COCA-COLA AMATIL
2017 HALF YEAR RESULT SPEECH

23 AUGUST 2017

David Akers Head of Investor Relations

Good morning and welcome to the Coca-Cola Amatil 2017 half year results presentation.

This is David Akers, Head of Investor Relations for Coca-Cola Amatil.

A copy of this presentation, media release and our accounts were lodged with the ASX this morning.

This presentation will be recorded and made available on our website later in the day.

On the call this morning is Alison Watkins, our Group Managing Director, Martyn Roberts, our Group Chief Financial Officer and Liz McNamara our Group Head of Public Affairs and Communications.

I would like to draw your attention to the disclaimer…

And I will now hand over to Alison.

Alison Watkins Group Managing Director

Good morning everyone.

The agenda for our presentation is shown here on slide 3.

I will start with a summary of the Group result, performance against our shareholder value proposition and walk you through some of the updates announced this morning.

Martyn will provide an outline of our segment performance, and a summary of the business financials.

After that I will give an update on outlook and an overview of our financial targets and then we will take questions.

So, moving to the result overview…

The first half of 2017 saw continuing strong earnings performances in New Zealand & Fiji, Indonesia & Papua New Guinea and Alcohol & Coffee and an improved earnings performance by SPC.

As identified in our trading update on April 21, Australian Beverages had a challenging start to the year with performance for the business improving since Easter.

Collectively, these results meant that the Group experienced a decline in underlying earnings before interest and tax (EBIT) of 4.3 per cent to $312.7 million and underlying net profit after tax (NPAT) of 4.1 percent to $190.1 million.

We have made significant progress on our share buyback program with 26.7 million shares bought back for total consideration of $247.8 million. We expect the share buyback will recommence in September and we have $102.2 million of funds still available to utilise.

As a result of the reduced number of shares on issue, underlying earnings per share (EPS) decline was contained to 3.5 per cent for the half.

Over the first half Australian Beverages made good progress on their cost optimisation projects. This has however required non-trading items of $50.0 million (after tax). These costs of transformation of the business, along with other costs in the second half will be offset by the one-off gain resulting from the sale and lease back of our Richlands facility in Queensland in December this year.

These non-trading items are the difference between our underlying and statutory result with statutory NPAT for the half of $140.1 million and statutory EBIT of $241.3 million.

From the end of the 2016 financial year, net debt has increased by $274.0 million to $1.3 billion primarily due to the share buyback program.

The outcome for shareholders is an interim dividend declared of 21.0 cents per share, which is the same as the first half of 2016, franked to 70 per cent representing a payout ratio of 81.4 per cent for the period. It is anticipated that franking will continue to be at a lower level than prior years.

We're seeing the advantages of a diverse portfolio of products and businesses – our growth segments and opportunities have performed well in this half to partially offset challenging conditions in Australian Beverages.

This portfolio diversification and rebalancing reflects progress in delivering the outcomes of our 2014 strategic review.

Our shareholder value proposition continues to guide our approach to the management of our businesses and portfolio, and specifies the contribution each business should make to the overall Group outcome.

While challenges continue, our confidence in the fundamentals of our business and the work we have underway to stabilise and grow in Australia means that our medium-term targets continue to be: mid-single digit EPS growth, attractive dividends and a strong balance sheet and return on capital.

As you can see, many areas of the business are on track and are meeting or exceeding expectations of performance. We also recognise that there are some parts where more work is required.

Notably, we continue to focus on costs across all of our markets and have made significant progress in Australia and Indonesia in the last few years. We achieved our EBIT targets in most markets, however there was a continuing challenge in stabilising earnings in Australian Beverages.

That said, we have seen improving performance in Australia since April as we progress portfolio, route-to-market, revenue growth management and cost optimisation initiatives. We are looking to build on this improving performance in the second half.

We remain disciplined and tailored in our approach to capital expenditure, with modest investment in Australia and New Zealand and significant investment in Indonesia to capture a further share in that market's long term growth.

I will now turn to the other updates from the half.

In June we announced that we had signed agreements with Charter Hall for the sale and leaseback of our Richlands manufacturing and warehousing facility in Queensland. The sale is due to settle on 1 December, delivering proceeds of approximately $156 million and resulting in a one-off gain of approximately $100 million before tax in the second half.

We expect that this will be substantially realised as profit after tax due to the utilisation of capital losses, and will offset one-off costs from Australian Beverages' cost optimisation initiatives for the year.

We were very pleased with the level of interest in the sale and will continue to explore similar opportunities with other property assets nationwide.

There has also been significant progress on the NSW container deposit scheme as we move towards implementation from 1 December. At this early stage it is uncertain how customers and consumers will respond to the introduction of the scheme. As such, we do not have a reasonable basis to provide a meaningful estimate of the impact to our future earnings resulting from the implementation of the scheme. We provided a full update to the market on this issue last Friday, and I refer you to that statement for further information.

Finally, in relation to leadership changes.

Over the last six months our Board renewal process has progressed with the appointment of Ilana Atlas as Chairman following our AGM and the appointment of Paul O'Sullivan as a Non-executive Director earlier in the year.

In relation to our Group Leadership Team, we have progressed the search for the appointment of Australian Beverages' Managing Director and we expect to make an announcement in the coming months.

We have also augmented the Group Leadership Team with the appointment of Chris Sullivan as Group Director, Partners and Growth.

I will now hand over to Martyn to provide an outline of our segment performance, along with a summary of the financials for the business.

Martyn Roberts Group CFO

Thanks Alison and good morning everyone.

It's my pleasure to share with you, an update on how each of our businesses have performed over the past half and take you through some of our financial information.

Firstly, moving to our underlying EBIT summary for the half on slide 10.

As Alison noted, our underlying EBIT for the group declined 4.3 per cent for the first half. While New Zealand & Fiji, Indonesia & Papua New Guinea and Alcohol & Coffee all delivered strong earnings growth, and in keeping with our Shareholder Value Proposition, it was not sufficient to offset the challenges we experienced in Australian Beverages in the period up to Easter.

As you can see, the proportion of earnings from the Australian Beverages business is still significant at 58 per cent but lower than the 65 per cent from the first half of 2016.

The other major change for the half was Indonesia & Papua New Guinea contributing an additional $13.7 million of EBIT.

Moving on now to a more detailed review of each segment, starting with Australian Beverages.

As we indicated in our trading update on April 21, it was a challenging start to the year for Australian Beverages.

Our performance to Easter was impacted by competitive pressure in the cola and water categories and channel mix away from state operational accounts. This was in an environment where our cost of goods sold was also higher.

Although these challenges remain, we are encouraged by improving performances since Easter as our initiatives gain traction.

We experienced higher cost of goods sold, in the order of 2-3 per cent. While we increased base pricing to customers to reflect this, the category and channel pressures experienced, did not result in sufficient recovery of this increase.

During the period, we also continued to progress our cost optimisation and reinvestment programs.

Looking more closely at the volume composition for Australian Beverages

In Sparkling Beverages, volume declined 3.8 per cent. In the cola category, aggressive competitor pricing in the period to Easter resulted in volume decline. Since Easter, pricing pressure in Sparkling Beverages has eased compared to the comparative period.

In Still Beverages, volumes decreased 8.5 per cent, reflecting challenges in water, sports, tea and juice alongside positive results in energy and dairy.

In the period to Easter, significant growth in private label water resulted in branded water volume decline. Since Easter however, we have invested in price for branded water resulting in volume growth.

We continued to grow in the energy category through Monster Energy and Barista Bros is also performing strongly in the dairy category.

In the sports category, we experienced challenges with aggressive competitor pricing and in tea, FUZE Tea is yet to reach scale.

In juice, we launched Keri Juice Blenders on 30 June, which is already performing well.

From a channel perspective, we experienced revenue and volume declines across all channels but particularly in state operational accounts. That said, by the end of the first half, we have increased our number of high value customers by approximately 10 per cent and, taking a targeted approach in the hotel, restaurants and café channel (or what we call the HORECA channel) with a dedicated sales team, we have increased our high value customer base in this channel by approximately 30 per cent.

There’s no denying the fact that it was a challenging first half for Australian Beverages. But we are encouraged by improving performances the team has delivered since Easter. There are a number of positive developments as well as additional products to roll out in the second half, and strong execution plans which will (and are already) benefitting from improvements to our product portfolio.

New Zealand & Fiji delivered another solid performance, in line with our shareholder value proposition expectations. In New Zealand, we achieved revenue growth with a strong performance in Sparkling Beverages and improvement in revenue per unit case, on consistent volumes. We also delivered strong performances in energy and juice, offsetting some challenges in sports and water.

In Fiji, we again delivered double digit EBIT growth through improved revenue per unit case as consumers shifted to more profitable pack sizes.

Indonesia & Papua New Guinea delivered a great EBIT result, making another important contribution to the Group overall. In Indonesia, GDP levels are still below where we’d expect for a developing economy and discretionary consumer spending is constrained by a number of economic factors. However, our team continues to execute on our transformation strategy, and is improving the efficiency and capability of our business.

We made progress in winning share in Sparkling Beverages and tea, while continuing to face pressure in juice. In juice we have also launched a new product at a lower price point to improve our competitiveness in that category.

In Papua New Guinea, we achieved double-digit EBIT growth with revenue and volumes both growing at double-digit rates driven by a strong performance in Sparkling Beverages. Pre-election government spending did assist our performance in the half.

Moving on to Alcohol & Coffee on slide 15.

In Alcohol, we achieved single-digit revenue and volume growth and double-digit EBIT growth.

The result benefited from the addition of Molson Coors International's Miller Genuine Draft and Miller Chill brands to our portfolio at the end of 2016, delivering incremental beer sales.

We continue to work closely with our brand partners – Beam Suntory, Molson Coors International, Australian Beer Co, Chilli Marketing, The Boston Beer Company and Australian Bitters Company – to develop brands and leverage opportunities across all categories.

We are also investing back into this business. For example, in March, we established a specialist beer and cider team, a dedicated sales team to grow sales in these categories.

Similarly, in Coffee, we are investing into the business to ensure sustainable future growth. For the half, coffee did deliver further revenue and volume growth.

Moving on to Corporate, Food & Services.

The composition of this segment has changed with the creation of a Property Division from 1 January 2017.

Key property assets from Australian Beverages and New Zealand have been moved into this segment, with income derived from charging rent based on market rates. The Property Division is also responsible for optimising property lease and ownership arrangements across the Group.

Consequently, earlier this month we disclosed changes to our segment reporting for this segment, as well as for Australian Beverages and New Zealand & Fiji.

For the half, on a like for like basis, EBIT was $4.0 million lower.

Although SPC's EBIT improved slightly due to reduced depreciation, a smaller contribution from the Services Division was delivered due to the sale of Quirks and lower services requirements to Australian Beverages.

I'll now take a few minutes to walk you through some of our Group financials.

Starting with the Income Statement, there are a few points to note here:

- As stated earlier, we recorded a decrease in underlying EBIT for the half of 4.3 per cent reflecting the challenging start to the year for Australian Beverages
- Our net finance costs are lower by 10.1 per cent mainly due to lower average interest rates in Australia
- Our underlying effective tax rate was 29.2 per cent reflecting a higher mix of earnings from countries with lower tax rates
- Another strong earnings performance in Indonesia has resulted in our non-controlling interests increasing during the half
- Underlying net profit declined 4.1 per cent

- However, underlying EPS decline for the period was contained to 3.5 per cent due to the lower number of shares on issue as a result of our share buyback
- Statutory net profit decreased by $58.1 million. The difference between the underlying net profit and the statutory net profit being $50 million of non-trading items after tax relating to the cost optimisation projects in Australian Beverages
- These one-off costs plus further one-costs in the second half will be offset with the sale of our Richlands manufacturing and warehouse facility in the second half which we announced in June
- The sale is due to settle on 1 December and we expect the $100 million profit before tax to be substantially realised as profit after tax due to the utilisation of capital losses

Moving on to Capital Employed.

Capital employed was reduced as a result of the non-cash impairment of SPC in the second half of 2016.

Our Return on Capital Employed for the half was 20.1 per cent – well above our cost of capital.

Next, I'll cover Capital Expenditure.

As you can clearly see in this slide, 2017 capex will be weighted to the second half due to the progress and timing of several projects in Australia, New Zealand and Indonesia.

We spent $91 million in the first half, and expect to spend approximately $365 million for the year; that's around $274 million in the second half.

In the first half:

- We continued to invest in technology to support sales and customer service programs and further automation of support services in Australian Beverages;
- In Indonesia & PNG, we made significant progress on our affordable small sparkling pack line, our new Sparkling Beverages line at Medan and on our preform facility; we also made significant progress on a new can line project in Papua New Guinea.
- Capex in Corporate, Food and Services included spend on the Richlands warehouse automation project and on replacing cold drink equipment in Australia.

Now I'll turn to Cash Flow.

Free cash flow for the first half was $139.7 million. Besides the decline in our underlying EBIT, operating cash flow was impacted by the timing of interest and tax payments.

Capital spend decreased by $36.5 million as discussed on the previous slide.

Lastly, I'll talk about Net Debt & Interest cover.

Our balance sheet remains in a strong position. Net debt has increased since the end of 2016 by $274.0 million to $1.27 billion. This increase is primarily due to the share buyback program we commenced in April.

We have total debt facilities available of $2.43 billion and the average maturity has increased from 4.9 years to 5.3 years.

Underlying EBIT interest cover has also increased to 9.7 times.

In conclusion, it is important for me to remind you that, despite a very challenging start to the year:

- Our balance sheet remains in a very strong position
- Our return on capital employed is above 20 per cent; and
- We are committed to continuing to deliver strong returns to our shareholders.

Thank you… and I will now hand back to Alison

Alison Watkins Group Managing Director

Thank you Martyn.

Our plans continue to reflect the three strategic themes that we defined for our organisation in 2014 of Lead, Execute and Partner.

While our markets continue to change and evolve, these themes provide a clear focus for our medium to long term plans. We have provided updates on progress against these themes for all of our businesses on several occasions. Today I will focus on progress we have made in Australian Beverages and in Indonesia.

Updates on all our businesses will be provided at an investor day we have planned for November in Jakarta.

In Australian Beverages, we remain focused on our medium term initiatives to stabilise earnings, drive cost optimisation, rebalance the portfolio and ultimately return to growth.

Market conditions remain challenging as structural adjustments occur and we move towards implementation of container deposit schemes in several Australian states.

That said, we continue to target low single digit EBIT growth in the medium term.

Together with The Coca-Cola Company we have refreshed and strengthened our category growth plans. Two recent examples of significant launches already in 2017 are Coca-Cola No Sugar and Keri Juice Blenders.

Initial indicators are that both products have been well received by customers and consumers.

Coca-Cola No Sugar, launched just over two months ago, has a very high level of awareness among Australian consumers and is playing its anticipated role in recruiting to the category.

Already, around 28 per cent of Sparkling Beverage consumers in Australia have consumed a Coca-Cola No Sugar and 39 per cent of this group have consumed a Coca-Cola No Sugar more than once.

Despite the lack of ranging in Woolworths, Coca-Cola No Sugar has achieved strong penetration levels in outlets across the country with all other grocery, petrol & convenience customers and 68 per cent of state immediate consumption and HORECA outlets ranging the product.

This is a strong performance for a product with only ten weeks in the market.

In the market for just six weeks, Keri Juice is already achieving well above the target penetration levels in the state immediate consumption and HORECA channel. In this short time, penetration in these channels is at 27 per cent and volume per outlet is well above our previous juice offering with a high re-order rate.

Recognising the central role of product innovation, we have a host of further exciting new products in the pipeline for H2, across the sparkling and still portfolios. In the second half we will see additional rotational flavours in sparkling, along with new products in juice, water and energy.

We will also have a series of packaging innovations in the market, targeting special occasions and opportunities in the HORECA channel.

We have mapped out an approach to growing in the water category that utilises our leading multi-segment portfolio to drive growth and respond to consumer preferences and needs.

Over the past decade or so, the water market in Australia has grown significantly with the majority of this growth coming from value water in grocery. Volume growth over this time has outstripped revenue growth substantially.

Our approach has been to have strong brands across all segments, but focus most attention on our mainstream and premium water brands. While our volume share of the category sits at around 15 per cent of the market, our revenue share is well above this at more than 25 per cent.

The opportunity in this approach is evidenced by the fact that 60 per cent of revenue growth in the water category in Australia year to date has come from the enhanced water segment. This compares to only 11 per cent of the volume growth.

The enhanced water segment includes any flavoured still water and all sparkling water brands and represents approximately 35 per cent of the packaged water market from a category revenue perspective. But only 16 per cent on a volume basis.

We are committed to capturing an even more substantial share of this rather than only chasing the low margin volume.

That’s why we’ve determined three priorities going forward:

- Firstly, targeted price investment in value and mainstream water in grocery to increase competitiveness
- Secondly, targeted growth of water distribution in state operational accounts, including HORECA
- And thirdly, additional new products in enhanced and premium water brands

Under the strategic theme of execute, the business is making good progress leveraging our route-to-market and driving strong customer engagement.

We are expanding our customer base and by the end of the half we had increased our high value customers by around 10 per cent.

Our targeted approach in the HORECA channel is showing results with a 30 per cent increase in high value customers in this channel over the half. We are confident that the combination of our dedicated sales team, along with the impact our range has on beverage incidence in an outlet, will mean that we continue to grow in the channel in the next half.

At the same time, online ordering is at around 50 per cent of orders, improving our cost to serve and providing our customers with a convenient and time effective way to order.

Our excellence in execution is recognised by our customers with Amatil being awarded number one supplier in Grocery and the recipient of several recent industry supplier awards.

This reflects our leading position in the category and the strength of our relationships with our customers.

The business is also making further progress on all of our cost optimisation initiatives. This work will deliver a more cost-efficient and agile business, and one that is able to respond to market adjustments and trends more quickly.

Work to remodel the Australian supply chain and the Richlands warehouse automation project is underway with good progress in the last half.

Savings from cost optimisation are being reinvested in our “Sales Force of the Future” program, in continued rebalancing of our portfolio, and in marketing and price.

We continue to benefit from improving alignment with The Coca-Cola Company.

We have recently implemented incidence pricing, delivering a model that links concentrate price per unit to revenue. This new arrangement is delivering several benefits across the System including greater market and consumer focus, joint focus on growing transactions and value, faster day-to-day decision making, simplification of funding arrangements and greater certainty with promotional planning.

We are also embracing The Coca-Cola Company's "Total Beverage Company" strategy. This is a consumer-centric approach focused on accelerating growth across the full range of the company's portfolio. This is underway in all of our markets and will deliver a product range that responds more swiftly to changing consumer needs.

Moving now to Indonesia.

The conditions have been challenging in Indonesia recently. However, since 2014 we have made solid progress across all of our strategic priorities, with improvements in product availability, affordability, brand strength and channel relevance. We are confident that these initiatives will continue to grow our share, maintaining our leadership position in Sparkling Beverages and improving our position in the juice, tea and dairy categories where significant investment is being made.

We are focussed on continuing the transformation of our route-to-market model, and by productivity initiatives in manufacturing and logistics. Together these will further improve product availability and affordability, and reduce our overall cost to serve.

Our progress has been made in an environment where a number of economic factors continue to impact consumer demand, particularly in fast moving consumer goods.

During this period of subdued consumer spending, we are focused on delivering against our cost and efficiency opportunities such that when conditions do improve we will positioned to benefit.

Indonesia remains an exciting growth market for Amatil and The Coca-Cola Company, and we know our plans are the right ones for the medium to long-term.

Moving on to our Financial Targets.

While conditions in Australia remain challenging, Australian Beverages performance has improved in recent months and we are confident that we will build on this with our plans in Still and Sparkling Beverages going forward. Along with the continued growth in our other businesses, we expect our underlying NPAT for 2017 to be broadly in line with the 2016 result.

We expect Group capex of around $365 million for 2017 and a similar level in 2018 as we progress initiatives in Australian Beverages to remodel our supply chain and set the business up for the future, as well as our continued investment in Indonesia.

We also expect to maintain a conservative balance sheet position, providing the flexibility to fund future growth opportunities with sufficient free cash flow to allow continued targeting of a medium-term dividend payout ratio of over 80 per cent. As we have said previously, it is anticipated that franking will be at a lower level than prior years.

Our medium-term target continues to be mid-single digit EPS growth. Our level of performance will depend on the success of revenue initiatives in Australia, Indonesian economic factors and regulatory conditions in each of our markets. We do acknowledge that the roll-out of container deposit schemes in Australia will challenge us over the next couple of years given the inherent uncertainty of their impact across the industry.

We are aware of the challenges across the Group. The plans we defined three years ago continue to set our direction for returning to sustainable growth and delivering against our shareholder value proposition.

Thank you.

I will now hand over to the operator. We’re happy to take any of your questions.

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