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Ewan Mitchell, Barclays

Alicia Forry, Investec

Charlie Higgs, Redburn

Simon Hales, Citi

Andrea Pistacchi, Bank of America

Questions and Answer

Telephone Operator

Thank you. So, once again, if you would you like to ask a question, please press *1 on your telephone keypads, and please ensure your line is unmuted locally as you will be advised when to ask your question.

And we do have a couple of questions in the queue. The first question comes from the line of Edward Mundy from Jefferies. Please go ahead.

Edward Mundy, Jefferies

Good morning, everyone. Hi, Zoran. Hi, Michalis. Three questions from me.

The first question is for Zoran. I appreciate that the recovery, you know, is not going to be straightforward, but does the rebound in Q3 increase your confidence that consumer appetite for out-of-home experiences will be strong on the other side of the pandemic?

Zoran Bogdanovic, Chief Executive Officer

Hi. Good morning, Ed. Listen, my intuitive answer is yes because I think that Q3 truly showed that even in an environment which was not in the pre-COVID, and as it was normal, it really showed the appetite of consumers, both at home, where lots of things are now happening, but also in whatever was recovered in the out-of-home, it was feasible that consumers are keen to, you know, live life, and to do that with high quality products and proven brands.

And, when you combine that with our prioritised initiatives and actions that we were doing, I believe, quite well, in Q3, that really leaves us with a strong confidence that, as and when the situation starts to recover, that we are in a situation to really leverage that quite well.

Edward Mundy, Jefferies

Thank you.

The second one's for Michalis. I appreciate that, you know, on the one hand, you know, you've got tough comps on Q4 and there is rising case growth and increased restrictions, but I think you're also alluding to stronger cost control and slightly favourable COGS on the other hand. I'd appreciate any comments you might have on 2020 sales and EBIT relative to your expectations.

Michalis Imellos, Chief Financial Officer

Yes. Hi, Ed, also from my side. I think that, indeed, especially if I look at the consensus, we see a very wide variability at the moment which, obviously, is understandable in the circumstances. And, given that we are now in mid-November, and while, of course, uncertainties do remain, we believe that we have a strong sense of the likely scenarios for the business for the full year.

And, looking at the top line first, perhaps some of the more bullish analysts were more optimistic about the second wave - that has been the reality that we are experiencing at the moment with some of the lockdown countries.

In addition, as we have already said, we have a disproportionately adverse comparator on Quarter 4 volumes, and Zoran alluded to that. So, that's the reality also, as you said, about Quarter 4.

However, on the other side, I believe that there are three areas which, potentially, play to our favour on the cost side and overall which drives, you know, better visibility in terms of EBIT and margins for the year.

On one side, it's the pack mix recovery in the second half, which I believe that has a really strong impact on the leverage overall on the margins and COGS. I believe it's captured well on the top line in the price mix, but I don't know whether it's fully appreciated when it comes to the cost side.

The second one would be the fact that we have benefited in the year from the fall in PET prices, which have fully offset the adverse transactional effects which was, very early in the year, hedged. So, that has been increasingly helping us to protect the gross profit and margins, and, you know, maybe could even give us a little bit more benefit until the end of the year, as the transactional FX part is pretty much locked.

And, finally, as we announced today, we have had excellent progress on the run rate of our cost savings programmes. So, we are targeting an additional €20m in terms of savings. Obviously, given that this is new today, I wouldn't expect that it was captured in the profit numbers or the consensus.

So, putting all of this together, we think that there is room for EBIT to move up while rationalising somewhat the Quarter 4's top line in the consensus.

Edward Mundy, Jefferies

Got it. Very clear. Thanks, Michalis.

And then the third question, perhaps one for Zoran, just on hard seltzers within Europe, I think you've announced that you're going to be launching Topo Chico, I think, in Austria, Ireland, Greece and Ukraine. Could you just provide your, sort of, high level thoughts on, you know, what this brings to the party for Coca-Cola Hellenic in terms of occasions, in terms of channels? And is this part of a broader push into the adjacent Alcohol category as you've done into other categories, you know, such as Coffee?

Zoran Bogdanovic, Chief Executive Officer

Thanks, Ed. Well, I think, I don't know if I mentioned last time, we are really excited with this addition and, if you will, a new category, which I think is a clear demonstration of The Coca-Cola Company and us together, with them, responding to evident consumer trends that are happening out there. And, because of that, you know, we are doing this together in the first five of the markets, but, for sure, this is considered to be the first wave, and we plan to do more.

Learnings from the United States, where this category has completely exploded over the period of three years, are very inspiring. And we have seen that kind of development as well in the UK and, in our case, in Ireland.

So, we also leveraged the fact that, for more than a decade, we have experience with Premium Sprits with knowledge and skills, so people to sell that type of product. And we see it as an excellent addition to the portfolio for a white space, uncovered area at the moment, because we are talking here about proposition, which is a more refreshing and lighter alternative to the alcoholic beverages, and, also, another proposition which presents competition to the beer category from which hard seltzers are usually sourcing their volumes and users.

So, fully excited with it. Very happy that we are starting. And the better we do a job in addressing this consumer need I think that may, you know, inspire for possibly, you know, a broader thing down the road in terms of more countries, but maybe even more propositions. Thank you.

Edward Mundy, Jefferies

Okay. Thank you.

Telephone Operator

The next question comes from the line of Sanjeet Aujla from Credit Suisse. Please go ahead.

Sanjeet Aujla, Credit Suisse

Morning, Zoran, Michalis. A few questions from me as well.

Firstly, based on what you saw in Q3, and with the news now about the vaccine, how quickly do you think the away-from-home channel can get back to normal? Do you expect permanent closures in outlets? What's your latest thinking on, sort of, footfall rebuild in that channel? Maybe if we start with that, I'll go into the other two.

Zoran Bogdanovic, Chief Executive Officer

Good morning, Sanjeet. Thank you.

Look, we are very much encouraged, as the whole world, with the news, but, we take it with caution, just from the point of view that we still wait and see when this is going to have a really a mass impact that, truly, all the whole population across all countries can be affected in a positive sense and that we can really start seeing the benefit from that.

So, I think that no one knows this yet. For sure, it's going to take a good number of months before something starts happening in a meaningful way, and that's why I have to say that it's really hard to predict that.

We have been working and operating this year in the models of a number of scenarios, but the underlying thing was that we do the right things in how we strengthen the capabilities, how we really prioritise reading what's now consumer trends, how shoppers have adjusted, the way of shopping, what happens at home.

So, we are really focused on doing the right things in the business. And then, the benefit, if I can say, of this year, in terms of learnings, is that, in a very tough and hard quarter, like Q2, or a much better Q3 quarter, we have been able to see how all the things that we are doing with initiatives, with capabilities, with investments, that we prioritise how they work, and that gives us rich learning for next year.

Just to say, because you asked about out-of-home, yes, for our business, it is an important segment, and, even in the tough days, we stay next to our customers, we find ways of supporting them. Even those who are closed, we are next to them, finding ways of how to support them. Sometimes it can be smaller things, bigger things, it doesn't matter, but our responsibility is that, you know, we stay close and we partner with customers in rainy days and sunny days.

And, once this starts recovery, you know, I strongly believe that Hellenic will benefit from that because out-of-home, I see that as one of the competitive advantages of our business in terms of coverage as well as what we do there.

Sanjeet Aujla, Credit Suisse

Got it. The second one, just on Established price mix, up 3.5%, that's one of the strongest performances we've seen there in a long time, I'd just like to get a feel of how much of that is pure pricing? Are you actually getting headline pricing or is just, effectively, lower promo spend? Just a bit more context around the pricing element of that, please.

Zoran Bogdanovic, Chief Executive Officer

Yeah. Definitely, there is an element also of pricing, but this strong performance, as you said, in the Established segment, is a result of several things.

First of all, there is an evident category mix, then there is also a geographic mix that, in this segment, gives us the benefit, which means that this is better performance of Switzerland as a high revenue per case country versus Greece.

And then we did benefit from price mix as well because we did have several price increases in a couple of countries - in Ireland, in Greece, in Italy and in Switzerland.

And we also benefited in Q3 from improved channel and package mix versus the previous quarters. However, even though it was still negative, however it was, in Q3, improved versus Q2.

Sanjeet Aujla, Credit Suisse

Got it. Thanks, Zoran.

And my final question, just following the proposed European partners Amatil transaction, I guess what are the implications for Hellenic, and I guess just broader read across in terms of Coke bottling consolidation? Does this change anything for you?

Zoran Bogdanovic, Chief Executive Officer

Sanjeet, it doesn't. This doesn't have any direct implications on us.

This transaction that is going to happen touches the geographic territories that are not part of our considerations and have never been.

We've been always very clear that we are very open to geographical expansion if and when Coca-Cola Company opens up, or puts on the table, something that we do regard as a strategic fit. And we both, with fire power of the balance sheet as well as the strength of the organisation, we are ready for that whenever that happens.

So, in short, no implications for Coca-Cola Hellenic, and that's all I could say.

Sanjeet Aujla, Credit Suisse

Very good. Thank you.

Telephone Operator

The next question comes from the line of Ewan Mitchell from Barclays. Please go ahead.

Ewan Mitchell, Barclays

Good morning, all. Three questions, if I may.

Firstly, could you just flesh out about how you're thinking about how Q3 will move into Q4? I'm particularly thinking about how the strong momentum in the at-home channel could actually, potentially, accelerate in Q4 as more consumers are at home and how this lockdown will be different to the last lockdown given we're ready for it, attitudes have already changed quite significantly. Just a bit more flesh on the bones there would be helpful.

Zoran Bogdanovic, Chief Executive Officer

Hi, Ewan. Hi. Thank you for the question.

So, as I said, first of all, coming out of Q3, first of all, where we really feel strongly about it and very encouraged, as I said in my earlier remarks. Q4 has a couple of elements to mention when we think how it could pan out eventually.

First of all, when we talked three months ago, if I were asked, you know, would I see that this level of restrictions and measures, lockdowns would be happening again, honestly, I would say no. I think that, at that time, we started to hope that we are getting a little bit out of the woods, but the thing has shown that, in a number of markets, these imposed restrictions and measures are necessary. And we do see, where those strict measures are applied, they do have an impact on us.

Also to note is that, in Q4, we are cycling some quite strong numbers. As I said, we were around high single digit cycling versus last year. So, we are mindful of that as well.

On the other side, yes, October, as I said in my remarks, while it was 1.8% lower than last year, on a two year basis, it demonstrated continued, let's say, strong underlying performance of the business because, in October, we were cycling high single digit performance two years ago.

In terms of the pool of countries, you see that some of the markets have a consequence because of the measures. Let me just mention that it's Austria, it's Italy, it's Czech, it's Hungary, it's Ireland, Romania, ADRIA, Bulgaria.

On the other side, there are markets which continue to perform quite well - Russia and Poland, which were also highlighted in Q3. Greece also had a good performance in October, but that's before the lockdowns were implemented. The same comment for Switzerland.

And, in October, I need to highlight that Nigeria had a short-term disruption because of these protests and riots that were ongoing. However, I can say that Nigeria, in Q3, has resumed to a quite strong performance that is the characteristic of Nigeria's performance in 2020.

So, I can't really estimate what is going to be Q4. We are preparing for the Christmas period. The fact that at-home continues to perform quite well in a positive territory, so Christmas will be relevant in any way, even in these times, and we are preparing for that with our customers.

Another thing is that I would highlight that, in Q4, this is definitely a quarter more emphasised by multi-serves, less by single serves. So, in that mix element, it will be visible there even though we are pushing more single serves. But Q4 is characterised by multi-serves. Usually, it is seven percentage points lower than summer, and even five percentage points lower than the average of the year.

So, I hope I provided you more colour, what impacts Q4. And we are, you know, reviewing our performance day-by-day, week-by-week. I know the better we do on the ground, our job, I know that we will take the maximum out of it, whatever it proves to be by the end of the quarter and by the end of the year.

Ewan Mitchell, Barclays

Thank you, Zoran. That's very helpful.

Perhaps to kind of lead on from that, the shift in focus from the out-of-home channel earlier in the year to the at-home channel, you mentioned that you are now sort of focused on glass in the at-home channel, could you just give us an idea on how a, for example, single-serve glass bottle in the out-of-home channel versus a glass bottle in the at-home channel, how the EBIT impact on your P&L would be between consumers switching between those two channels, obviously, with very different logistics and sales costs behind them?

Zoran Bogdanovic, Chief Executive Officer

Thanks Ewan. Michalis, I think you can provide a bit of colour on that?

Michalis Imellos, Chief Financial Officer

Yes, Ewan. Look, as we have said before certainly if you compare the same pack between the out of home and at home channel you will see much higher revenue per case in the out of home. You will see also, obviously, better margins, gross profit margins.

However, as you move down towards net contribution and contribution margins, because it's far more efficient to take products through the at home channels than the out of home, the difference in profitability is not very big, certainly on a percentage, in percentage terms maybe within a couple of percentage points.

Now in absolute terms, euro terms per case, you would see higher absolute profit in the out of home. But as I said, it's not that great in terms of difference. So continuing to work on premiumisation aspects of the single serve in the at home, with multipacks and with, you know, the more premium categories around Adults and so on, is actually going to close the gap versus the out of home.

Ewan Mitchell, Barclays

Very helpful, thank you. And finally just a follow up on the FX and commodity costs that you mentioned earlier Michalis. You said that they should roughly offset each other, perhaps even be a little bit beneficial. If I then factor in the volume improvement for H1 - we'll say H2 versus H1, how should we be thinking gross margin in H2, it feels as though it could actually be ahead of H1 after the one-off benefits. Is that the right way of thinking about it, or is there something that I'm missing there?

Michalis Imellos, Chief Financial Officer

No, look, for the second half, as you said, on one side we will have quite a more significant accelerated impact, negative impact from FX, because in the first half, especially the ruble was performing extremely well. We know it's a different world in the second half. Just to give you an idea, out of the €70m odd that we see in terms of negative FX impact this year, the first half was just €15m and the rest is coming from the second half. So that's a drag.

On the other side we have the good news from input costs and particularly from PET. And again, with the oil price evolution we got most of those benefits starting from quarter two and well into the second half. So as I said on a full year basis, the FX and input costs will be sort of cancelling each other out, it will be a wash, maybe even a small benefit because as we said we've locked the FX rates pretty much now, whereas we continue to see benefits from input costs.

And what is very important to your question about margins in the second half, is as I said earlier, the very strong recovery of the pack mix. I continue to emphasise that pack mix is maybe 70 to 80% of the recovery story. It plays a very important part on the leverage overall. And that's why I think that if you look at the full year, with also the movements that are happening with some of the accounting that I talked about, the changes in the accounting and so on we should see gross profit margin faring very, very well compared to prior year.

Ewan Mitchell, Barclays

Great, very clear, thank you.

Telephone Operator

The next question comes from the line of Alicia Forry from Investec. Please go ahead.

Alicia Forry, Investec

Hi, good morning. My first question is on agility, which you've spoken about quite a lot in your press release and remarks.

Is there any reason to think that this improved agility within your business cannot be maintained once we have moved into the recovery phase and the crisis is behind us, or is there something in there that cannot be extended once we move back to a more normal environment?

Zoran Bogdanovic, Chief Executive Officer

Good morning, Alicia. Well in short, I absolutely expect that the agility element that was so critical and is critical for this year that it is going to stay with us in this even more emphasised way in terms of how we reprioritise, how we flexibly adjust and adapt ourselves to the changing circumstances, how we are also reorganising our resources, also redirecting our investments.

All that has been done in a very fast flexible way both in terms of how we spend our operating expenses as we have clear learnings that what matters more or what matters less, and that has been part of our discretionary cost, a positive impact this year. And we will embed that also going forwards.

Also in our capex capital expenditure also we are, you know, there are some areas that we have put on hold until next year. However, there are things where we continue investing more. And part of our agile approach is also investing more in the online digital, to be more concrete, how we are balancing physical route to market and digital route to market, how quickly we are doing that with our customers either through their own platforms or through our own platforms and applications.

And let me just say, last thing, is also agility has very much reflected how we are organising and doing our work within the organisation, where we are applying also agile principles working behind prioritised initiatives which are enabling us to crack targeted topics and areas in a much faster, condensed, intensive way, and immediately act upon them. As we have done this year in a number of prioritised areas which clearly, we have read from this whole situation.

So agility is one of the critical growth behaviours that we have in our organisation, and that is going to even more form what the culture for Coca-Cola Hellenic is.

Alicia Forry, Investec

Thank you. My second question is coming back to the price question that I think Sanjeet asked earlier.

We're hearing about some promotional activity picking up in parts of Europe, but your comments seem to suggest it's really not affecting your footprint so much.

Could you clarify a little bit more about what the pricing environment is for your products in your footprint? And along with that you talked about 40 basis points of value share gained year to date. I'm wondering if you could share the volume share over the period as well. I'm just trying to see whether there might be any differences in that.

Zoran Bogdanovic, Chief Executive Officer

Yeah, absolutely. So listen, firstly pricing, we should see in the context of the competitive landscape and situation. And first of all we don't see anything dramatically different. However, we do see that in a number of markets competitors remain or continue to be quite aggressive, but in their usual way.

That doesn't mean that we are not responding with our promo adjustments, which we absolutely do. So we should think about promotions in a way that one, is that what type of things we are promoting where we have put more emphasis on one side on single-serve multipacks, which we are promoting more for in-home consumption because of a number of occasions there. But we also do not forget also multi-serves, especially the entry size packs for at-home consumption because in our revenue growth management we are balancing both affordability, which is more emphasised this year, as well as premiumisation.

Promo excellence in what we do is something that we pay a lot of attention to. Our teams are continuously doing promo analysis. And those promos with the lowest returns on investment are discontinued or they are adjusted to direct investments into those things that are providing better returns.

So I'm very personally pleased that that's the essence of our revenue growth management capability that we have done so far over the last four years, and we see fruition of that.

So if I said value share, to answer your question value share is a 40 basis points increase and volume share is quite similar to that, is a bit higher even - is a bit higher even than that.

Alicia Forry, Investec

Thanks, that's very clear and helpful. My last question is on Nigeria, where growth is incredibly robust.

What is a sort of realistic medium-term growth rate that we should think about with regards to that market? I know it's been quite volatile in the past but formulising it out, do you have any thoughts on that?

Zoran Bogdanovic, Chief Executive Officer

Yeah. Look, Nigeria is a country of great potential given the fact of the size of the population, the average age, and per capita consumption, those are tremendous opportunities that this country offers. But with that being a classical emerging market that also carries sometimes risks like we have seen the one in October.

However, I'm consistently reiterating our strong belief in Nigeria and the potential of this market because of the reasons I just said, and that's why we are fully and strategically committed to invest in Nigeria, primarily in our talent over there plus you know, all necessary investment that we have been continuously doing. And even in the course of this year we have been commissioning new lines to increase our capacity and also, technical capability to do a broader variety of products.

So the fact that this year Nigeria is continuously, with the exception of April and May and October because of the End Sars protests, Nigeria is a double-digit country. And I personally see if there are no disruptions happening in the country, whether that's any political or macro reasons, I do see Nigeria as a double-digit growth country. And for that reason we are always mindful how we are expanding and evolving our capacity and capability in the country.

Does that answer your question, Alicia?

Alicia Forry, Investec

Yes, absolutely. Thank you very much. I'll pass the microphone onto the next person.

Zoran Bogdanovic, Chief Executive Officer

Thank you.

Telephone Operator

The next question comes from the line of Charlie Higgs from Redburn. Please go ahead.

Charlie Higgs, Redburn

Hi, Zoran, Michalis, Joanna. I hope you're all well.

My first one is on The Coca-Cola Company and their announcement of the rationalisation of those business units, they are going from 17 business units to 9 and in particular the new Africa unit and the European unit being led by Nikos Koumettis, who I think used to work with you. Should we be expecting you know, significant changes to CCH going forward and increased alignment with The Coca-Cola Company?

Zoran Bogdanovic, Chief Executive Officer

Hi, good morning. Sorry, can you repeat this very last part of the question, should we expect for Hellenic what?

Charlie Higgs, Redburn

Are there any implications to your business from the shift by The Coca-Cola Company from 17 to 9 business units?

Zoran Bogdanovic, Chief Executive Officer

No, no. So first of all I would say that we are very close with The Coca-Cola Company in understanding first of all the strategic direction and we are fully endorsing it from our end as well.

I would also emphasise that, I'm very vocal about it, that our relationship with The Coca-Cola Company and with the leadership across all layers especially I would say this year has never been closer and stronger than it has been really in the sense of the true partnership. And this year has also proven how we work well together, very close in a very aligned rhythm, if I may say.

Now specifically, I think that the readjustment that Coca-Cola Company has done from 17 to 9, I think it's a very wise and smart move because it exactly brings the operating units closer to the profile of consumers as definitely there are more similarities in the European continent than Africa. So having now an operating unit that is fully focused on African consumer and African continent I think brings more attention and focus.

And in terms of the appointed leadership, we are extremely pleased with the leadership. We know each other extremely well and we really collaborate and partner I would say very effectively. And even though the structure is not yet officially live, however, we already work intensively with respective leadership and the teams very closely in how we finish this year and how we are planning for the next year.

So overall and bottom line, I think absolutely the right direction and I can only think that this will enable us to even further strengthen the way we work and effectiveness for our joint business. Thank you.

Charlie Higgs, Redburn

Thank you. And then my second question, just still on The Coca-Cola Company and their plan to cut the number of master brands in half, I appreciate you might not be able to say anything but is there anything you can say at this stage as to where we should be thinking in terms of categories or price segments where these cuts may be coming?

Zoran Bogdanovic, Chief Executive Officer

Yeah. So this cut I think was a strategically bold move because I think it was a really honest assessment of what really creates value, what drives the growth versus what occupies lots of attention and work but without the effect. So, we are fully behind that.

And already this year together with The Coca-Cola Company team we have jointly we have done the prioritisation. And it doesn't mean that for certain brands you have one size fits all, because in a territory as broad and as different as we have in our coverage it's not the same what Nigeria has and what Austria has, or what Romania has and Switzerland has or what works.

So that's why we have done prioritisation of the brands in combination with the countries. And we have clearly highlighted what are those priority as we call them, combos, that then will be a matter of prioritisation and resource the location going forward.

So in our case it was not so many situations that brands get discontinued, it is more a number of SKUs that we are fully aligned to stop and discontinue either because simply they are not getting the necessary traction with their share, or they are below the threshold profitability. And that really gives us the chance to regroup, to resource and support more those parts of the portfolio as well as the new innovations like Costa Coffee, like Topo Chico and other things that will be coming in a more meaningful, broader, stronger, scaling way.

Charlie Higgs, Redburn

Perfect. That's all for me. Thanks very much.

Telephone Operator

The next question comes from the line of Simon Hales from Citi. Please go ahead.

Simon Hales, Citi

Thank you. Morning Michalis, morning Zoran. My first question was just sort of around the cost mitigation actions that you've seen. I wonder if you could just talk a little bit about where the extra €20m of savings are coming from?

And then in relation to that, I know in response to Alicia's questions you talked about hoping to retain certainly a proportion of those savings going forward, would you hesitate a guess on what proportion perhaps of the savings you've seen going forward you think you might be able to hang onto into 2021 and beyond?

Michalis Imellos, Chief Financial Officer

Yes, hi Simon. So this extra €20m is the result of an excellent run rate that we've had on the year to date savings and what we project for the full year. Out of the total amount roughly 80% is coming from DME, from marketing expenses. And 20% is all the other discretionary costs like travel, meetings, events, consulting, training and so on.

So for the incremental part, the €20m, I would say that it is split half half between DME and all the other kinds of costs. So overall for the year as I said, consider it around 75%, 80% coming from DME, and the rest from the other costs.

Now going into 2021 I would expect that the biggest chunk of those DME cuts will come back in the cost base, as we are going to support and fund the recovery of the top line. And we've a lot of important events also happening next year with the Euro, with Olympics potentially and so on.

When it comes to the rest of the savings, the other types of costs, some will obviously come back as hopefully, especially looking beyond quarter 2 into H2, some kind of maybe resumption of activity around travel and meetings and so on will potentially come back.

However, we do expect that a good part of this cost group is here to stay in terms of savings because of the new ways of working, more remote working, more virtual working, more digital meetings, more production of technology into our processes and the way we do things. A zero-based approach in terms of the consulting. So yes, some of that remaining cost saving is going to stay also in 2021.

Simon Hales, Citi

Got it. And then secondly can I just ask about input costs looking forward into 2021. I think from memory back at the Q2 results you were talking then about sort of base commodities perhaps being up low to mid single digits. I just sort of wonder where you think we are now in that regard?

And then maybe linked to that also I think again back at the Q2, Michalis, you were indicated that you thought it was certainly very possible we might hit an 11% EBIT margin at the end of next year. Where do you stand on that now, has confidence increased on that given what you've seen in terms of recent trading and what you can see going forward around the cost base?

Michalis Imellos, Chief Financial Officer

Yes, so in terms of input costs for next year indeed we are still looking at somewhere around the mid-single digit increase for next year. There is - the oil price is having a good sort of run so that we expect next year will influence the PET prices, cycling an extremely good year this year. So yes, the mid-single digit for next year is the ballpark that we are looking at.

Maybe an opportunity here to say that forex also for next year will be a bit higher than this year. And that is also on the back of primarily the ruble. And the fact that this year in 2020 we've had significant savings from our hedging policies at the beginning of the year, the favourable window that we have with the ruble rate.

So the combined FX and input costs impact in 2021 will be significantly more adverse than 2020 because we have extremely good input costs this year.

However, obviously there is tremendous opportunity coming from the leverage as the top line recovers. Both in terms of volume growth, as well as in terms of the revenue per case, and primarily I'm talking here a pack mix, as I said earlier channel mix and a little bit of pricing, particularly in the emerging markets. So that should drive strong fundamentals in terms of continuing to improve margins year over year.

Now, to your questions, the margin discussion gets a little bit complicated for next year because there is a number of things at play. So I would say that there is no reason why the organic margins, excluding all accounting and so on and so forth, will not reach our 2019 leverage next year. It's just that on a reported basis - so incorporating the positive impact that we've had from the Multon new accounting change. And also the fact that next year we are looking at the introduction of sugar and plastic taxes in Poland, already from January 2021, and potentially Italy in the second half, this is not final yet. This, as we said in a previous call, will artificially inflate revenues and compress EBIT margin, without really a significant impact on the absolute EBIT. So more or less similar EBIT but with much higher revenue as we pass those taxes fully down to the consumer. So that also has a negative impact on EBIT margins.

So on a reported basis we are going to have a lot of movement, plus and minus. But I think what is important is that on an organic level, so excluding all those kinds of one offs, margins can get back to 2019 levels.

Simon Hales, Citi

That's really helpful, thank you.

Telephone Operator

The next question comes from the line of Andrea Pistacchi from Bank of America. Please go ahead.

Andrea Pistachhi, Bank of America

Yes hi, good morning. I would like to ask you please the first question about what you just mentioned, the taxes in Italy and Poland. So I think you just mentioned that Italy, which was supposed to be in January, has this been potentially delayed now? And then more broadly on the sugar taxes if you could say your thoughts about this? In other countries we've typically seen like Ireland, GB, very limited impact from the sugar taxes. Do you expect anything different in Italy and Poland given the way also that the taxes are structured, i.e. they are - if I understand well, they are imposed on - they'll imposed on the majority of your portfolio rather than just on the sugar part, i.e. not giving then consumer the option really to shift from sugar into the zero or the diet variant. That's the first question please if you could talk a bit about the sugar taxes?

Zoran Bogdanovic, Chief Executive Officer

I'll start and Michalis will jump in if also anything else to add, to provide you Andrea with proper colour. First of all we know that Polish taxes start from January 1, and that we know has a significant impact in terms of the taxation because of how it is structured. It's one of the highest ones that has been introduced.

However, we had already a fairly similar experience in Ireland. Just to give you a sense: in Ireland the average price increase because of the sugar tax situation was around 20%. In

Poland we are looking around 25% and this means that it goes without saying that whatever the taxation is that is imposed in the business that we are passing it on through our prices to the market. And we've seen that that usually becomes the conduct that the whole industry takes.

So for any market, whether that's Poland from January 1, or Italy which is not yet clear because the legislation or proposals stands from January 1, however, there are some conversations about moving it later in the year.

Irrespective of when it comes for both situations, we are fully ready with our appliance which includes then different levels of price/pack architecture, pack sizes, promotions that we are doing. So fully leveraging all of the experiences that we have gone through in Hellenic, but also in the broader Coca Cola system. And this gives me confidence that irrespective of what the situation is that we will go through it quite well.

And this is just a reminder that when this happens to the whole industry because we are more premium player, this has in relative times such increases which are absolute ones, have a smaller impact for us than for those competitors who are today on a lower pricing. So then those kind of price increases have a bigger impact on them.

So for next year primarily Poland, and then very likely Italy, just not yet 100% sure when exactly, are the two most concrete things. For the rest of the countries we don't see anything imminent at the moment. But as I said, the capability that we have centrally and within each country makes us ready for any development that may come up. Michalis anything from your end?

Michalis Imellos, Chief Financial Officer

Yes just that we are obviously at the point where we are finalising our plans and we will come back by February when we announce our full year results with more details about the impacts.

But, you know, especially the Polish tax is very, very significant and if we assume the Polish tax coming into effect from the 1st of January, and of course we will pass it fully to the consumer, and we assume also the Italian tax coming into effect from let's say 1st of July, provisionally right now, this will have as I said a huge impact on the revenue. You are looking at revenue per case currency neutral growth rate potentially doubling simply because of the introduction of those two taxes. Before tax and after tax the growth rate of the revenue per case currency neutral can potentially double.

On the other side as Zoran said, we have worked and continue to work to mitigate fully the impact from the reduced volume as a result of the increased pricing. And we are getting very close to that. So assuming pretty much no impact on EBIT net net after the mitigation actions.

If you look at the impact on the margin with such huge inflation of the revenue potentially you may be looking at 50 basis point difference in the margins before and after the tax. So you can understand that such movement at Group level are very, very significant. And we will be coming with a lot more detail and guidance around the impact of the taxes so that will help you with your modelling for the next year.

Andrea Pistacchi, Bank of America

That's great, lots of colour there thank you.

The second question please is on Costa, the roll out, which you progressed in this quarter. I mean it's early days of course, but a few months since you started, what's really exceeding your expectations, what's maybe not quite worked as expected, and have you started taking the brand into the HoReCa channel at all or the office channel? If so, how easy is it to get the branding to the accounts that you're already supplying with obviously the other products, but maybe are already doing and have a coffee business with someone else. How easy is it to get into these accounts?

Zoran Bogdanovic, Chief Executive Officer

Thank you, Andrea. First of all in short, we are very pleased with the progress of Costa. And either it is inline, or in many cases above our expectations.

Now let me start from the end of your question. How easily it goes, it correlates also with the fact to which extent Costa as a brand is known in the country or not. Because in Poland where it's already such a strong brand it's one level of awareness and affiliation with a brand, versus countries where, I don't know, Romania, where it doesn't exist.

However, we see that first of all, and most importantly, consumer feedback and reaction is excellent, based on sampling that we are doing. Because we really want to get consumers exposed to the product to taste and feel what high-quality coffee we are talking about. So that's most important, and then also customer acceptance and reordering which has been exceeding our expectations.

So I would say that our availability expansion listing with customers, primarily in the at home channel, has been excellent. And because we have adjusted because of this year's COVID situation we have adjusted our plans primarily to at home.

However, I can really say that in the last two months we also already started penetration in the out of home channel. In HoReCa channel, and this is overall both in out of home and at home, this is where the leverage of our route to market, the leverage of our salesforce, the fact that we have dedicated people who are brand ambassadors who are selling the coffee, which makes a huge role. Because evidently, we are talking about people who know the category, who have the knowledge, who have the experience, also based on the baristas that we have employed in the countries to help us with that. So it is visible that this is helping us a lot.

As a reminder for everyone on the call is that we are not talking in Costa only with ready to drink. But we are really talking about the full portfolio which means whole beans, roast and ground coffee, coffee pods or capsules and also vending or Costa Express machines, which are providing really a barista quality coffee which is the unique proposition that Costa has.

So in short very, very pleased with the progress, very excited with the penetration with launches that we already have in 13 of our markets. And we continue with preparation for the launches also to further markets in the coming months and quarters.

Andrea Pistacchi, Bank of America

Thank you very much.

Zoran Bogdanovic, Chief Executive Officer

You're welcome Andrea.

Telephone Operator

The next question comes from the line of Alexander Gnusarev from VTB. Please go ahead.

It would appear that Mr Gnusarev's line is on hold. So there are no further questions in the queue, so I'll hand back over to your hosts.

Zoran Bogdanovic, Chief Executive Officer

Well if that exhausts the questions for today, I would really like to thank everyone for the time today. Whilst really there are uncertainties and challenges to come. We do believe that the rapid improvement we saw in revenue trends in Q3, in addition to the consistently strong performance and market shares, demonstrates the underlying strength of our business.

This strength, combined with the proactive approach we took to adapting to the new reality, means we are in excellent shape for the future and for capturing the growth opportunities in our industry.

Let me extend my good wishes to you and your families, and all of us at Coca-Cola HBC sincerely hope you stay safe and well. We look forward to speaking to you all again soon. Thank you.

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