CCH – 2018 Full-year financial results
Conference call script – 14 February 2019

CORPORATE PARTICIPANTS

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Michalis Imellos - Coca-Cola HBC AG – CFO

Basak Kotler - Coca-Cola HBC AG - IR Director

Operator

Thank you for standing by ladies and gentlemen, and welcome to Coca-Cola HBC's conference call for the 2018 full-year results. We have with us Mr. Zoran Bogdanovic, Chief Executive Officer, Mr. Michalis Imellos, Chief Financial Officer, and Ms Basak Kotler, Investor Relations Director. At this time all participants are in listen only mode. There will be a presentation followed by a question and answer session. If you wish to ask a question, please press star one on your telephone keypad at any time and wait until your name is announced. I must also advise that this conference is being recorded today Thursday, February 14, 2019. I now pass the floor to one of your speakers, Ms Basak Kotler. Please go ahead.

Basak Kotler - Coca-Cola HBC AG - IR Director

Good morning. Thank you for joining our call today to discuss Coca-Cola Hellenic Bottling Company's results for the full year 2018.

Today, I am joined by our Chief Executive Officer, Zoran Bogdanovic and our Chief Financial Officer, Michalis Imellos.

Following the presentation by Zoran and Michalis, we will open the floor to questions. In order to facilitate a good Q&A session, we suggest that you ask your questions one at a time, waiting for us to answer one question before you ask another. The operator will keep your line open, until we have exhausted all your questions.

Before we get started, I would like to remind everyone that this conference call contains various forward looking statements. These should be considered in conjunction with the cautionary statements on the screen. This information can also be viewed in our press release issued today.

Now let me turn the call over to Zoran.

Zoran Bogdanovic - Coca-Cola HBC AG – CEO

Full-year highlights

Thank you Basak. Good morning everyone and thank you for joining our full-year results call.

I will start by giving an overview of the year. Michalis will then take you through the financial performance, before I discuss our operational performance in 2018 and outlook for 2019.

We are very pleased to report the second consecutive year of topline growth above our target range of 4 to 5%, and good progress in operating margins to 10.2%. We continue to make very good progress towards our 2020 strategic plan.

FX-neutral revenue per unit case grew by 1.7%. This is the eighth consecutive year of expansion and all three segments made good contributions.

Volume growth accelerated in the year, up 4.2%, with strong performance in both Sparkling and Stills. This year we saw a record number of new product launches, which accounted for 4.4% of our volume growth. We also saw the highest pace of growth in Sparkling in a decade.

Operating margin improved by 70 basis points in the year. Our revenue growth management initiatives, including product innovation, price increases and better package and category mix proved very effective, making the biggest contribution to our profits followed closely by increased volumes. We also mitigated adverse currency movements, following 2017, which was a year of currency tailwinds.

Comparable earnings per share of €1.31 is 5.9% higher than in the prior year.

We generated strong free cash flow, closing the year at 370 million Euros. Capital expenditure as a percentage of revenue increased to 6.4%, as anticipated, as a result of our investments in revenue-generating opportunities.

In line with our dividend policy, the Board of Directors proposes a full-year dividend of 0.57 Euros per share, a 5.6% increase on the 2017 dividend.

With that, I will turn the call over to Michalis.

Michalis Imellos - Coca-Cola HBC AG – CFO

Financial review

Thank you Zoran and hello everyone.

In line with our practice, as I take you through our financial results for the year, I will refer to comparable figures which exclude the impact of restructuring costs, the mark-to-market valuation impact of commodity hedges and specific non-recurring items.

Financial performance overview

Volume growth of 4.2% was broad based across the segments, supported by our revenue growth management initiatives, strong in-market execution, a record number of new product launches, as well as the favourable economic environment in most of our markets.

Russia returned to growth and our medium-sized Emerging and Developing segment countries maintained their positive momentum, while the Established segment volume grew by 1%.

Currency-neutral net sales revenue grew by 6.0% in the year. We are pleased to see reported net sales revenue increasing by 2.1%, despite the resumption of currency depreciation in our emerging markets.

Currency-neutral revenue per case grew in all segments, up 1.7% overall, with positive contributions from price increases, as well as package and category mix. We saw some moderation of the growth from prior years in the Emerging segment due to the cycling of the 2016/17 price increases in Nigeria and lower Premium Spirits sales in Russia. I will come back to this shortly.

Gross profit margin improved by 40 basis points, helped by a low single-digit decrease in input costs per case, offset by adverse currency movements.

Comparable operating expenses as a percentage of revenue improved by 20 basis points driven by top-line operating leverage. This reduction is particularly pleasing in the context of a 30 basis point increase in marketing investments.

Financial performance overview

Comparable operating profit increased by 9.6% year-on-year, and comparable operating profit margin expanded by 70 basis points to 10.2%.

Better price/mix, volume and operating leverage drove this positive result.

Depreciation of currencies, mainly the weakening of the Russian Rouble, Nigerian Naira and to a lesser extent, Swiss Franc, resulted in a 51 million Euro currency headwind.

Financing cost increased by 4.6 million Euros in the period, mainly as a result of lower interest returns on cash deposits. Comparable tax charges were also 25 million Euro higher due to higher profits coupled with a comparable effective tax rate increase from 24.5% to 26.2%.

Comparable EPS reached 1 Euro and 31 cents, 5.9% higher than the prior-year period. The growth was slower than the comparable EBIT growth of 9.6%, due to the higher financing costs and tax charges mentioned earlier.

The working capital balance continues to be in triple-digit negative territory at the end of the year. We generated strong free cash flow of 370.0 million Euros, a deterioration of 56 million Euros year on year due to higher capital expenditure, which I will come back to.

Volume and price/mix growth in all three segments

Turning to the revenue performance, volume was the main driver of the 6.0% currency-neutral revenue growth in the year. In addition to the FIFA World Cup and good summer weather, our initiatives, particularly the strong in-market execution and an unprecedented number of new product launches, supported volume growth in all three segments.

Currency-neutral revenue per case growth was 1.7%, a moderation from 2017, reflecting a slow-down in the Emerging segment due to the cycling of price increases in Nigeria and lower Premium Spirits sales in Russia. Excluding the impact of Premium Spirits distribution in Russia, the underlying currency-neutral revenue per case growth was 2.8%.

Taking the segments in turn

In our Established markets, currency neutral revenue per case increased by 1.1%, driven by favourable price mix, as the result of the sugar tax implementation in Ireland, and small price increases selectively taken in other markets, as well as positive category and package mix.

In Developing markets, currency neutral revenue per case grew by 2.8%, with some acceleration in the second half. Favourable impacts from price increases in Hungary and Poland, as well as category and package mix, were partially offset by negative channel mix.

The Emerging markets saw a slowdown in the pace of currency-neutral revenue per case growth, mainly due to the cycling of the price increases taken in Nigeria in 2016/17 and also the discontinuation of our distribution of Brown-Forman products in Russia. The growth of 2.4% was the result of price increases and package mix, partially offset by adverse channel mix.

Excluding the impact of premium spirits distribution in Russia, currency-neutral revenue per case increased by 5.0% in the Emerging segment.

Input costs slightly better than our expectations

Turning to input costs

Currency neutral input cost per case was down by 1.4% compared to the prior year, slightly better than our latest guidance, which we had revised downwards as the year unfolded.

The main driver for the input cost improvement was sugar, where we achieved rates that represent a high-teens percentage decline compared to the prior year. PET prices did increase in the year in line with higher oil prices. Aluminium saw rate increases, but with good management of contracts, favourable hedges and light-weighting, we minimised the impact.

Operating leverage delivering alongside higher marketing

Comparable operating expenses as a percentage of revenue improved by 20 basis points in the full year to 27.7%. We are pleased that we were able to deliver this improvement while growing the marketing investment by 30 basis points of revenue, mainly related to the FIFA World Cup and new product launches. We also faced increased transport costs in certain Central and Eastern European countries in the year.

We also benefitted from cycling the prior year's bad debt provision in Croatia and the partial recovery thereof, amounting to 20 basis points of revenue in total.

Profit and margin growth

Turning to operating performance, comparable operating profit was 681 million Euros in the year, up 60 million Euros from 2017. Our revenue growth management initiatives, including product innovation, price increases and better package and category mix proved very effective, making the biggest contribution to our profits followed closely by increased volumes.

Comparable operating profit in the Established segment declined by 3.9% to 240.7 million Euros, resulting in a 50 basis-point contraction in comparable operating profit margin to 9.7%. Volume growth and favourable price and product mix, were more than offset by higher input costs, higher operating expenses and adverse foreign currency movements, mainly from the Swiss Franc.

Developing markets posted a comparable operating profit of 137.0 million Euros, a 48.4% increase compared to the prior year and profit growth in all countries. Comparable operating profit margin for the segment improved by 260 basis points to 10.5%. Improved volume, price and mix more than offset the impact of unfavourable input costs and currency movements. The segment benefitted from cycling the prior year's bad debt provision in Croatia as well as the partial recovery thereof.

The Emerging markets segment delivered comparable operating profit of €303.0 million, resulting in a 100 basis-point improvement in comparable operating margin to 10.5%. Better price/mix across the segment and higher sales volume were partly offset by increased operating expenses as we invested in the FIFA World Cup and product launches, as well as the adverse impact of currency movements.

Restructuring plans

As far as restructuring is concerned

We incurred charges of 33 million Euros in the year, the vast majority of which was spent in the Emerging segment.

Restructuring benefits within 2018 from 2017 and 2018 initiatives amounted to 15 million Euros.

Looking ahead to 2019, we expect restructuring costs of approximately 33 million Euros with estimated annualised benefits of 17 million Euros from 2020 onwards.

The benefits in 2019, from initiatives taken in 2018 and those expected to be taken in 2019 are estimated to reach 23 million Euros.

Higher operating cash flow re-invested in revenue-generating assets

We generated 370 million Euros of free cash flow in the year.

Net capital expenditure as a percentage of revenue increased by 60 basis points to 6.4%, as anticipated, the result of our investments in revenue-generating opportunities.

As you may know, IFRS 16, which requires the recognition of all leases on the balance sheet, comes into effect in 2019. This accounting change leads to a capital expenditure increase of approximately 1 percentage point of revenue. Therefore, going forward, and taking into account the impact of the adoption of IFRS 16, the restated annual capital expenditure target range becomes 6.5% to 7.5% of net sales revenue.

The working capital balance remains in our target level of triple-digit negative.

Financing cost

We maintain a strong balance sheet position, and our borrowing structure is the same as at the end of 2017.

Financing costs increased in the year as the result of lower interest income earned - €4.5 million lower than in 2017 to be precise. This is the result of cash balances being held in deposits that attracted increasingly negative rates.

Let me take a minute to give you some colour on financing costs for 2019. Our consistently strong operational and cash management performance over the recent years has resulted in a low gearing ratio. Our net debt to comparable EBITDA has now fallen to 0.6X, significantly below our target of 1.5-2X. We have expressed in the past that there would come a time when the balance sheet would need to be optimised. The refinancing of our 800m bond maturing in June 2020 may present us with the right opportunity to do that.

The technical guidance we are providing today on the 2019 financing cost assumes that this balance sheet optimization through debt financing will take place in 2019.

Therefore, we estimate that financing costs in 2019 will be nearly double those in 2018, comprising the overlap of the interest costs of the new and the old bonds, the incremental cost of the additional debt to be raised, the one-off new issue premium, as well as the negative impact of adoption of IFRS16 from January 2019.

2018 EBIT margin development

Before I conclude, let me walk you through the key components of our margin development in 2018.

The 70 basis point expansion in the EBIT margin can be explained as follows:

- 90 basis points of margin expansion from volume leverage – based on the 4.2% volume growth in the year, and accounting for some of the volume growth that doesn't contribute to operating leverage. The best examples are Premium Spirits and non-ready-to-drink Coffee, which are bought and sold as finished goods.
- 80 basis points expansion from revenue per case leverage – based on the 1.7% growth in FX-neutral revenue per case, and netting off the impact of Premium Spirits and Coffee as above, as well as sugar tax in Ireland, which is added to revenue only to be fully deducted from cost of sales, and therefore has no contribution to operating leverage.
- 10 basis points expansion from our cost productivity initiatives
- 50 basis points contraction from the combined impact of adverse currency movements and favourable input costs
- 30 basis points contraction from increased investment in innovation and capabilities, which are driving our revenue.
- We also have a 30 basis point headwind from one-off costs. These include increased environmental fees, sugar tax, our investment into the redesign of our revenue growth management framework, partly offset by the positive impact of the Croatian bad debt we have talked about.

With that, let me now pass the floor to Zoran, who will take you through the operational performance for the year.

Zoran Bogdanovic - Coca-Cola HBC AG – CEO

Operational review and strategy

Thank you Michali.

Driving a clear strategy

The financial results Michalis has just presented are the result of driving a clear strategy at every level of the organisation for the last few years. The strategic pillars that we presented to the markets in 2016 were to drive volume growth, focus on value, improve efficiencies and invest in the business. Within these pillars, there are many strategic initiatives that we have been actioning, assessing, improving and driving harder.

In the next section of the presentation you will hear about a number of actions in our countries, which have driven the results in 2018. These can be grouped as the following:

Accelerate sparkling growth across our territory

Grow Water and Juice with a focus on value

Evolve the product portfolio to meet the changing needs of our consumers

Expand our route to market and partner with our customers, so that we grow their business and ours

Take full advantage of all the revenue growth management work we have done

Continue to work on cost control relentlessly

Invest in revenue-generating assets

And to do all this in a responsible, sustainable and profitable way, while we invest in the capabilities of our people.

With that in mind, let us now see this strategy in action.

Volume by segment

In 2018, we doubled the pace of volume growth compared to that in 2017. 4.2% growth in volumes, with a positive performance in all segments, is a strong result. Let me give you some colour on the segments and the major markets within them.

The Established segment grew by 1.0%, maintaining the pace of volume expansion seen in the prior year, driven by Ireland and Greece. Sparkling and Water were the main drivers of growth in the segment.

In the Developing segment, volume grew by 8.8% with a particularly strong result from Poland. Hungary and the Czech Republic also grew their volumes by mid to high single digits. In the Developing segment, we experienced growth in all categories apart from RTD Tea, which hasn't gained momentum in Poland yet.

The Emerging segment grew by 4.3% with volume driven by Sparkling, Energy, Coffee and Water. Nigeria was the only country in the segment to finish the year in negative territory due to a tough competitive environment. We are pleased to see the strong results from Romania and particularly from Russia, which has now returned to growth.

In both Emerging and Developing segments, our medium-sized markets continue to be a key element of total volume growth.

Growth in all categories

Looking at our performance by category

Sparkling beverages saw the highest growth in a decade with total volume increasing by 4.3% in the year. Importantly, this is not the result of just one year's work, but the strategy we have been pursuing over the last few years. I am also very pleased that we are able to demonstrate the potential for growth in the Sparkling category in our territory, now that the economies have recovered.

Within the category, Trademark Coca-Cola grew 5.0% in the year. Low- and no-calorie variants grew by 25.9%, much faster than our full-sugar sparkling beverages, which overall grew by 1.7% in the year.

Coke Zero volume growth accelerated quarter after quarter closing the year at 29.1%. This is the 7th consecutive quarter of growth in excess of 20% in Coke Zero. We also experienced strong growth rates from Fanta Zero and Sprite Zero.

Sparkling beverages for Adults is a big revenue pool, where a number of our markets are driving exceptional growth. We have several markets, such as Romania, that doubled their Schweppes volume in the last three years. With different brands such as Schweppes, Kinley and Royal Bliss to play in each market, and dedicated work behind premiumisation as well as package and flavour innovation, we look forward to developing this sub-category in the years to come.

Within our Still drinks portfolio, Water increased by 3.2% in the full year with positive results in all segments. We are continuing to grow volume but our focus is on growing volume and value in a balanced way in this category. The successful launch of GLACÉAU smartwater in ten of our markets in April is only one initiative that helps that strategy.

Juice was up by 0.3% in the year with the Developing segment being the main driver of the result. We have plans to continue growing this category, which has suffered in the last three years.

Energy delivered another year of volume growth, increasing 30.6% with strong performance in both Monster and Burn in all three segments. Russia and Poland were star performers, growing Energy volume by strong double digits.

RTD Tea grew by 1.5% with growth in all segments apart from Developing. We are pleased to see this strategically important category return to growth this year - after five years of decline - with the introduction of FUZE Tea. Thorough preparation has proven to be key to our success in this instance, and we remain optimistic that our bold strategy with FUZE Tea will continue to yield excellent results.

Lastly, a few comments about our portfolio evolution. During 2018, we introduced more new products than ever before in our trading history. Throughout the year we continued to expand our portfolio, offering our customers a wide variety of choices to meet their ever-changing needs and preferences. The new products we have introduced allow for profitable revenue growth by providing the right package and price combinations across our channels and consumption occasions.

We launched FUZE Tea, GLACÉAU premium water and AdeZ plant-based beverages. Overall, we sold 96 million additional cases of new categories, representing 4.4% of our total volume compared to 2.3% in 2017.

In 2019, we will continue to work on increasing distribution and repeat sales.

Established markets - A year focusing on innovation

Turning now to our performance by segment and focusing on some of the bigger countries:

In our Established markets segment volume was up by 1.0% in the full year.

In Italy, volume declined by 0.6%, mainly driven by lower sales in Sparkling and Water. We are encouraged to see growth in our strategic areas of focus, such as lights and zeroes. Coke Zero grew by 13.3% and Fanta Zero by 18.8%. Importantly, we have seen a step up in Sparkling beverages market share, since our new OBPPC structure settled in the trade in Italy. RTD Tea volume increased in Italy by 67.0%, which is excellent; while Energy increased by 25.5%, with Monster driving the positive results.

In Greece, volume grew by 4.5% with balanced growth between Sparkling and Still beverages. The main contributors to growth in Sparkling were Coca-Cola Zero and to a smaller extent Coca-Cola Regular. Schweppes grew by mid-teens supported by strong promo, premiumisation, local flavours and the brand new glass skittle bottle package. Sprite returned to growth after several years helped by the launch of Sprite Zero Lemon Mint. Juice and RTD Tea were the only categories with lower volume compared to the previous year.

In Switzerland, volume grew by 0.6% with growth in Sparkling, Coffee and Energy offsetting declines in RTD Tea and to a lesser extent Water.

Developing markets – Broad-based growth in all markets

In our Developing markets, volume grew by 8.8% with broad-based growth and increases in all categories apart from RTD Tea.

In Poland, volume increased by 10% backed by good economic growth and higher disposable income. All categories apart from RTD Tea grew. Sparkling was up by 8.0%, driven by Coca-Cola Regular, followed by Coca-Cola Zero and Fanta. Energy continued to deliver excellent results with volumes increasing by 67% in the full year with Monster volume supported by promo activations as well as zero variants and new flavours. Water saw a 24% increase as the result of the water trade plan to support the category at an attractive price point, which we started early in the year.

In the Czech Republic, volume was up by 4.0% with all categories growing apart from RTD Tea. Coca-Cola Zero grew by 16% and Fanta maintained the positive momentum of the past few quarters.

The excellent momentum in Hungary continued, benefiting from strong execution in the market and a healthy economic environment supported by direct investment. Volumes were up by 7% in the full year as we saw growth in all categories, mainly Sparkling. Energy continued to deliver very strong results in the country.

<u>Emerging markets – Growth driven by Russia and our medium-sized markets</u>

Volume in our Emerging markets was up by 4.3% with Romania and Russia being the main drivers.

Volume in Russia increased by 4.4% in the full year, driven mainly by higher sales in Sparkling, Energy and Tea. We are pleased to see underlying growth in the market given that the tailwind from the FIFA World cup and good weather have ceased but we have kept the momentum throughout the remainder of the year. Sparkling grew by 6%, with Trademark Coke and Fanta up 11% supported by strong promotional activity, flavour innovations and changes to our price/pack architecture. Energy grew by 36% in the full year with good performances from both Burn and Monster.

In Nigeria, continued intense competition and price increase taken in October resulted in weak volumes for the fourth quarter and turned the country from small growth in the first nine months to a decline of 1.9% in the full year. However, FX-neutral revenue was up by 5% in the year, reflecting our pursuit for value in the country. Water, Juice and Energy delivered positive results offset by Sparkling. As we look ahead, I can say that having made further changes to our price/pack architecture in the fourth quarter, we saw encouraging results from the business in December and January.

Volume in Romania increased by 8.9%,with strong results across all categories, especially in Sparkling. Robust execution, marketing plans and innovations were behind the positive performance. The sparkling category grew by 10% with Schweppes volume growing by 28% supported by the launch of the premium glass bottle delivered to the HoReCa channel. RTD Tea recorded 4% growth, benefitting from retaining Nestea in the portfolio, which accounted for 35% of total RTD Tea volume.

<u>Ambitious 2025 commitments</u>

2018 was an important year for our sustainability agenda. Having delivered excellent results in most of our 2020 sustainability targets, and having achieved two important 2020 targets ahead of time, we introduced new and ambitious commitments to be met by 2025. These include bold targets and initiatives on packaging, recycling, water reduction, youth empowerment and gender balance. We also signed up to the Coca-Cola Company's World Without Waste programme.

We are particularly proud to have ranked among the top beverage companies in the Dow Jones Sustainability Global and European indices for the past five years, and our new 2025 commitments underscore our ambition to remain a leader in this area.

Sustainability is deeply embedded in our corporate DNA and purpose. For us, it is not just about what we achieve, but also how we achieve it.

Nurturing the potential of our people

Our vision, strategy, execution and achievement of our commitments are simply impossible without our people.

Therefore, nurturing the potential and supporting the development of our people is our passion, and the key driver of our sustainable growth.

I would like to thank our people for their hard work, passion and dedication to deliver on our operational and financial targets, sustainability commitments and ultimately our medium-term strategic plan.

We expect another year of growth

According to the forecasts for 2019, we will have less of a tailwind from economic growth in 2019 in our territory. We do believe however, that we are well-placed to withstand more challenging conditions given all the initiatives we have just been talking about.

Overall, we expect volume to continue to grow in all three segments. Within this, we expect the Established and Emerging market segments to maintain their current growth trends and Developing markets to moderate to more normalised levels.

We also believe we can continue to deliver FX-neutral net sales revenue per case improvement - perhaps slightly faster than in 2018. The Developing segment should accelerate their price/mix growth, while the Emerging segment remains under pressure from the discontinuation of our distribution of the Brown-Forman products in Russia, and the affordability and competitive pressures in Nigeria.

We expect the adverse impact on EBIT from foreign currency to amount to €50 million, considering the current favourable spot rates.

We have good visibility for our commodities and overall, we expect our input costs per case to increase by low single digits on an FX-neutral basis.

Finally, aided by the operating leverage of the anticipated growth in our revenue, we expect to deliver further reduction in operating expenses as a percentage of net sales revenue in the year.

In summary, we expect another good year of FX-neutral revenue growth and profit margin expansion, albeit slower than 2018 due to the combined negative impact from the accelerating currency depreciation we are expecting and input cost increases.

Q&A

With that, I will now hand over to the operator, and Michalis and I will take your questions.

Thank you

[Q&A transcript will be available on the Company's website on Friday 15th February]