

# 2014 AGM – Chairman & Group MD's Address

13 May 2014

## David Gonski Chairman

Ladies and gentlemen....

In March this year CCA welcomed its new Group Managing Director, Alison Watkins. Alison's career combines impressive breadth with deep experience in our sector and geographies. She has been a successful executive delivering strong shareholder outcomes across food, beverages, agriculture and finance. She has also held non-executive director roles at Woolworths and ANZ Banking Group. She is regarded as a strategic and people-focused leader.

Prior to joining CCA Ms Watkins was the Chief Executive Officer of GrainCorp where she led the team that grew and diversified the business from a largely domestic grain logistics business into Australia's leading listed international agriculture and food processing company.

I believe Alison's skills and background will assist CCA to deliver strong performance outcomes from our existing operations and progress the strong development opportunities in our emerging businesses. The Board is confident that Alison's leadership credentials and focus on excellence position her well to drive further development and growth across the CCA Group.

At this time I would like to take this opportunity to formally welcome Alison to CCA and to farewell and thank Terry Davis who stepped down from the Group Managing Director role in March. In his 12 years as Group Managing Director, Terry made a significant and lasting contribution in transforming CCA into a world-class, premium multi-beverage business. On behalf of the Board, I thank Terry for his valuable service and wish him well for the future.

I would also like to welcome Krishnakumar Thirumalai ("KK") to the CCA Board. As I mentioned in my introductions, KK currently serves as Region Director for the India and Bangladesh bottling operations and I believe will make a valuable contribution to the Board with his significant experience across developing and emerging markets.

KK joins the Board as one of two nominees of The Coca-Cola Company, replacing Geoff Kelly who retired from the Board in February. I would like to take this opportunity to thank Geoff for his valuable



contribution to CCA over the last ten years. Our Board will miss the benefit of his considerable business experience and guidance.

Turning now to the 2013 results....

The 2013 financial results were disappointing with difficult trading conditions in the Australian grocery channel for beverages and SPC Ardmona and the deterioration in economic conditions in Papua New Guinea leading to a reduction in net profit of 9.6%.

We also took the difficult but necessary decision to write down the carrying value of SPC Ardmona by \$404.0 million in light of the ongoing impact of the high Australian dollar on the business' competitiveness against imported packaged fruit and vegetable products.

We did have some positive news for the year with volume and earnings growth in parts of the Australian beverages business including national accounts and quick service restaurants. We also achieved a strong return to growth in New Zealand and Fiji after a difficult few years of trading in this region and CCA successfully re-entered the Australian beer and cider markets in mid-December.

The balance sheet remains strong and this supported the maintenance of full year ordinary dividends in line with last year. Total dividends, which includes the payment of special dividends, declined by 1.7% on last year.

The challenging trading conditions of 2013 have however continued into 2014 with the business recently providing a trading update that will see CCA's first half Group EBIT before significant items decline by around 15% on last year.

So what does the way forward look like for CCA?

CCA is a world-class, premium multi-beverage business that has delivered substantial increases in earnings and dividends over the past decade but I believe we are moving into a different era for the company as market conditions across the Group become more competitive and growth becomes increasingly difficult to achieve.

The Board believes that now is the time to rigorously challenge all aspects of Group strategy. We have asked that Alison lead a comprehensive review of the business, a process that has already commenced, and Alison will shortly provide some more colour on what is happening in the market place and what to expect from the strategic review as it progresses over the coming months.

You may be assured that the Board, our new CEO, and all of our talented people are committed to our company returning to growth, with good returns to shareholders.

**I would now like to cover the issue of corporate social responsibility...**

CCA has always believed that being a good corporate citizen is an essential part of our business.



We understand that trust in our company is not based solely on our ability to deliver returns or having strong corporate governance. We are a company that aims to do the right thing across a broad spectrum of community life.

I know that many of you are concerned about container deposit taxes, or CDL, and question why CCA has taken such a firm stand against what some environmentalists say is a simple solution to litter.

Independent economic reports have shown that CDL is not simple, neither is it cheap or effective. It is in fact a tax on beverages, and studies have shown it would have twice the impact of the carbon tax on shopping basket prices.

When it comes to recycling – I want you all to understand that we support recycling and have done so for decades.

We support a national, industry-funded recycling system which targets ALL litter, not just drink containers.

As you know, these are more challenging times for our business, but right across the Group we have maintained our commitment to giving back to our communities – whether it is through our Coca-Cola Foundation; our staff volunteering, our Bali Beach Clean Up, giving to Foodbank, to breast cancer charities through Mount Franklin, providing bicycles for 100s of teenagers and an ever-growing range of low kilojoule drinks – our commitment to sustainability across the spectrum has not and will not diminish.

Please watch this short video which will give you a clear picture of our work.

### **VIDEO – Sustainability**

Finally, I would like to acknowledge the enormous hard work by each of our 15,000 employees who have continued to demonstrate great dedication and commitment despite the very difficult trading conditions we operate in. As a Board and on behalf of you, our shareholders, we acknowledge the work of the senior management team as well as all of our employees. We are very fortunate to have such a passionate and committed team of people.

I now welcome Alison who will provide some more detail on current trading and an outline of the strategic review she is conducting of the business.

## Alison Watkins Group Managing Director

Thank you David, and good morning ladies and gentlemen....

I am very excited to be here leading this great company. It truly is a privilege. Over many years I have observed its strengths from the outside and now I am here they have been more than reinforced by what I've seen and learned over the past ten weeks.

We have quite a number of CCA people here today. We are proud to have so many shareholders among our employees. I'd like to introduce the senior team who are here today including Nessa O'Sullivan, Libbi Wilson, George Forster, Barry O'Connell, Peter Kelly and Shane Richardson. Everyone at CCA has been open and welcoming since I joined and that has allowed us to make good progress in my first ten weeks.

It is clear to all of us that CCA is facing a number of immediate challenges, particularly in the Australian beverage and Indonesian markets. In mid-April we provided a trading update to the market outlining that we expected first half 2014 Group EBIT before significant items to decline by around 15% over the prior comparable period. We also advised that while still early in the year, we expected these challenging trading conditions to continue.

In Australia we have faced challenges in both the grocery and non-grocery side of the business.

In the grocery channel, the pricing environment continues to be difficult while private label activity in both water and flavoured carbonated beverages remains high. We have maintained our share in carbonated beverages while growing share in sports drinks and energy drinks but have lost share in the water category, with value water the stand out growth category in the grocery channel in the first four months, a category we do not have an offering in.

Outside of the grocery channel we have experienced a mix shift to lower margin accounts – from higher margin field sales to lower margin national accounts and quick service restaurants. This impacts both rate realisation and earnings as we have substantial fixed costs to service the route trade and so suffer earnings de-leverage when volumes fall.

It has been challenging to keep our field sales in growth over the past few years as big chains and quick service restaurants continue to grow quickly and we first saw an increased rate of decline in field sales volumes in the last quarter of 2013, offset by growth in other our non-grocery customers. It was the acceleration of this decline, rather than the expected return to growth in the first quarter, that has surprised us. This, combined with poor grocery performance lapping weak prior year comparatives, has had a meaningful impact on our results to date this year.

Since our update to the market in April we have completed the Easter trading period with results as expected and trends consistent with the first quarter. That is, while our market share in carbonated



beverages has remained solid, the CSD category continues to be weak – declining by around 1% in the grocery channel in the year to date – which has continued to make price realisation difficult.

In Indonesia, we knew it would be a challenge to fully recover some significant cost increases given the intensifying competitive environment. The pricing environment has been tough and we have seen a mix swing to lower margin packs including multi-serve CSD packs, cups and water. So while overall volume growth continues to be robust, earnings in 2014 are expected to be materially impacted by rapidly rising costs.

We do remain very positive about the longer term opportunity for Indonesia. The fundamentals of the market remain very sound – solid GDP growth, rapidly rising incomes and strong growth in the per capita consumption of commercial beverages. However, as a developing market we do expect to operate through periods of volatility. In response to the current challenges, we are reviewing our longer term growth and investment plans for Indonesia with our partner, The Coca-Cola Company. We remain committed to investing for growth in Indonesia but we must do this with a view to delivering solid and sustainable returns through the cycle.

We certainly hope that after Indonesia's national elections in July there will be a lift in the economic outlook and consumer confidence, and also in strengthening the currency.

On a positive note, overall market conditions in New Zealand have continued to improve and our business has increased earnings and achieved market share gains.

Also strong consumer and retailer support for SPC Ardmona has continued since the announcement of Victorian State Government support for the business with sales revenue increasing by over 10% in the first quarter.

And finally, we are very pleased to have made a successful return to the beer and cider markets in December last year with some fantastic global brand partners in Molson Coors, The Boston Beer Company and Rekorderlig cider as well as a range of locally developed beers and ciders.

Alcoholic beverages are a logical extension of our brand portfolio as we can do it for little additional cost by leveraging our large-scale sales, manufacturing, distribution and technology infrastructure with our existing customer base.

So what does the way forward look like....

I've now been at CCA for ten weeks and have completed an initial review of the business. I believe CCA has many tremendous strengths.

Firstly, there is no doubt we have access to some of the most-enjoyed beverage brands globally and we enjoy a strong competitive position across our franchise territories as a result of multi-year investments in marketing, IT and production and distribution infrastructure investment which has strengthened that position over time.

Secondly, I am impressed with the calibre of the people at CCA who have a passion for the brands, our customers and the business which is immediately evident.

Thirdly, we have tremendous support from The Coca-Cola Company.

And finally, we have a strong balance sheet and the cash flow to invest while continuing to reward our shareholders.

However, as David mentioned earlier, we are moving into a different era for the company as market conditions across the Group become more competitive and growth becomes more difficult to achieve.

In response, we have commenced a strategic review and over the next few months we will challenge and review our business plans and strategies across the Group. While we are still at a fairly early stage in the development of our plans, I thought it important to give you an update on where we are currently and the framework within which we will be reviewing the business and set a timeline as to when you can expect more details from us.

The objective of the strategic review is to restore CCA to sustainable earnings growth and attractive shareholder returns. We recognise that there are opportunities to drive incremental revenue growth, improve productivity and reduce fixed costs across many parts of the business. Our main focus at this stage is Australia, as the most material contributor of earnings to our Group.

The review will therefore cover:

- Our brand portfolio – how we strengthen it, make it more relevant and increase the effectiveness of our marketing and promotional investment.
- Route to market and pricing – how we optimise our price, pack, architecture by channel that best utilises our large scale distribution infrastructure.
- Our cost base – how we optimise our production and manufacturing footprint to reduce our cost of goods sold, looking at Group-wide procurement and support costs, and
- Capability – ensuring we have the right mix of skills and capability to successfully deliver the outcomes necessary to enable a return to growth

With respect to the brand portfolio....

We need to have a portfolio of brands that reflects consumer preferences and that is a leading portfolio in all the categories that we choose to play in. I think we certainly have wonderful strengths with brand Coke and we're seeing continuing strong potential for Coke Zero, while maintaining many loyal consumers for Diet Coke. We need to continue to innovate in the Coke portfolio and be more creative and disruptive in our marketing to continue to drive loyalty for this great brand.

And we need to have an even stronger portfolio outside of carbonated beverages. The scale and strength of the Coke brand gives us the ability to leverage our position across other categories. We already have some great positions in sports, energy and water and it will be important for us to innovate and to really grow into consistent leadership across all of those categories.

In addition, we need to be more active in assessing opportunities to grow in new and emerging categories. I believe we have been a bit slow as a business – and perhaps lacked the courage – to be as active in innovating outside our core franchise over the past few years.

This of course means working more collaboratively with our partners, The Coca-Cola Company, to increase the pace of new product development and to strengthen the effectiveness of the significant investment we as a system make in marketing and promotional spend. Whilst it is early days, I believe we have already identified and aligned on a number of ways to work together even more effectively.

I have just spent a week at a Global System Meeting bringing together the leadership of The Coca-Cola Company with major bottlers from around the world. I am confident we are well aligned with the Coca-Cola Company's own strategy. There is no doubt leadership of the Coca-Cola Company recognises and is responding to concerns about sparkling beverages such as obesity and sweeteners. TCCC is already the largest player in beverage categories outside CSDs and the global leader in juice and this focus is continuing. There is exciting innovation in CSDs like Coke Life, as well as across many other categories. There is innovation in equipment and packaging. We can draw on all of this. Our markets are important to the overall success of the System and I know we have their support.

The second area of focus is in our route to market and pricing. One of the strengths of this business historically has been making sure we had the right product, in the right pack for the right consumption occasion and at the right price. Recently our price, pack architecture has become a little unbalanced so we will review this and ensure we are providing each one of our customers with the right service at the right price.

The depth and breadth of our customer relationships via our account teams, sales force, call centre and online capabilities truly does give us the ability to have our great brands within arms reach for every consumer. The strength of our portfolio and market intelligence gives us a wonderful ability to assist our customers make better decisions for their business.

At the same time we need to ensure that we have an even more competitive cost base and ongoing productivity improvements. This is essential in a market where volume growth has slowed, and where we will not be able to rely on taking raw price increases in the same way as we have in the past.

The good news is that in some areas we are already quite advanced. Procurement is a good example where we have just restructured our procurement function to better leverage Group scale and capability, allowing for quality and service improvements while yielding substantial savings over the next three years.

We must also optimise our production and warehousing capability and are actively looking at our total footprint across Australia, taking into account workplace flexibility and overall costs at each site.

We are fortunate in that we have recently completed a significant multi-year investment programme which has provided us with state of the art production and warehousing across the business and the support of a fully integrated IT platform. This will support our cost out and efficiency initiatives and allow

for further reductions in Group capital spend in 2015 and 2016 as we further leverage the existing asset base.

The existing state of the art infrastructure includes:

- Vertically integrated PET bottle production lines across Australia, New Zealand and Indonesia which has increased our production capacity and capability for PET bottles, enabled us to reduce costs through light-weighting, reduced labour and freight costs
- Fully automated and semi-automated warehouses across Australia and New Zealand
- As well as an information technology platform that has removed hundreds of disparate systems across the business – substantially improving transparency, simplifying processes while enhancing analytical capability across the business and reducing ongoing IT investment spending

We have the opportunity to drive further efficiencies across our supply chain without needing to make significant additional capital investment. We need to utilise what we already have in a far more efficient manner.

So what are the next steps...

It is clear that we need greater focus on our core carbonated beverages business. It's critical that we accelerate our short-term initiatives to address the 2014 performance shortfall while at the same time developing a robust strategic plan to quickly respond to market demands and build sustainable growth for the business longer-term.

I announced yesterday that, effective 1st June, the Non-Alcoholic Beverages and the Licensed & Alcohol businesses in Australia will report separately to me. I believe this change will allow us to focus on the different needs of our consumers and customers and enable us to respond to the strategic and performance challenges in each business at a much faster pace.

Barry O'Connell, currently Managing Director of our New Zealand business, will be appointed to the position of Managing Director for Non-Alcoholic Beverages and will relocate from Auckland to Sydney. Barry is a seasoned Coca-Cola system executive with over 20 years' experience with Coca-Cola Hellenic in Europe prior to joining CCA. He has an impressive track record of success in the industry and has demonstrated strong leadership and delivered improved results in the New Zealand business since joining CCA in early 2013.

I am convinced that establishing Licensed & Alcohol as a separate business will enable a greater speed of response to market and allow a more entrepreneurial approach within a different industry sector. Shane Richardson, our current Director, Licensed & Alcohol, has a wealth of experience in the alcoholic beverages industry in Australia. He has developed great relationships with our customers and partners, and will continue in his role, but will now report directly to me.

As a result of this change, John Murphy, CCA Australia's current Managing Director, has decided to leave CCA to pursue opportunities outside the business. John will leave us at the end of June after a

smooth transition period has been completed. I would like to thank John for his obvious passion, energy and enthusiasm for the business which he displays everyday, and acknowledge the tremendous impact he has had on developing our beer and spirit strategy, which has set up our Licensed & Alcohol division for success by securing some of the best brands available giving us a very strong portfolio to build future growth.

With respect to the strategic review process, we have already assembled a long list of opportunities and we have commenced comprehensively sizing the prize in Australia and we are in the process of establishing a programme office to co-ordinate and manage the various initiatives.

We would expect to be able to provide a more detailed list of priorities and objectives by the half year result in late August, and expect to have a fully scoped plan under implementation later in the year which will aim to set out some longer-term expectations for earnings growth for the business.

I want to stress that we will need to make meaningful adjustments to our business model. It is important that these are well considered and some of these plans will take time to develop and translate into our objective of restoring CCA to sustainable earnings growth and attractive shareholder returns.

It is early days for me but I am determined to make positive changes which will be underpinned by sound strategy. CCA's renowned execution capability gives me confidence we will fully realise the benefits of the directions we decide to take.

Finally – this will not be an easy year. There will be hard decisions and changes, but this is a great company with very strong foundations and we are confident we can restore CCA to growth. Highly capable, accountable leaders will be central to our success and I know through this journey we will provide them with exciting new challenges and opportunities to grow, as well as the satisfaction of achieving results.

We will continue to make a distinctive and positive contribution to our communities. You saw from the earlier video we are committed to showing leadership on wellbeing and recycling as well as supporting many local organisations.

I would like to close by reflecting on some of the great people we have at CCA and the passion for innovation that I believe is one of the core strengths of this business.

Included in this video is the remarkable story of SPCA – an inspiring example of a business and a team that truly faced adversity, their courage and determination and the wonderful support of consumers, customers and the community.

### **VIDEO – People and talent & Business and Innovation**

I am excited by the opportunity we have to shape a strong future for CCA.

Thank you all.