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Questions & Answers transcript – 13 February 2025

CORPORATE PARTICIPANTS

Zoran Bogdanovic – Coca-Cola HBC AG - CEO

Anastasis Stamoulis - Coca-Cola HBC AG – CFO

Questions From:

Andrea Pistacchi (Bank of America)

Matthew Ford (Exane BNP Paribas)

Mitch Collett (Deutsche Bank)

Aron Adamski (Goldman Sachs)

Sanjeet Aujla (UBS)

Charlie Higgs (Redburn Atlantic)

Mandeep Sangha (Barclays)

Philip Spain (JPMorgan)

Edward Mundy (Jefferies)

Q&A

Andrea Pistacchi (Bank of America): My first question is on the guidance, please. Last year, it was an uncertain environment at the start of the year, of course. You started the year guiding to 3% to 9% organic EBIT, and you ended up delivering, of course, very strongly, more than 12%. This year, the environment seems to be, I would say, at least as uncertain as last year, but you are guiding to 7% to 11%. Maybe just to understand if you could talk about some of the different moving parts, what gives you more confidence this year? Is it more on the cost side, probably the transactional FX? If you could just talk about this a bit, please.

Anastasis Stamoulis: Yes. Good morning, Andreas. This is Anastasis. Let me start with this. Our 2025 guidance is for an organic EBIT growth of 7% to 11%. I would say that we are mindful of the dynamic trends in our markets and the volatile political landscape still around us. We have the whole year ahead of us, including the key trading periods. But overall, we are confident on our ability to execute and drive performance in a variety of environments.

You mentioned development of commodities. I have to say that we still expect a certain level of inflationary pressure when it comes to COGS per case for next year, perhaps not at the same levels as we have seen in the past, of course. But there is some moderate improvement when it comes to sugar and energy. But still, there is inflationary pressure when it comes to aluminium, freight cost and certain secondary packaging materials.

I also have to highlight that we have a very good hedging coverage when it comes to our key commodities. On average, we are about 60% covered, which is a better position versus what we had the same period last year.

With that in mind, we believe that our guidance is capturing the certain cost developments ahead of us.

Andrea Pistacchi: Okay. Then my follow-up, which is probably actually follows from this, and I think Zoran talking about the situation in Europe. You closed 2024 with positive volumes in both established and developing markets. I think Q4 volume in established was even a bit better than what consensus was expecting. Can you talk, Zoran, about how you see the consumer environment in Europe now going into 2025? Any differences between your established and the developing markets? Will you see affordability still being an issue, something that you have to manage this year?

Zoran Bogdanovic: Good morning, Andrea. Yes, I think you rightly said. Knowing very well that we operate in a number of different markets in our three different segments, it is fair to say that it really does remain a very dynamic environment, similar to what we saw last year.

Now unique circumstances in every single market that we have are fully incorporated in our plans. Related to consumers, we do see, as we also highlighted last year, that there is certain consumer price sensitivity, which actually remains stable across the countries, despite a slow recovery in sentiment, which is still below 2021.

All in all, this just is reinforcing the point that affordability remains a key topic. It is very well reflected in all our revenue growth management plan across countries, of course, together with the premiumisation initiatives that we also have.

However, I do emphasise and acknowledge that there is a whole variety of affordability initiatives that we have in our markets and in all three segments. But yes, for sure as well in the established segment, where we have seen a few markets, which we called out also last year, having some price sensitivity, and that has been fully reflected with the level of promotions and the whole pack and price architecture that we have been addressing and evolving already from last year, but this is very well reflected in our plans for this year.

Matthew Ford (Exane BNP Paribas): My first question is just on, I suppose, the trends in Q4. I think you mentioned that you saw some improvements in Italy towards the end of the year from some of the RGM implementation that you have put in there. Just be interesting if you could just speak about, in the last quarter, in Q4, what surprised you positively, what surprised you negatively? I suppose, what are your expectations for that going into Q1? Are there any markets that you would call out as potentially outperforming our expectations or vice versa? That is my first question.

Zoran Bogdanovic: Good morning, Matt. First of all, to say that I am really pleased with the performance in Q4, which actually was just a sequential good performance over the whole year. We always reiterate how year has four quarters and in each one of them, we have different cycling, we have different dynamics. Everything we planned for in Q4 has been realised.

What continue to be my source of confidence that I am really pleased with is absolutely strong disciplined execution that we have across the market, where all the plans that are developed and designed within the revenue growth management are really executed really well. That is why, as you also picked up, we have seen increasing also positive trends and results, for example, like Italy that you mentioned.

We have seen also continued share gains, which are reflecting strong execution in the market and strong partnerships that we have with customers, which I really want to highlight as something that is super important for us, and it is at the very centre of our model how we work with customers and how we create value together.

On the other side, what you asked me. Look, I cannot, let us say, call out something very specific or that there has been anything that surprised us in Q4. It is only that we do see in several markets continued price sensitivity, which we take as effect, and as one input that we embed in our plans. That just makes us to be alert and to be on our toes, how we read the market, how we read competitive moves and to reflect that in a very agile way as we are constantly fine-tuning plans for this year.

I am very confident that this momentum that we had over last year is giving us good reasons to believe that this year is also going to be another good year of growth.

Matthew Ford: Great. Then just my follow-up is on Energy. You mentioned there that, clearly, very strong double-digit growth now for nine years. Clearly, the emerging segment is driving a lot of that, but you called out high single-digit growth last year in the other regions. Given that we are seeing some moderation in the overall category more broadly, how are you able to drive such strong growth? And what is your outlook for 2025 in terms of your performance in that category?

Zoran Bogdanovic: Matt, it is a consistent planning, reading the market and executing strong plans that we do every year, leveraging many pillars that we have at our disposal. First of all, the quality of the portfolio that has three brands, which we deploy across the countries, given the local market opportunities, most sizable is Monster, of course, as a mainstream or high-end mainstream brand. But we also have a very good performance from Burn in a number of markets, mostly in Eastern Europe. Then this more affordable proposition that we have primarily in Africa, which is performing extremely well.

But that is why I said in my intro remarks that we are very pleased with this high-single-digit performance in established and developing, because apart from portfolio, we have and continuously are increasing number of dedicated coolers because we find that as very important driver of the growth.

Also, continuous innovation that Monster Energy Company is bringing to the table, which we really see as one of critical successful factors of why this is continuing to grow. Then there has been also reformulation introducing zero-sugar variants to also address consumers that need such products. We are very happy with performance of this zero-sugar variants.

And to say that there are also a number of consumer-relevant promotions, because Monster Energy is also bringing some relevant assets that are very appealing to consumers, so that is one.

Lastly, maybe I will say how the consumer segments are increasing and spreading more and more over years. It is not only teenagers as maybe used to be in the past, but there is a growing number of consumer segments that are tapping into this category, looking for this energy proposition. So many factors that we embed in our plans, and we take them very seriously, and we execute with discipline consistently.

Mitch Collett (Deutsche Bank): My first question is pretty big picture. But just looking at slide 20, which shows your track record of double-digit organic sales growth on a five-year, three-year and one-year view, I guess, it makes the 6% to 7% medium-term guidance look pretty conservative. I appreciate your track record of under-promise and over-deliver. But what is the difference between what you have seen over the last one, three and five years versus what you are expecting going forward?

Zoran Bogdanovic: Hi Mitch. As you said, 6% to 7% is our mid-term guidance. The past performance over the last few years had a unique blend of environment, which had pretty high inflationary conditions to which we had to also respond as well as wider market. This is where we deployed revenue growth management in a way that on one side, we were doing necessary and needed levels of pricing, blended also with mix.

But I also want to highlight that we managed to do it in a way that did not sacrifice volume. It did to a certain extent. However, one of the imperatives was that we have positive volume growth. When you put all that together, we have been able to achieve the results that we do. Our ambitions remain very strong and high, but we just also expect that over years and in the absence of abnormal conditions in the market, that being on a 6% to 7% corridor is something that we see when all the conditions normalise, where we would also then see more balanced contribution from price mix as well as volume.

Mitch Collett: Understood. Then my unrelated follow-up, and it is a tricky topic. But if there is an end to the Russia-Ukraine conflict, how would that affect you, I guess, operationally? And I am conscious you have kept that business going well, despite not being able to sell Coke brands. But what would be the difference for you operationally? And does it affect how you think about your capital deployment options as well?

Zoran Bogdanovic: Thanks, Mitch. Look, we, like everyone else, are really hoping that there is, as soon as possible, the solution, a resolution of this war conflict and that peace is established. That is the biggest hole that we have. Until a solution is really reached, anything that I would say at this moment would be, I think you appreciate to say, very hypothetical. We have to see how that resolution will be, what is going to be the design of it, and then we will take that on board, and we will plan accordingly.

But in the meantime, we simply stay the course doing as best as we can. We are still waiting that this happens as soon as possible.

Aron Adamski (Goldman Sachs): I have two. First, a follow-up on COGS. When we look at the European sugar prices, I think they have declined over 30% in December. I think previously, when that happened historically, you had a pretty sizable reduction in your own sugar costs. When you look at the hedge position for 2025, are you seeing this benefit flow for your COGS? Should we expect it to help your margins across developing and established markets?

Then the second question is on Africa. When we look at the profitability in Nigeria and Egypt, it has been under quite a lot of pressure due to FX devaluations. When we listen to Heineken, they are talking about lowering of the breakeven point. I was wondering are you seeing the same? Do you expect to see any margin recovery in either Nigeria or Egypt in the coming years, or do you think it will remain subdued?

Also, it would be great to hear how do you think we should think about the balance of volume and price mix in those African markets for next year?

Anastasis Stamoulis: Hi Aron. Anastasis here. Let me start with your COGS question. When it comes to sugar, you are right. We have seen some price easing off in 2024 versus the previous years. But as we said earlier, and as you mentioned, we have a very good hedging position on these commodities, so including sugar.

In sugar, particularly for 2025, I can tell you that we are covered about 70%, which is significantly higher to where we were a year ago. From that perspective, if there is an opportunity that will be captured, but obviously, there will not be any greater benefit to what is already reflected in our guidance.

With that in mind, I can say that we are seeing an overall COGS per case of low-to mid-single-digit growth inflationary pressure for next year. And maybe, Zoran you can start.

Zoran Bogdanovic: Hi Aron. I will take the second one. You are right. We said that in our African markets, we do have lower profitability. But let me emphasise in few points. We do see in both markets that what is being done from regulatory, fiscal and monetary things that there are things that are being done in the right direction. There are structural reforms that are making conditions better and better. Maybe it is not as fast as we would want. However, we do acknowledge that the direction of travel is positive.

We just came back from a visit of both markets, Egypt and Nigeria, where we also had very fruitful and constructive conversations with the government officials. We have seen a very welcoming and partnering atmosphere and attitude, which we fully embrace. That gives us the confidence that the business is going in the right direction. This is coupled with our consistent, dedicated, committed work of strengthening both of those operations with our capabilities, strong investments because at the end of the day, we know that we are not in a sprint with these markets. We are here more on a marathon run, but we are very confident that these markets pose fantastic opportunities for our company.

Our development in parallel with the more positive developments in both countries are also enabled with improving geopolitical conditions that surround them. We feel positive about the future prospects of these markets.

Sanjeet Aujla (UBS): A couple from me, please. Just picking back up on the established segment. I think, Anastasis, in your prepared remarks, you spoke about increased investments in the business to drive growth and that led to some margin pressure. Can you give me a feel for what those investments are, where they are going? Is it the higher promo? Is it increased headcount? A sense of that would be great.

Then just tied that specifically on Italy. Zoran, you spoke quite comprehensively about the medium-term opportunity. Clearly, volumes have been under pressure there for the last couple of years. But what changes are you making in the short term to try and get volumes back to growth in Italy in 2025?

Anastasis Stamoulis: Hi Sanjeet. Yes, first of all, let me start thing that the overall performance from the established, we are very pleased, especially how we have seen growing the top line with the 3.3% organic revenue. I have to say that combined with the lower inflation of input costs, we have seen good gross profit margin expansion.

Now there was pressure on the EBIT margin. But as we have said, we have been investing behind the growth of the business. These investments are, for example, behind our people reinforcing the sales force in the out-of-home channels in Italy and Greece, as well as overall investments behind strong marketing plans.

There was also a small event on the margin as a result of the country mix with stronger growth coming from Greece comparative to the rest. I also would like to remind that we had the DRS implementation in Ireland, which, as you might recall, requires a certain level of pricing to offset the cost incurred. But mathematically, that drives the margin decline.

Sanjeet Aujla: Got it. Then just my follow-up on Italy, the medium-term opportunities there. But after two years of volume declines, what are you changing there to accelerate volumes in 2025?

Zoran Bogdanovic: Hi Sanjeet. I would immediately say that I am very pleased with the performance of Italy that over the last three years, in average, gave us a growth of revenue of 11%. We did say also at the Capital Markets Day that we had there, that Italy is a huge opportunity and that we see that our top line growth will be strong as it is.

Now, Italy made a conscious choice in the environment that we had over the last few years, that price-mix was absolutely essential to be addressed in our RGM. And now also, the team has been adapting its plans in line with the lower inflationary environment with lower level of pricing, but more of promotions of various types. That is true. And also with a strong marketing campaigns behind very clear priorities that are being in the country, and that is why we see a number of parts of the portfolio doing very well.

Also leveraging various assets that I said. Together, Coca-Cola Company team and us, we really share a strong commitment and belief in the potential of the market, for which we are positive with the outlook for 2025 and also that overall revenue generation will be strong and having a positive volume growth in 2025.

Charlie Higgs (Redburn Atlantic): My First one is on 2025 free cash flow, please. And if you could maybe talk a bit about what you are expecting in terms of capital expenditure. I think it came in a bit lower in 2024, and then in 2025. Is there anything in there for perhaps rebuilding the site in Serbia? That is my first question, please.

Anastasis Stamoulis: Hi Charlie. Thank you for your question. Let me first start by saying that we are very pleased actually with the strong cash flow generation for the Group. Even considering the challenging environment this year with the currency devaluation and the volatility, the €713 million is the record free cash flow for Hellenic.

That was also on the back of triple-digit positive working capital growth, right? Of course, we had to offset the extra payment of taxes. So overall, a strong performance.

Now on your question behind the capital expenditure, that has not changed. I mean, for this year, 2024, we may have been at 6.3%, which is a little bit lower than our guided range of 6.5% to 7.5%, but that was mostly impacted from the low levels of investments in Russia. If we were to exclude Russia, we were still well within the range.

Looking into 2025, I have to say that our commitment is still there. We will be within our 6.5% to 7.5% CAPEX as a percent of revenue. With the priorities, as always, behind improving and increasing production capacity, efficiencies in automation, still continue to invest behind digital and data solutions and, of course, energy-efficient coolers. In general, the areas that will drive our top line growth.

In Serbia, in particular, when it comes to the Bambi coming back to full operation for next year as a result of the fire, this is part of our 2025 capital investments. That range also includes the activities that are being taking place now. There is good progress, and we believe will be operational fully by second half of the year.

Charlie Higgs: Thanks, Anastasis. Then my follow-up is just on the organic sales growth guidance, 6% to 8%. There is quite a few moving parts with sugar taxes and several deposit return schemes. I was wondering if you had any thoughts on how that 6% to 8% splits between volume and price-mix growth. Should we be expecting another year of slightly stronger price-mix growth versus volumes?

Anastasis Stamoulis: Hi Charlie. Yes, we do see that all three elements and price and mix and volume will be positive, but it is also fair to say that this year, we do see that price-mix is going to be of somewhat bigger impact than volume.

Mandeep Sangha (Barclays): Relatively quick one actually. Just focusing on coffee, where it was another strong year of growth. In a statement, you talk about refocusing your attention towards the out-of-home channel. Just maybe a question, is there anything that has changed in the second half of the year that has driven that refocus? And are there any particular markets where you are seeing a really good traction with the coffee portfolio that you would like to call out even 2024 or looking ahead to 2025?

Zoran Bogdanovic: Hi Mandeep. Look, our focus behind coffee is unchanged. We really love the category and opportunity for our mid-term and long-term growth trajectory. As we go along, we collect more learnings and knowledge of the business and of the category. And also, we want to build the business in the parts of the market, where we also known that economic viability is better and stronger. This is driving our plans to focus more on the out-of-home part of the market.

Also bearing in mind that green coffee pricing over the last couple of years has been on a quite high level. In any case, focus on out-of-home presents a stronger fundamentals of creating our footprint in that category, and it goes very well with our overall out-of-home focus that we have for our total business.

It is just how we are embedding in our journey going forward, all the learnings and how we are adapting the business to what is the right thing for us as well as our brand partners with whom we are creating plans together.

Philip Spain (JP Morgan): My first one was just on the balance sheet, remains in a very strong position, and the leverage is below your target level of the 1.5 to 2 times. I just wondered how you are thinking about any plans for potentially excess cash, whether you would like to move back up to the bottom end of that range in time and how you are thinking about the use of that cash could be between potentially M&A or accelerating your cash returns to shareholders.

Anastasis Stamoulis: Yes. Hi Philip. Thank you. Yes, you are right. We have been focusing on maintaining a very strong balance sheet. The one-time ratio is slightly below our guided range of 1.5x to 2x.

Our capital allocation priorities have not changed. As I said before, we are prioritising behind investing on the resources to drive organic growth. We will maintain the CAPEX range of 6.5%, 7.5% of our revenue. You also heard us talking on the call about dividend payout. We are maintaining a progressive dividend policy of a ratio of 40% to 50%. That is why we are proposing an increase of our dividend growth of 11% versus prior year on the back of 19% growth in 2023.

When it comes to additional returns to shareholders, we have been executing various programmes, like the share buyback programme, that has been progressing very well. We have returned about €226 million from our 2% of outstanding shares purchased back for Hellenic, which is about 55% of the targeted max return.

When it comes to M&A, maybe I will pass over to Zoran.

Zoran Bogdanovic: Yes. Philip, just to say that, look, M&A is always an option, an opportunity. Like we have demonstrated over the past few years, our priority now is in making everything that we have realised over the last few years to embed it and make it work. We do remain open for any opportunities going forward, that may present themselves as long as they will fit the criteria of strategic fit, valuation and overall that it makes sense for our growth journey as well as for shareholder value creation for our business and our shareholders.

Philip Spain: Great. I just had a follow-up as well. Going back to the point you made around some of the promo step-ups and the price pack adaptations that you made in markets where you have seen, I suppose, higher consumer sensitivity to price. I just wondered if you could give more colour on the extent of the promo increase you have made markets and also what you have done around adopting the price pack architecture as well in those markets?

Zoran Bogdanovic: Yes. Thanks, Philip. First of all, to remind that when we say pricing within the RGM, one thing is headline pricing. But the other thing is that we really use in, I would say, quite sophisticated and smart way, whole variety of promotions, whether those are price promotions or value-added promotions, leveraging all kinds of complementary products or assets.

Last year was a great example of leveraging promotions that we have done behind the Olympics, behind the Euro Cup. This year as well, we have a number of assets that we are doing across the country. So promotions do not necessarily always mean the price promotions.

Also just to say that our effectiveness of using promotions has been one of the use cases that we have within our data, insights and analytics, which is continuous improvements and how do we increase the returns from every euro invested in promotions, which we are working and doing in conjunction very close collaboration with our customers.

Our key objective there always remains how we drive more transactions, which are benefiting us as well as customers, but in a way that also gives value to our shoppers and consumers.

Now I could give you a whole range and variety of pack price changes in countries. This really varies from market to market. But for example, let me tell you that we have been doing in Italy flash promo, which means pricing on a pack of single 600 ml pack that we have there. We have, for example, downsized our multipack of 2x1.75 promo offer 2x1.5 litre. In Ireland, for example, we downsized our 20 and 24 packs to 18 packs. We have been introducing and now scaling across several markets 300 ml PET entry pack.

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Also in Poland, for example, smaller multipacks of future consumption packs, where we now have 2x1.5 litre instead of previously four packs. There are a number of things that we do here.

Let me also emphasize that in Africa, in Nigeria and Egypt, we are leveraging very well our returnable glass bottle business, which has been driving growth while addressing the affordability needs of the consumers in the market.

Edward Mundy (Jefferies): Can I ask a bit about Spirits? I think Exhibit 3 within your release just shows how high the revenue per case is on Spirits relative to NARTD. As you scale Spirits, both the agency brands and also Finlandia, it is starting to have quite nice impact on your overall growth. Could you perhaps talk about the growth runway as you think about it for Spirits on your platform, first of all? And second of all, any help on the profit per case? It looks like in the developing markets, it is having quite a big impact on profit per case. That is my first question.

Zoran Bogdanovic: Hi, Ed. Indeed, Premium Spirit category has significantly higher revenue per case than the rest of our portfolio. It is simply the nature of that category of small volume, high value. That also makes it quite logistically suitable to handle. But that such high-value products are also excellent part of the revenue growth management that we do with customers and the plans that we execute there.

We do see that with the evolving and growing portfolio of Premium Spirit that not only that these steps into the opportunity that Premium Spirits as the category has, but I would say even more, the spillover positive impact that it has on our non-alcohol portfolio, because we do see how directly it is driving transactions, incremental transactions, and that is actually the beauty of it and overall value.

Also, the profitability because majority of this is in the distributor model except for Finlandia, which means that our relative percent margin is below our average margin. However, as you can imagine, the absolute cash margin per transaction here is quite higher. That is a good blend. For sure, it has a positive impact on our segments and overall for the company.

All in all, we really think it fits very well our 24/7 strategy, as it drives growth and it drives incremental transactions.

Edward Mundy: My second question, just coming back to the balance sheet. With your net debt to EBITDA at 1x and perhaps you return some cash through a special dividend, clearly, the market narrative as you may or may not do something transmissional perhaps in Africa. But from a Spirit standpoint, it is a pretty good time to buy Spirits. Valuations are low. Balance sheet for the listed companies are not great. How do you think about your spirits portfolio both for agency and obviously owned perspective and other opportunities to bulk on add-on other Spirits brands, which could make a Spirits strategy even stronger?

Zoran Bogdanovic: Yes. Look, we are focused and our priority is to deliver on the selling portfolio of brands that we have with the well-selected brand partners. That is our priority. Finlandia was quite a very specific unique case, as 60% of its global volume has been in the markets in our portfolio of countries.

Our focus is on embedding and scaling and leveraging what we have bought now, and that is where our attention is. At the moment, we are not actively looking into other things until we really consolidate and make what we have at the moment to work as best as possible.

I would just like to thank everyone for taking part in today's call. Let me just briefly conclude that we are very pleased with our performance last year, and we feel well positioned to continue our growth story in 2025 and beyond.

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