of-home situation in Italy is best ever.

We are gaining share, we are constantly expanding number of customers that we are visiting, introducing and installing more coolers in that part of the market.

Second thing is that Spain for much longer had a broader portfolio. Italy for us, seven, eight years ago, was mainly almost like two category business, sparkling and water. In the meantime, we really expanded very well, Energy became number one player. Sports drink Powerade became number one player. With the tea business in the past we never had more than 2 or 3% share. Today with Fuze Tea, we have around 10% share. Also, we start with the premium spirits distribution, which helps our customer leverage in the market and also our ability to segment customers and adjust our approach. So these are the number of things that we do well.

And last point, I would say that Spain has been really doing well. They've been consistently over years doing focus on passion points of the consumers behind football, behind food and behind music. Guess what? Same three are valued in Italy. We just maybe didn't crack together with The Coca-Cola Company the way how we should approach in Italy. I think last few years gives me huge confidence that we are now doing it in the way where Coke is so focused behind meals, both dinner and lunch. And lunch, for example, is a big opportunity for us because we see much lower incidents than dinner and within meals, it's a single focus on pizza. As simple as that. Music, excellent activations, which are giving us platform to activate consumer campaigns, which are volume-driving focus on single serves. So all that we've been now doing for last several years and Italy is delivering to be higher-than-average revenue generating market.

Mitch Collett:

You mentioned away from home. I've asked lots of questions about Established, so we'll have to get onto other divisions in a minute. But as we head into peak season for single-serve HoReCa, how are your preparations going and how is demand looking for that important part of your consumption?

Zoran Bogdanovic:

Look, I can tell you the moment any year season is finished, it's so much embedded in the way we do these things is that immediately the teams are starting season preparation. So, in October, while the season is still fresh, October, November is the period, exactly coincides with the business plan preparation season, when teams are already embedding all the learnings from just finished season. So that's how it is important for us, not only from the commercial sense, because now season preparation is equally important for our logistics and supply chain preparation to be able to deliver on the demand that can be even higher than sometimes we project. So I'm quite confident with the level of season preparation that we have, the fully funded plans. Every year, more informed by the same segmented execution use case. Data, we have now knowledge of the market and customer profiles and potential. I'm very confident about the season ahead, so I see that as the critical contributor to our results generation this year.

Mitch Collett:

Understood. So moving quickly to Developing, I think there's a big opportunity for you to expand single serve within Developing. What are your plans to do that and how's that progressing?

Zoran Bogdanovic:

Well said. In that segment, that pool of countries has a lower contribution of out of home than other two segments. That also leads that our single serve percentage is around 35%, whereas our average for the whole group is 45%. So what we do is that we actually, in a number of these markets, we are developing more of the out-of-home approach in programs. I would highlight for example, Poland where I'm really happy how in a country which is more at home market, however working with out-of-home customers on experiential experiences, making consumption of our beverages in various customer outlets, more experiential plays a role, mixability events, parties, et cetera. All that plays a role.

So we will be developing and strengthening our HoReCa capability. We are adding more people across those markets, which also supports more single serve volume. We are developing more programs where single serve is placed and activated in at-home channels so that people consume it more home. Our goal is that people rather buy multi-pack of single serves, then one bottle of multi-serve. So our interest is that we develop the habit of purchase and consumption that Mitch rather buys a multi pack of four cans, then one and a half liter. But that takes time. But that's why tailoring more of the promotions behind smaller packs that always in our budgets gets more funding attention. Not that we are neglecting big packs, but it's in our hands that we can steer that more and more.

Mitch Collett:

Moving on to Emerging. Nigeria faced a number of headwinds and challenges during 2023, but you actually navigated it remarkably well using dynamic pricing. How do you feel about the outlook for Nigeria in 2024? And are you confident that with that dynamic pricing you didn't push pricing too far and make affordability challenging for consumers?

Zoran Bogdanovic:

No.

Mitch Collett:

That's a quick one.

Zoran Bogdanovic:

No. In a country that has that level of inflation and that has devaluation, there is no option, you have to focus on price mix. The only thing that now is done over the last several years is that as we have strengthened our revenue growth management in a more sophisticated way, the proof point of that is that with such a strong price mix, which was high twenties, even thirties in the country, that did not stop us from driving also volume growth, every single year gaining share. Last year gained share, our year-to-date share is very strong.

So all that comes from much more mindful revenue growth management, appreciating the fact that Nigeria is such a huge market, north type of population, socio-economic segments, very different from south or east. So now we are really taking this into account and doing it in a far more orchestrated way, mindful way per category, per region, per pack, not surprising or let's say not suffocating market with one size fits all big tectonic increase.

If you see calendar of Nigeria last year, there is almost no month that we didn't have something happening with price. But inevitably in Nigeria we have a huge attention behind affordability. You cannot neglect it in this market. That's why the way leverage our returnable glass bottle, which is the key to affordability proposition for the consumer, is very, very important. But we are also balancing it with higher value categories like energy, juice. We have also premium spirits distribution in Nigeria, which is working very well. So doing both, but there is a big priority on affordability.

Also, for last five years or so, we've been constantly strengthening and adding capacity of our people in the market. So today we have the largest sales force in the country, which gives us the ability to be with the largest number of customers in person and frequently. So when any type of crisis, like last year bank note crisis happens, when you quickly have to switch to online and working with customers, this is where the leverage of having such a wide sales force comes into play.

And last point that should not be neglected is our ability to continuously have products available, meaning the strength of the supply chain, partnership with suppliers should not be neglected because sometimes there is shortage of certain materials for whatever reasons and not everyone in the market was able to continuously deliver, whereas we were able to do that. Yeah.

Mitch Collett:

One follow on. I mean it sounds like your data analytics and insights capabilities might be more important in a market like Nigeria where you have all that complexity. Is that fair?

Zoran Bogdanovic:

Absolutely. You couldn't say it more. Any of these capabilities that I talk about, Nigeria was always in wave one of countries to start with. Because we realized that in such a complex market, if capabilities are meant to be what we talk, then the more complex market, the effect of those should be more visible. And in Nigerian case, it really is the case.

Mitch Collett:

Maybe moving to Egypt, have you seen any easing of the impact of the boycott of Western brands and I appreciate, it's still a relatively new geography within CCH, but how far are you in your plans to create value within Egypt?

Zoran Bogdanovic:

You say pretty new. We are two years there. It feels like five. How many things have happened in Egypt in these two years? But it's good that everything happened right at the beginning, because it gives you the reason for real case for change and acceleration. So boycott being one of them, as you said, impacting not only us, it impacts international brands and within everyone's portfolio, most known brands. But it's visible how from December, January level, month by month, this is less and less an issue. It's still feelable on the Coca-Cola brand, but the rest of the portfolio is more than compensating. And we see now in Q2 that this effect and positive volume is happening. So a lot what we do in sparkling water, after huge intervention that we have done from second half of '22, first half of '23 where we went doubling the price of water because it was really not where it should be. And adding energy, which works very well, with two brands. So that helps us to really have a portfolio that can mitigate situation like this.

Mitch Collett:

Last geographic question. You've successfully rebuilt your business in Russia using your own brands. What does that tell you about your strength of your route to market, and are there learnings from that that you can take into other geographies?

Zoran Bogdanovic:

Well, I wouldn't single out Russia as such. I would say that this proves the point that the stronger you build any business, and Russia has not been doing in terms of route to market anything more or different than any of our other countries. So, when a tough situation and complex situation happens as it is now, it just proves the point that your capabilities and strength of your route to market will help you to survive and be better than anyone else.

Just with a footnote, for anyone who might not be familiar with the story that this business now has nothing to do with The Coca-Cola Company portfolio, which is completely out, and that business has its own local portfolio fully self-financed, self-managed without any investments from us as a group and fully compliant with local regulations, as well as with all international sanctions.

Mitch Collett:

Understood. You talked about coffee earlier and you've got two very different coffee brands, Costa and Caffe Vergnano. Can you talk about the role they each play within your broader portfolio?

Zoran Bogdanovic:

Absolutely. When you see any serious credible players, you see that multi- brand strategy is something that enables such players to address more segments in the market. Same is in our case, Costa, fantastic brand and high-quality coffee plays in a more, as we call it, mass premium. Whereas Caffe Vergnano as 140 years plus Italian heritage, Italian espresso type of coffee, is more of a premium and with that is able to address more upscale types of outlets, restaurants, hotels, whereas Costa would be more on a broader mass customer base.

We do have a clear segmentation of customers, but it's also fair to say that in some cases there can be some overlaps and then it comes to a preference of customers, which type of coffee, because the beauty is that they're not replicas of each other. Taste profiles and roasting are different. We are able to facilitate, also the customer a preference on top of the fact that we have clear segmentation where Costa goes, where Caffe Vergnano goes. They're not equal in size. Costa is and always will be bigger part of our coffee business. Caffe Vergnano, just by also profile being more premium is going to be always a smaller part, but important part. This gives us a stronger right to win of how we approach the whole market as a credible coffee player.

Mitch Collett:

Understood. We should talk about the balance sheets. You ended last year with net debt to EBITDA around 1 times. I know you've done a 400 million Euro buyback, but can you talk about your balance sheet use going forward? You've done bolt on M&A fairly recently. Are you still actively pursuing opportunities to do M&A and how should we think about the balance between inorganic expansion and returning cash to shareholders?

Zoran Bogdanovic:

Yeah, balance sheet is there and we would like to use it for the right reasons. Before I come to maybe more interesting part that you have in mind. First to say that we are committed in investing in our organic business. That's why in our 6.5% to 7.5% guided range for CapEx, we are constantly at the higher end of that investment. I strongly believe that these last several years, the ability to deliver that level of growth is enabled with those investments. Some of those investments particularly will be visible in the years to come. That's one commitment. Second is that we have a progressive dividend policy. End of this month, 19% dividend per share increase that we have, so that's another thing. Share buyback that you referred to that is ongoing.

Then looking at the opportunities that could happen, how we could really further deploy capital. Our most interesting preference would be territories where we could provide better, stronger leverage of what Hellenic has. I hope that over time this will show up as an opportunity, but those cards are not in our hands. They start with our partners, The Coca-Cola Company. We'll see what and if the time brings, but we are ready, we are capable, we are willing. We talk often about balance sheet, but it's important to say we are confident with the capabilities and the talent pool that we have, that we could do things. I think that Egypt case, what we've done over the last two years and quantity of things, what we have done in two years in Egypt, I think is the best demonstration of what we can do, even in such extremely difficult backdrop.

Mitch Collett:

Final question. Given everything you've said, it feels like the Coke system, your part in it is in very good health. Can you comment on the level of alignment between yourself and The Coca-Cola Company and how that compares to the alignment in the past?

Zoran Bogdanovic:

I think it's on an extremely high level, and this is not about how we respectfully feel with each other, but it's the content of what we do together and how we do together. I really think that being really aligned on the metrics that we are driving together, being aligned, that we are driving together revenue, has been an un-blocker and has been well actually rather accelerator of how we do things. Very open, honest, transparent, very inclusive relationship on always discussing jointly things that The Coca-Cola Company brings to the table, that we bring to the table. I really feel that, that level of relationship and quality of how we do things, is also one of the important drivers of the results that you see both on the company side but also on our side.

Mitch Collett:

It's a great place to leave it. Zoran, thank you very much.

Zoran Bogdanovic:

Thank you. Thank you, Mitch. Thank you.

Mitch Collett:

Thank you.