CCH – Barclays Global Consumer Staples Conference
Fireside chat transcript – 5 September 2024

Mandeep Sangha

Good morning, everyone, and thanks so much for joining us. I'm delighted to be joined by Coca-Cola Hellenic CEO, Zoran Bogdanovic. Zoran, welcome back to the Global Consumer Staples Conference. Thanks so much for joining us here on stage today.

Zoran Bogdanovic

Thank you, Mandeep.

Mandeep Sangha

If you want to open with your opening remarks?

Zoran Bogdanovic

I'll just use the opportunity to share a few words about our company for those who may not be as familiar, and highlight that Coca-Cola HBC is a growth-focused business with a proven track record of delivering strong results. We have a leading market presence in attractive categories across 29 countries in Europe and Africa – actually, 27 in Europe, and Nigeria and Egypt in Africa – serving two million customers and 740 million consumers. And we see very good per capita opportunities in many of our markets.

Our growth is fueled with long-term investments in what we are building and regard as a unique 24/7 brand portfolio, which means suitable for drinking moments across full 24 hours in a day, seven days a week. And especially, we put a special focus on three leading categories that we call out: sparkling, energy, and coffee.

And then we continue to make investments in our business capabilities, which are absolutely essential in how we translate the potential of this great portfolio into a profitable revenue across all markets. And this includes revenue growth management and route to market. And this is underpinned and enabled by data insights and analytics that we have been investing behind for last several years, as well as using digital and technology. And these capabilities really help us to drive profitable growth even in challenging environments like we had the last several years. And I think we are only getting started.

Also, I would highlight the big investments we do behind our people who make it happen, with strong plans and investments behind attraction, development, retention. And only people make it happen.

And lastly, to say that in parallel of delivering strong financial results, it's also important that we do that in a good way. So, focus on sustainability is deeply embedded in our business model.

With that, to highlight and remind that our midterm guidance is for 6% to 7% of organic revenue growth. And we plan to do that through combination of volume, share gains, price, mix, using all the levers. And also, improvement of organic EBIT margin by 20 to 40 basis points, on average, every year.

We just announced in August our half-one results. Very pleased that the year started quite well, with 13.6% organic revenue growth, 7.5% organic EBIT growth. And even though we do expect that macroeconomic and geopolitical situation will remain challenging and consumer environment may have some uncertainties, however, we have a strong confidence in the capabilities, in the plans, in our portfolio, and abundance of opportunities that we have. So, that gives me confidence that the elevated and upgraded guidance that we gave for '24, that we will deliver on that.

So, thanks for this small intro.

Mandeep Sangha

Super. And you certainly touched upon a lot of topics I want to dig to deeper in our conversation. So, maybe we start where you finished. You mentioned here that, look, the 1H results increased the top line and EBIT guidance for 2024. One of the things you did share is that one of the variables about whether you could be at the top end or the bottom end of the guidance was really the European consumer. And at 1H, you highlighted Italy, Switzerland, and Austria. So, three markets, in particular, in Europe where you were seeing sort of challenging macro. Could you maybe sort of go through what you're seeing again now since reporting in terms of especially in the Established markets and how maybe that contrasts to some of the more Developing markets in Eastern Europe as well?

Zoran Bogdanovic

Look, it's logical to expect that after several years of a wave of price increases that we have done, as well as many other players, that at some point, in some cases, we will see consumer in some way having more sensitivity to it. Even though when we see what level of growth we have, we are very pleased with which level we are growing, which also shows that consumer is quite resilient.

So, in general, we are very pleased and knowing that we have such diverse set of markets. We did call out that we have seen some sensitivity in some of the markets, like you mentioned. But also on the other side, there is such a number of markets where we see very good resilience translated into growth; be it in Poland, Greece, Hungary, Bulgaria, Serbia, Nigeria.

So, we do see that we entered already the year knowing that we will have to pay more attention to affordability, that there is going to be rebalancing of the whole volume-price-mix so that it's more balanced than what we've seen last two years. That's what we are doing this year. That's why I am very pleased that we have a positive volume performance which also works very well, particularly in Q2, and we see that continuing.

Mandeep Sangha

Good to hear. And I think just touching on that rebalancing of the top line growth algorithm more towards volume and maybe less so price-mix, one of the more contentious topics probably in staples at the moment actually is sort of promotional activity, particularly in Europe. How do you sort of characterise that promotional activity? Do you think it's elevated versus historical levels? Or do you think maybe there's a link towards sort of the weak summer that we had in Europe and maybe that drove some of the acceleration in promotional activity, and therefore you may be expected to normalise somewhat in the second half? How do you see the outlook?

Zoran Bogdanovic

Look, as I said, we entered the year counting that in our whole revenue growth management framework that a promo element is going to play a bigger role this year than it did the last few years, and that's a very good way for us to make revenue growth management address affordability element rather than doing price rollbacks. And that's exactly what we do.

However, in the promo element, I would also highlight that it's not only price promotions. There are a number of different types of promotions, including value-added promotions, where we leverage some really strong assets that Coca-Cola Company brings to the table. Europe, football, Olympics, those worked extremely well. So, we use those as well, where consumers actually – we promote in a way that consumers can get something, so that it's not necessarily just reduced price.

So, it really depends from country to country. So, we have planned more for that this year. And particularly, as we read throughout the year, where do we need to do more, where less, that's constantly being updated in the way we have our plans addressing reality in each market. And in some of the markets, yes, we've seen that that's bigger than last year.

One of the things in revenue growth management is the way we continuously measure and track performance levels of promotions. So, even though they are bigger, but this also comes at the back of constantly upgraded knowledge. Where does one euro of investment pay back better? And where does it work more? Not only for us, but for our customers. Where also it's more meaningful for consumers. So, I'm very confident that the whole promo framework works really well for those circumstances and environment where we are now.

Mandeep Sangha

Super. And one of the things you touched upon – and it very much uses analytical tools – is as part of your revenue growth management toolkit, you have a great amount of data analytics and analytic toolkit. One market where it's probably been used the most is Nigeria. What is your data and your toolkit really telling you about affordability in Nigeria, given the FX depreciation that you've had, the inflation? And what are your tools really telling you about the health of the consumer? And what are the things that you're doing to get around those pressures?

Zoran Bogdanovic

Even though I could mention a number of markets, but Nigeria truly is an excellent example. And that's why when we launch and when we do upgrades of our capability waves, Nigeria is always there at the forefront. That was the case with route to market. That was the case with revenue growth management. But equally here with data insights analytics.

And in a country where affordability is so important, like Nigeria, it really matters to know from abundance of data that we have, how do we really understand where we need to deploy and what. To give you a more specific example, we put here together data where we partnered with Coca-Cola Company. They bring various consumer consumption data sets. From those, we are able to segment a number of consumer profiles.

And then when you pick a consumer profile – like, example we gave, it's dinner-at-home devotee. So, people who really prepare and shop for dinner at home. When we understand that consumer, then we from our side can specifically detect where those consumers are (inaudible). And we have identified specifically, in this case, 2,650 outlets, where then the portfolio is adjusted for that occasion: communication, activation in the outlet. So, particularly in those, we will focus on that one consumer profile actually more than other things in the outlet.

But then in other outlets, it will be other consumer profiles. For example, if it is more affluent, Schweppes. Now it's not a priority to have it in parts of Lagos where it shouldn't be, but we know specifically parts of Lagos where it really has to be.

So, data here is eye-opener that gives us insights, actionable insights, based on which we are doing very concrete adjustments in our execution plans. So, that's why people work against the targets which are very specific, instead of what maybe used to be years ago that we would go with a blanket approach to the whole market, not really understanding that not everything is equally relevant for every type of outlet.

Data really helps us to do that. That's why we always say how this more actionable insight that we get from data analytics is really making our revenue growth management to address that in the plans and then through route to market. That's how we execute. And one of the reasons why Nigeria over the last several years is doing pretty well when you see after now three years of strong price increases and strong price-mix. Even in the first six months, you see Nigeria being on a low-double-digit volume performance.

Mandeep Sangha

And one of the markets maybe where you're using some of this experience from Nigeria is probably Egypt. Obviously, you bought the business back in January 2022. So, it's nearly coming up to a couple of years since you've had the business under your control. How is that integration of that business going? Clearly, like Nigeria, you've been doing a lot of work against a backdrop of a tough macro environment. How do you assess the integration of Egypt so far? And maybe if you look forward over the next 12 to 18 months, where do you see sort of the main strategic priorities for the company?

Zoran Bogdanovic

First of all, integration, as such, I think so far has been going extremely well. From day one we had, from our central team, functional teams that have blended with local functional teams. And we worked across a number of areas to help the local business get on a Hellenic template. Part of that was immediate commitment that we bring Egypt as well on SAP S/4HANA, for example, which is a sizable investment, and the start on January 1 was excellent. So, Egypt as well as all other countries in Hellenic now are fully on S/4HANA, which is very important for efficiency of the processes and everything that we want to do.

We knew even before starting that we will need to elevate capabilities. That's what we are doing. And at the backdrop that is now happening in the country, in Egypt, which is not going through easy times, given geopolitics that's happening in the neighbourhood, given macros, high inflation, we had devaluation. So, in our acquisition case we did factor that these kind of things can happen and that they would happen over time. It's just that now it happened in a much more condensed way. Which, on the other side, is an opportunity, that you actually speed up lots of things that you would otherwise do with certain pace.

And so, we do a lot on the commercial front, investment in coolers, RGM immediately, data insights analytics, route to market, change of commercial policy, expansion of the portfolio. Mindfully, we have added last year – entered into Energy, with Monster and Fury, which works really well.

So, all in all, our commitment to Egypt is absolutely strong as it was from day one. We know that these types of markets occasionally will go through turbulent times. But we do see that in the country itself, things are going in the direction that is supported by Middle East investments, huge for construction and development. The European Union, IMF is there. So, a number of things are happening in the right direction. It's just that you have to have patience for emerging markets. If you don't have patience, you shouldn't be in the emerging market.

Mandeep Sangha

Absolutely. And maybe actually changing tack, but still looking at it sort of on a geographical lens, if we go back to your CMD, one of the markets that you did want to pay a little bit of focus on was really the Italian market and the opportunity around per capita consumption, which is probably sort of underappreciated by many people, given the size of the market, particularly for yourself. Can you maybe sort of remind us why you think the market is so attractive and what investments you have been doing, particularly in the out-of-home channel and really targeting the food occasion? And particularly, given sort of the economic environment that we touched upon earlier in the fireside chat, has that strategy been impacted in the short term in the weakness? Or do you still continue to see sort of strong momentum in that strategy, despite the consumer pressures that we're seeing in the country?

Zoran Bogdanovic

Everything we said at our Capital Markets Day about Italy, which also was underpinned by the fact that we did it in Italy, was – so, as convinced as we were then, equally I'm now, and the whole team, that this is a huge market for us and the Coca-Cola Company together. Huge population. It's established market, where I think over the last several years we've been doing razor-sharp and focused things in the country which are resulting in the fact that we have, across a number of categories, significantly stepped up over the last five years performance versus the period before. It starts with Sparkling, where, together with Coca-Cola Company it's very clear the focus behind main elements of focusing on the occasions with food, particularly behind pizza activation, which in Italy is so relevant. Music. Football.

And we do see gains in share. We see increase of per capita. Energy has been doing extremely well. Powerade as a sports drink is doing extremely well. It's one of best performing Powerade markets in Europe. Fuze Tea has been performing really well.

Also, Premium Spirits distribution in the country helps us with the leverage, especially in the out-of-home channel, behind which over the last several years we made conscious, targeted, significant investments where we added a significant number of people in the out-of-home channel. And as a result, today we have the strongest position in the out-of-home that we ever had in terms of the share and in terms of the growth. And a good example of that was that even in the first six months, we have seen that out-of-home in Italy had a positive performance.

So, at the moment, the last two years, we consciously prioritised price-mix element, as the environment was such. However, we have already embedded in the plan – and we are constantly fine-tuning – that there is a very good rebalancing price-mix with volume, where we do want to ignite. And we will do that, bringing volume to be positive.

And as we said, Italy is going to be the higher than the average contributor to Hellenic, and it continues to do. It just depends which year which drivers are driving it more. In the past, it was clearly more price-mix. And going forward, this is going to be better balanced between price-mix and volume. But Italy continues also here today to be a good driver and has very good revenue growth.

Mandeep Sangha

And one of the things you have done is sort of very much try to identify gaps in your 24/7 portfolio. And one of the deals that you did relatively recently was obviously with Finlandia Vodka. It's been roughly a year since you made that deal. How has the integration of the brand been so far into CCH's markets? And are there any early examples you can share in terms of how you've been able to drive growth maybe with your adult sparkling portfolio as well and complementing the rest of your portfolio with the Finlandia acquisition?

Zoran Bogdanovic

Look, we are very excited with this addition where, to some, might have sounded surprising. However, for a company like ours that has, before the acquisition, been 17 years in premium spirit sales and distribution with our long-term partners like Brown-Forman, and Marshall is here, it's an important part of our 24/7 portfolio and how we approach the market, the leverage that it gives us. And through our conscious design of mixability programmes, this is where we blend very well Premium Spirits with our core non-alcohol portfolio. And we know that the last number of years, we see expansion of these various types of mixers, cocktails, long drinks, and we really tap into that.

And I'm very proud how the capability in our organisation has evolved over years. And as a result of that, we are very happy that we got this opportunity. Integration of Finlandia, which started in November of last year, is progressing very well. Everything is on track. Let's say that this year is still the year where the car is pretty much in the garage before it goes for a proper race. Because we are taking over distribution from previous distributors. Particularly, I would highlight here importance for Poland and Czech, where Finlandia has very strong position. In general, it is a brand that has very good relevance in Central and Southeast Europe. And a reminder why this is so good for us, because of the total global Finlandia volume, 60% of that is in the countries that we have in our franchise.

So, it will further enhance the muscle that we have in the Premium Spirits. It's a phenomenal brand for mixability occasions. And I would say that, especially towards the end of the year and further on, we will be seeing more traction when it's fully settled in the countries where we didn't have it so far.

Mandeep Sangha

And to use your analogy of a car in the workshop, a category where you have been needing a lot of work and modifications really on is obviously the Coffee category, particularly around Costa Coffee. At the 1H results, you announced a step up in investment, particularly in salespeople. Could you maybe share some more of the detail of what exactly these investments are? And are there particular markets where you're really focusing this investment in particular?

Zoran Bogdanovic

Let me say two things here. The reference that we made on our half-year results was overall that in a number of places we are increasing our capacity, which primarily is on our salespeople, which also positively impacts of course coffee as well, but not only.

But I would remind that our approach to coffee is that we know that we have to earn our right to win. And you can only do that when you have organisations that can do that, you have people who are coffee experts. So, that's why we have front loaded teams in the countries where we have already launched Costa, which is 20 markets; Caffè Vergnano, 18 markets. So, creating a Coffee Academy, having technical service, investing in coffee machines, in telemetry.

So, we are doing lots of things that are tapping into creating capacity and capability to do that. And every year we are doing fine-tunings of what we do more. And as we also focus more and more – more visibly on out-of-home, of course that requires good market coverage. And for that, having people on ground is important.

So, look, I'm very happy that we have two excellent partners and two excellent brands with which we are very relevant to all types of outlets. And I'm pleased with the progress, but I'm also very pleased with the fact that we quickly collect learnings. And every year there is something that's being fine-tuned. So, that's a car that's already on the race, but occasionally gets into pit stop quickly, something is redone, and then goes back.

Mandeep Sangha

Well, the category that's probably leading the race really and is far and away out front is probably the Energy drink category, which continues to really be a strong growth engine, both for you and the overall soft drinks category. You have a very strong portfolio in terms of Monster, Predator and Burn, and very much capture the whole pricing ladder. With Energy now being in most of your markets, how does your strategy around the rollout of Energy and the growth of Energy really evolve as sort of the initial launch matures and then sort of the markets grow from there?

Zoran Bogdanovic

Look, I like to remind that 15 years ago we had zero revenue from Energy. Today we are above 7% contribution in our total revenue. Fantastic partnership with Monster. Multi-brand strategy that proves to be working, where, apart from the Monster as the key brand, we have also Burn in a number of markets as a more premium-positioned brand. And then in a few markets, like Nigeria and Egypt, we have Predator – it's called Fury in Egypt – which is in a more affordable segment of the market and performing really well.

So, a multi-brand strategy. Excellent marketing programmes that Monster brings and assets. Innovation plays a critical role.

Also, a good reminder that Energy as a category is becoming more and more of an everyday type of a drink. Sometimes people connotate Energy category with a teenage type of consumers. Average age of energy consumer is 35 years of age. That's why in some of the countries where there are the bans below 18 years of age – like now, most recently, in Poland – yes, we do see a short-term impact, but that's not going to prevent the growth of Energy, because simply the consumer base is constantly evolving now equally between men and women and in more and more occasions.

We, as Hellenic, are extremely passionate about the category. That's why eight consecutive years we are having very strong growth, and this year is not an exception. It's going to be another year of strong growth in Energy category, and I'm positive about also the years ahead.

Mandeep Sangha

Super. I'm very conscious of the time. So, one area of the company I would love to talk about more is really around your balance sheet strength that you're seeing at the moment. As I mentioned, your balance sheet is in a very healthy position. You have a buyback out to the end of 2025 already. CCBA has been long-mooted as a potential business for CCH, and I clearly don't expect you to comment specifically on CCBA, but maybe what would be interesting is to help us understand a bit more, when you're looking to enter a new market and grow your sort of geographical presence, what are the criteria or the metrics that you really focus on when you understand whether a new country is the right opportunity and whether it's the right opportunity now or maybe it's an opportunity further down the line? What are the real things that you're looking at when you consider that?

Zoran Bogdanovic

Well, I can openly say – and it's no secret – that we would see as the biggest opportunity to have the chance to expand the territories that we cover, because we strongly believe that we have the talent, we have capabilities, we know how to do this business. And I think we could add more value in more territories. But that's more in the hands of our partners how that works. However, we clearly say that we are very keen, open.

And what are the criteria? It's very simple. It has to be something that truly strategically fits and it makes sense. So, in that regard, to evaluate various territorial opportunities, absolutely. And if we can do on a bigger scale what we do now in 29 markets, makes strategic sense.

And then, it's also a matter that it has to be fair value. We have to take into account shareholder interests of Hellenic so that it's a fair value and that from which then we can create new added value for everyone involved. And I'm very convinced that Hellenic can do that.

So, I really hope that in the future that we will be able to, at whenever point, deploy balance sheet for more value creation.

Mandeep Sangha

Super. And continuing on that topic of balance sheet really, when we look at CCH's balance sheet, we see you have about just over €1 billion in cash. Russia accounts for roughly half of that, just under half of that, cash balance as of 1H. So, that cash is very much ring-fenced. And as you've mentioned a number of times, Russia very much is a self-sustained business. How does that cash balance in Russia therefore impact the company's ability to pursue M&A if maybe that underlying leverage is slightly high if you exclude the Russian business?

Zoran Bogdanovic

In no way it's a barrier. Needless to say that all forecasting and plans that we do having future in mind, we do everything with and without Russia, and it does not prevent us from any plans. And a good example of that was also the launch that we've done end of last year with our share buyback programme, two-year programme. Just a reminder that, including Russia, our net debt to EBITDA is below the corridor. And even excluding Russia, we are in our guided corridor. So, that just indicates that whichever opportunity might come in front of us, that we would be able to react and that this is not, in any way, something that's holding us back.

Mandeep Sangha

Very clear. And I think there may be, in the absence of M&A – and as you mentioned, it's sometimes in the hands of your partners and not always in your own control – as I mentioned, you have the share buyback out to 2025. Maybe historically, buybacks weren't really something that you would associate with CCH. They'd obviously done special dividends in the past. But you announced your share buyback in November of '23, and it's been taken very well by the market. So, with the balance sheet strength, M&A potentially not being under your own control, should we maybe think about buybacks maybe being a bit more of the usual cadence of CCH, going forward?

Zoran Bogdanovic

Look, this last step, which we haven't done for a number of years, was just a good reminder that, first of all, confidence in our own stock. It was a good use of cash. But I would just call it as one of the options.

I would really like to firstly emphasise that we like to invest money primarily behind things that will ignite more growth. That's why we continue with high investments at the top of our bracket in terms of investing in our organic business, and that will be the case in the future. Targeted M&A opportunities. We talked about Finlandia, but also about possible territories. However, we've done in the past share buybacks like we do now. We've done also special dividends.

So, it can be a combination of the things. But we are very mindful that we want to ensure that we fuel the car so it can go faster and better, but also that at certain points we do something with shareholder returns.

Mandeep Sangha

Super. And again conscious of the time, and maybe the last question before we call it a day here, is probably we've spent so much time again always looking at the markets, mostly Russia, Nigeria, Egypt, and Italy as well, in particular. And as you mentioned, you have so many strong markets. Are there any particular parts of the business that you think you wish people spent more time thinking about and focusing on? Are there any particular areas that – maybe the car is in the garage – that probably don't get the attention that the other cars do?

Zoran Bogdanovic

Many. Many, really. We are blessed to have such great markets.

But let me say, first of all, Poland. Poland is a big market, where we are doing really well. In the last five years we have gained around 10 percentage points of share, and the business is really developing and growing in an excellent, excellent way. And there is so much more potential in that big country, and I'm very excited about the future prospects. I was a couple of weeks there, and I was really pleased to see how things are evolving and developing.

Then, Greece is one of our flagship 24/7 portfolio markets across all channels that is performing last several years really well. At the back of also Greece as a country doing well. But it's a strong business, fuelled by excellent tourism. A great portfolio we have. So, that's another market.

A reminder on a very strong business that we have in Romania. Fantastic business in Bulgaria, Serbia. Hungary was affected by several years of excise tax and various taxation, and we see how they have really overcome that and now coming back to very good growth.

I would also highlight Ireland, which is excellent market for us this year, temporarily impacted by DRS that was introduced. However, gaining share.

So, I used the opportunity to mention more markets, as I'm really excited with those. But if I would prioritise where to put some more attention, it's for sure Poland, Greece as bigger markets.

Mandeep Sangha

Super clear. And with that, we've very much run out of time. So, Zoran, I want to take the opportunity to thank you and the team for joining us here at the conference this week, and I hope you've enjoyed it. Thanks so much.

Zoran Bogdanovic

Thank you very much