CCH – 2016 Full-year results
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QUESTIONS FROM

Sanjeet Aujla, Credit Suisse

Richard Felton, Morgan Stanley

Edward Mundy, Jefferies

Komal Dhillon, JP Morgan

Nicole McHugh, Goldman Sachs

Andrew Holland, Societe Generale

Charles Pick, Numis

QUESTIONS AND ANSWERS

Telephone Operator

Ladies and gentlemen if you would like to ask a question please press *1 on your telephone keypad. If you change your mind and wish to withdraw your question please press *1 again.

The first question comes from the line of Sanjeet Aujla. Please go ahead.

Sanjeet Aujla, Credit Suisse

Hi, just a couple of questions please. Firstly on the volume outlook, you talk about expectations for improved volume growth, but at the same time you're talking about Russia only stabilising and Nigeria being softer, so can you just give us some colour on where you expect that volume growth to come from and maybe call out a couple of the other markets?

And then within your FX guidance of a €15m headwind, could you just break out what negative impact you're embedding there from the naira and how significant the rouble offset is within that? Thank you.

Dimitris Lois, Chief Executive Officer

Sanjeet I'll take your first question and I will split that into three segments. We referred to Established, so we are working to turnaround the 2.3% negative in the year to flat and that is a contribution from all of our markets. So that's one element contributing to the positive outlook.

We continue to grow, or we will continue to grow in our Developing markets as we have seen also in 2016.

Now going to the Emerging markets let me say a word on Nigeria and then I will go to Russia and then for the rest of the Emerging. So starting with Nigeria we see this year as I would say a slow year in volume, and that is taken into consideration the high single digit price increase we did in 2016. We have started the year with a mid teens price increase and we are very closely monitoring the external environment which will be the key driver for the second potential price increase. So obviously we do have some pricing that would negatively affect the year, that's why at this point in time we are saying that Nigeria will be slow for 2017.

Now going to Russia we have seen the overall external environment improving. At this point in time also the GDP is going to be positive, which is good news. So the combination of the overall macros and the forecast for 2017 drives us to believe that this eventually will filter through to consumption. We have very strong plans in Russia, so obviously the turnaround from the current minus 8%, to stabilisation is something that will contribute greatly to the overall Emerging.

For the rest of the Emerging we believe that we will continue seeing some good growth that we also have seen during the year.

So all in all stabilising Established from the minus 2.3%, continuing growth both in Emerging and Developing as we have seen in 2016. And I'll pass the floor now to Michalis for your FX question.

Michalis Imellos, Chief Financial Officer

Yes, hi Sanjeet. So we said that for 2017 based on the current spot rates and the levels of hedges that we have we are expecting a negative FX impact of €15m. Out of that the vast majority, in fact even more than €15m, around €20m plus is transactional and we have a small positive effect from translational. And it's primarily those two countries, Nigeria and Russia, because all the rest are more or less small positive or negative impacts which cancel out.

Within the €15m, Nigeria at this point I would say that it is probably around in the region of €60m negative overall and the rest - the positive €40m around is Russia.

Sanjeet Aujla, Credit Suisse

Got it, many thanks.

Telephone Operator

Thank you Sanjeet. The next question comes from the line of Richard Felton. Richard your line is now unmuted.

Richard Felton, Morgan Stanley

Could I just ask a follow up question in Nigeria please? Clearly you've had a solid year from a volume perspective, but could you perhaps comment on your market share in Nigeria? In particular I'm quite interested to hear how consumers are responding to affordability issues since the devaluation of the naira, is it a case of moving down pack sizes, or are you seeing some consumers move out of the Coke portfolio to B brands? Thank you.

Dimitris Lois, Chief Executive Officer

Are strategy in Nigeria has always been focusing behind affordability. What we have done this year is a proliferation in our overall pack size. We have launched, not nationwide, but selectively our 60cl PET, which has done extremely well. Also, we have expanded further our distribution on the 35cl glass which has been a very good price point.

As we move forward we have very strong plans and these plans include additional SKUs to address price points and that would be covering both Sparkling and Juice. We have very strong plans behind Fanta with the new campaign coming up. And also we are focusing a lot on a few of our occasions that are global for Hellenic and in Nigeria it's the meals occasion which would be again one of the big focus areas.

So additional SKUs that we will see throughout the year covering Sparkling and Juice to address price points, and obviously the continuation of the work we are doing on the route to market in the big cities. So those are the key initiatives we see for 2017.

Richard Felton, Morgan Stanley

Thanks that's very helpful. Just one follow up if it's okay, the price increases that you mentioned when you were answering Sanjeet's question, is that in line with your competitors in Nigeria as well?

Dimitris Lois, Chief Executive Officer

We are not sort of - at this point in time our pricing strategy is something that takes the overall external environment and not really what the competition is doing. And that is something that we are following along, not only in Nigeria, but in the rest of the markets. So it's the external environment and the consumer that drives our decision. And obviously with this as I said the additional price points with SKUs that we are launching.

Richard Felton, Morgan Stanley

Okay, understood, thank you very much for taking my questions.

Telephone Operator

Thank you Richard. Edward Mundy your line is now unmuted to ask your question.

Edward Mundy, Jefferies

Hi, morning everyone, I have a couple of questions. The first is perhaps you could just go into a bit more detail - what do you think is a substantial increase in FX neutral revenue per case, just to kick off?

Dimitris Lois, Chief Executive Officer

Yes Ed, I will sort of refer you to what we said last year, we had exactly the same comment - that we are working on a substantial increase and eventually that resulted in the 2.9% on an FX neutral basis. So we reiterate that and I'm sure that that gives you a good understanding, taking into considering the delivery.

Now if I would like to give a bit more colour, this will mainly come from Emerging as expected. And in Emerging we have two areas, the first is Nigeria and as I said high single digit in 2016, followed by mid teens early in the year. We are also planning to take additional pricing, but as I said we are very closely monitoring the market being a market strongly driven by affordability. So that is one area.

The second area is Emerging, and here I would say corrective pricing and I would choose Russia, Ukraine and Belarus as the three markets that we are planning to have some increases. And I would say low to mid single digits to start with and then eventually being again very close to the market to understand how the market evolves also in Russia taking into consideration the strong performance of the rouble.

Now moving to Developing, we are also expecting and looking at the overall inflation which is estimated to be close to 1%, that that would allow us to take some selective price increases. So Developing would be another area where we do expect to see overall positive performance.

And finally in Established markets here the overall environment is a bit more difficult than what we have seen in Developing. We will continue focusing behind our package mix improvement and obviously where and if there is possibility for additional pricing we will pursue.

So this is giving you a bit more colour and our confidence on reiterating a substantial increase on an FX neutral revenue per case for 2017.

Edward Mundy, Jefferies

Thank you. And if you just go to slide 13 and as we think about the EBIT margin bridge for 2017, and obviously you've showed the bridge from 7.5% to 8.3%, if we do a similar thing for 2017, assuming there's a little bit of volume growth you know that won't contribute a huge amount to overall margins, the 2.1 that you got from the revenue leverage, i.e. the 2.9 x 0.7, it feels like that's going to pick up a little bit, possibly a net number there of maybe 280 basis points to margin. You're going to get some cost efficiencies, maybe a little bit less than last year, but will certainly contribute maybe 30 basis points to margin. There's not much negative transaction impact for 2017, I think you just said €20m and then there is a currency [speaker meant input cost] impact that's probably worth about 200 basis points.

I mean overall when I add all of that together it does feel like for 2017 you should be able to get you know 50, 60 basis points of margin. Is my maths hugely out, or is that broadly in line with your thinking based on the building blocks you've given us?

Dimitris Lois, Chief Executive Officer

Ed, you know being early in the year the way you've described all the different pieces in the operating leverage is sensible.

Edward Mundy, Jefferies

Very good. Thanks very much.

Telephone Operator

Thank you Edward. The next question comes from the line of Komal Dhillon. Komal your line is now unmuted.

Komal Dhillon, JP Morgan

Good morning. Just a few questions from me please. The first one is really on Established markets and your guidance of getting to flat, stabilising volumes there in 2017. Can you give us some more colour on how it will swing from minus 2% in 2016 to this flat guidance?

And then the second one is really on the opex to sales, where you've seen a massive amount of improvement in 2016, but back in June you were talking about a 300bps improvement out to 2020, you've already done 100bps, a lot of it in Established markets. So what can we expect, particularly in 2017 in some of those Emerging markets?

And then sorry the last one is on the naira as well. In terms of obviously your FX guidance is €15m for the year, but what would a 60% devaluation of the naira mean to your FX guidance, but particularly I'm more interested in the transaction side of things really? Thank you.

Dimitris Lois, Chief Executive Officer

I'll take your first question and then Michalis will cover the second and the third one. So overall in Established let me go to 2016 first, as you heard us saying we were delighted with our overall results. And I'm referring to the 3% FX neutral revenue and obviously to the 90 basis points EBIT margin expansion, on top of what we have seen in 2015, which was 2.6% FX neutral revenue and 100 basis points.

There is one point that we were not so happy and that's Established in 2016. So I would like to start giving you a bit more colour on Established in 2016. So there are there are three or four areas there, the first one and I think we've exhausted it was weather. So very hot weather, I'm not going to say anything in 2015, that's why 2016 was affected. So I will sort of focus on a de-weatherised discussion.

So there are three elements there, and for simplicity I would say market, strategic decisions and competition. So let me start with market, we have seen in a few of our countries bankruptcies that affected us in the short term. And I'm referring to Greece; one of our most important retailers was bankrupt in 2016. So obviously this short term affects the volume. And this was mainly driving Sparkling.

Also in Austria we have seen a smaller customer bankrupt. So these elements are one off, these elements are short term, but they do in the year affect the overall revenue.

If I go to strategic decisions, you've heard us saying what we have done in Italy, so overall Italy was minus 3%, if you take the Water that we have discontinued, delisted, then the decline is 1%. So this is a strategic decision. And eventually there is another strategic decision that we have taken in Ireland, going from the 1.5L to the 1.25L we referred to this initiative also in our call in August, so the ramp up was not as expected, it was slower than expected. And this eventually affected the overall volume in Sparkling.

And the third area is competition and here I would just pick in Ireland and both in Sparkling and in Juices competition was driving the prices down. It was our choice not to follow competition. So that gives you a bit more colour on the 2.3%.

Now going to 2017 we have very strong plans, we are very excited with our plans. And I'll just give you a bit of colour, I'll start with the One Brand strategy and here it's all about more space in the permanent beverage section and also with regards to displays. And within this more space it's more space to zeros and more space to single serve multi packs. So we are very excited and we are driving our initiatives to have - I would say most of our countries within the first four months of the year introducing and executing the One Brand strategy.

The second area that we are very excited about is Fanta, we have seen in 2016 a 5% increase for Hellenic. Hellenic has been the pioneer in introducing a new bottle, the slider bottle in a few markets, so we are extending that in most of our markets, while at the same time there is a new campaign. So very excited.

We have a lot of new launches, just to name a few, we have a new Coke Zero formula, this is the formula that the UK introduced and we are very excited, we will introduce that to all of our markets. We have a new Sprite formula and that is under the overall umbrella of reformulation, also very excited. And the list goes on and on, not all in Sparkling but also in Juices.

And I will also conclude with probably one or two more things. One would be the occasions and we are focusing on those four occasions, which is meals at home and away from home, the overall socialising occasion. And the fourth occasion we call it me time at home. And we are very happy also we have been investing more, you have seen that in our marketing overall expenses in 2016. So this is another area that is a strong area for 2017.

Last I would say Energy, we have launched in seven new markets in 2016. Nigeria is ahead of us, the Ukraine is ahead of us, Belarus is ahead of us, and obviously expanding further the distribution in those seven markets and obviously Italy, Romania, are two key markets where we're looking forward.

So very excited with a lot of initiatives for 2017 and that's why also we are giving this outlook with regards to volume on Established, covering the 2.3% negative to flattish and then continuing with our momentum in both Emerging and Developing.

Let me now give the floor to Michalis.

Michalis Imellos, Chief Financial Officer

Yes, hi Komal. So taking your first question on the opex as a percent of revenue, indeed in 2016 we saw a great performance, 100 basis points improvement versus the prior year. And it's quite pleasing to see that it is very wide spread, coming from logistics costs, administration costs, even the hedging costs were better. And that allowed us to some extent to reinvest also in the market because our marketing and advertising costs were slightly up as a percent of revenue.

And this is a trend which will continue, it's the combined effect of cost optimisation and cost efficiency measures that we take. Our restructuring programme continues, but slowing down as we said earlier. We have said many times in the past that in Established markets we are more than two thirds of the way closer to I would say 70-75% of where we want to be. And I would say going forward it is more about route to market interventions which have a positive impact both on the top line and also on the cost.

Whereas if I look at Emerging we have another couple of years of work potentially in Russia and Nigeria with regard to production infrastructure improvements.

Now it's the combined effect as I said of the cost, but also the top line growth and development, but also what Dimitris was explaining the leverage will give us a multiplier effect on the opex as a percentage of NSR on the way to the targets that we have set for 2020 of being in the range of 26 to 27%.

Now on your other question about the FX and the naira, within this €15m negative impact we have as I said as is our standard practice taken the spot rates for all the currencies with the exception of naira. Now first of all with the rouble, which is the other important one, let me just remind everyone that the current spot rate for the rouble is the strongest that the currency has been against the dollar and the euro since the peak of the crisis, at the beginning of 2016. So we all need to be cognisant of the fact that we are at a very strong point and we are projecting this for the rest of the year when we quote this €15m.

We are 40 to 45% hedged already on the rouble, but obviously it's very early in the year and there are still open exposures.

Now when it comes to the naira, specifically for the naira we have assumed a devaluation from where the official rate is at the moment. So the official rate is at 315 naira to the dollar more or less and we have assumed within this €15m a further 30% devaluation of the currency. And that is because we are already experiencing in the market these types of rates when we settle local transactional exposures with suppliers. So it's not something that we anticipate to happen later it's happening already in our transactional exposures and that's why we have factored it in within the €15m.

Komal Dhillon, JP Morgan

That's very clear. Thank you very much.

Telephone Operator

Thank you Komal. The next question comes from the line of Nicole McHugh. Nicole your line is now unmuted.

Nicole McHugh, Goldman Sachs

Hi, good morning I have two questions. So first looking at your margin expansion in F'16 it was primarily driven by the Established markets, which markets do you think will be driving margins in F'17, or are you expecting it to be a bit more balanced?

And then the second question is with your leverage now below your previously stated target range I'm wondering how you're thinking about cash use, or cash returns for this year? Thanks.

Michalis Imellos, Chief Financial Officer

Thank you, so starting with the first question on where the margin expansion is going to come in the future. First of all we have seen a fantastic recovery of the margin in Established markets, so we have seen around about 200 basis points in two consecutive years, we are now just over 10% in terms of margin in Established, it's a very good place to be. And we believe that with the gradual development in the top line we can see more positive developments from the leverage effect, although not at the rate of 200 basis points every year.

Developing has - the Developing segment has grown over the past years and recovered and now it's more smooth. And I would say now the big opportunity is coming from Emerging because with the Russia crisis and the impact on the margins and also with Nigeria having been challenged it will be potentially a softer year as we said in 2017. This is the area which in the future we expect that we give better, or more substantial margin expansion. So this is how the dynamics are changing in the last couple of years and going ahead.

Now on the use of cash we are in a very strong place at the moment balance sheet wise with 1.25 times net debt to comparable EBITDA, with all the volatility that has been going on we believe it's a good place to be. We do have a long term target range of 1.5 to 2, so in the very first priority is to continue to invest in the business to drive volume and revenue growth. We have been consistent about our aspirational bolt on acquisitions in the Still segment, Water and Juice, as long as it makes strategic rationale for our business portfolio and it's locally relevant.

And then from there considering also our progressive dividend policy and the growing dividend that we pay every year in line with the EPS growth, in the absence of any transformational M&A we will consider other ways to optimise the balance sheet from the 1.25 times gearing ratio that we are at the moment. So a potential special dividend would not be ruled out.

Nicole McHugh, Goldman Sachs

Great thank you.

Telephone Operator

Thank you Nicole. The next question is from the line of Andrew Holland. Andrew your line is now unmuted.

Andrew Holland, Societe Generale

Yes hi, a couple of questions. Firstly and this is probably the easier one, you've referred to your expectations for Nigeria Dimitris a couple of times, you referred to the expectation of volumes to be soft in answer to the first question you referred to Nigeria being slow. Do you actually mean that you expect volumes in Nigeria to be up or down is the first question?

The second question is I'm hoping Michalis can help me sort of get my head around the margin development. So all of your margin growth effectively came in Established markets and that was the one market where your volumes and price mix were - well volumes down, price mix just marginally up. Using your formula your margins ought to have been down by about 25 basis points, so can you explain how you get the margins up in the region where the volume and price mix is the least good please?

Dimitris Lois, Chief Executive Officer

Andrew for Nigeria flat would be a success. So that is consolidating what you've heard. And let me pass now to Michalis.

Michalis Imellos, Chief Financial Officer

Hi Andy, so first of all this algorithm let's say that we have provided works at a total Group level, if you look at segments individually potentially those factors change significantly.

Within Established this year we have had significant input cost improvement and at the same time we have had significant cost improvements which with the small revenue per case growth that we saw in Established gave us some benefit. So I would say that the leverage formula continues to work, not with those factors in each and every segment. And going forward as Established is gradually picking up in terms of the top line and with the very, very strong cost base that we have built - the very lean cost base we have built over the years that will give an ever bigger multiplier with regard to the margin expansion.

Andrew Holland, Societe Generale

Okay, so I suppose a conclusion is that the algorithm which is all to do with operational leverage transfers across divisions, is that somehow how that works?

Michalis Imellos, Chief Financial Officer

Well to put it simply the logic and the methodology applies to any segment, but I would not apply 0.25 and 0.70 equally in Established, in Developing and Emerging, you have a completely different cost structure in Established versus Emerging and therefore what flows down to the bottom line from 1% volume growth in Established is different to what flows down in Emerging.

Andrew Holland, Societe Generale

Okay that's helpful, thank you.

Telephone Operator

Thank you Andrew. We have a question from the line of Sanjeet Aujla. Please go ahead.

Sanjeet your line is unmuted if you'd like to ask your question.

Sanjeet Aujla, Credit Suisse

Sorry, I'd just like to follow up on input costs where you have given guidance for high single digit increase this year. Can you just break that out and help us understand the various moving parts please? Thanks.

Michalis Imellos, Chief Financial Officer

So we have given guidance for high single digit growth on input cost per case currency neutral for 2017. Let me just say up front that this is really at the lower end of the high single digit; it's not 9 or 9.4 or whatever. And within that there are some diverse dynamics. First of all if you look at sugar we are 100% contracted in terms of EU sugar and indeed as we have said before we are seeing a very low single digit increase with regard to EU sugar. So more or less a flattish environment.

When it comes to world sugar and with the recent developments in the price of world sugar considering that we are 100% covered with regard to Russia and around 60% covered with regard to Nigeria sugar on the dollar price we see a low single digit increase in world sugar prices.

Aluminium we are around 60%, just over 60% covered and we see a low single digit growth as well. And it is resin that makes the difference, taking - where we will see a high single digit increase in the resin price following the developments with the oil price this year versus the prior year.

Now if you were to take those dynamics together you would come to something like a mid single digit increase, what takes us from a mid single digit to the low end as I said of high single digit is that fact that in 2017 we are having more and more an increased contribution, a growing contribution of purchased finished good in the mix, such as Monster, Spirits and so on. And this drives the total input cost per case on a currency neutral basis to the low end of high single digit increase. And that's where our guidance is coming from.

Clearly as these categories that I just mentioned like for example Monster contribute positively to our revenue per case at the same time, the growing impact on input costs that I mentioned is fully balanced by the respective growing revenue contribution as well.

And I just would like to say that we appreciate that we are giving a relatively benign adverse FX guidance, €15m, coming from €174m in 2015 to €101m in 2016, now we are coming with €15m in 2017. However, we always look at the combined effect of FX and input costs because there is also to a large extent a natural hedge between the resin price which is growing in 2017 and the rouble which is very strong. And here the correlation is coming through the oil price, which in 2017 is expected to be quite a bit higher than what we saw in 2016.

So the combined effect of FX and input costs in 2016 was around €100m, so in 2017 we expect this to be a bit higher than that. So with very diverse, as I said, performance from FX and from input costs.

Sanjeet Aujla, Credit Suisse

Many thanks.

Telephone Operator

Thank you again Sanjeet. Our next question is from the line of Charles Pick. Charles your line is now unmuted.

Charles Pick, Numis

Thanks very much indeed, yes I'm afraid I've got four questions actually. Regarding the 2.9% increase in constant FX neutral per case revenues last year, is it possible to disentangle within that how much came from the benefit of the packaging and the category mix benefits?

Second question, there's been a lot of talk about Monster today, how significant is Monster in terms of its overall volume contribution to the Group now?

Third question, the Russian market you indicated your own experiences were minus 8% for the volume, what was the aggregate market down do you think? Were you still outperforming?

And the final question, at the Capital Markets event last June you indicated that you expected near 3% per annum in volume growth from 2018 to 2020, do you still feel that's visible?

Dimitris Lois, Chief Executive Officer

Okay, so first of all on your first question that has to do with the 2.9%, I would say most of that is driven by Emerging and the biggest part of that is driven by pricing. Definitely we are extremely excited to see both the category and the pack mix being a tailwind, but I would say most of it comes from the pricing. And going back to the category and the pack mix, what we have seen which makes us even more proud is that the pack mix was positive across all segments and both for Sparkling and for Water.

Going to Monster, this is most probably and IR will correct me if I'm off here offline, around 1.2, 1.3% in volume and more than that, close to I would say, 1.7, 1.6% in value.

The third one with regards to Russia if I would focus on Sparkling, I would say the market overall was a bit less than that, which means that our focus this year was mainly value and we gained value share.

Did I miss any questions, did you have anything else?

Charles Pick, Numis

The final one about the volume growth that you indicated in June for 2018 to 2020, near 3% per annum?

Dimitris Lois, Chief Executive Officer

I'm not sure I'm with you on this one.

Charles Pick, Numis

At your Capital Markets event on the 6th of June you indicated that to attain the 11% margin by 2020 you were assuming the volumes stepped up to nearly 3% per annum from 2018 to ...?

Dimitris Lois, Chief Executive Officer

What we said is the following: that we expect that gradually the external environment will start picking up and we translated that to a 1.5% and there is a hockey stick as we move on towards the 2020 driving this 1.5 to stronger numbers as we move to 2020. That's what we said and we reiterate that today.

Charles Pick, Numis

Okay, thanks very much.

Dimitris Lois, Chief Executive Officer

Thank you.

Telephone Operator

Thank you Charles. The last question is from the line of Nik Oliver. Nik your line is now unmuted.

Nik Oliver, your line is now unmuted if you'd like to ask your question.

We have no response from Nik Oliver so we will then go to the next question from Charles Pick. Go ahead Charles.

Charles Pick, Numis

Sorry, just two follow ups. Can you just disentangle the transactional FX effect within that €101m last year?

And the second one is you very kindly indicated what the comparable input costs were last year, roughly €1624m, how much of that would be the PET resin element?

Michalis Imellos, Chief Financial Officer

Okay, so on the first question for 2016 the transactional exposure was the vast majority of the €101m, it was €96m, so virtually all of the FX hit was transactional.

Your second question I'm not sure I understood.

Charles Pick, Numis

There's a little bit in note two showing comparable input costs were €1623.7m last year, which you used to work out how the FX neutral cost per case I think was flat, I was just wondering how much of that €1624m is roughly the PET resin element?

Michalis Imellos, Chief Financial Officer

In terms of FX or in terms of the ...

Charles Pick, Numis

In terms of the percentage of the 1624?

Michalis Imellos, Chief Financial Officer

Okay the resin generally is about 7% of our cost of sales if you - just to give you a ballpark.

Charles Pick, Numis

Okay, thanks that very useful.

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