Coca-Cola Amatil
2016 Half Year Result

26 August 2016

David Akers Head of Investor Relations

Good morning and welcome to the Coca-Cola Amatil 2016 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 CFO, Barry O'Connell our Managing Director for Australian Beverages and Liz McNamara our Group Head of Public Affairs and Communications.

I'll hand over now to Alison.

Alison Watkins Group Managing Director

Good morning and thank you for joining our 2016 half year result presentation.

The agenda for our presentation is shown on slide 2.

First I will provide a summary of the Group result and walk you through our Group and segment performance before Martyn provides a summary of the financials and Barry gives you an update on Australian Beverages' strategy.

I'll then close with some comments on the outlook for the remainder of the year and we'll have some time at the end for questions.

So, moving to the result highlights…

I am pleased to present a solid result for the Coca-Cola Amatil Group for the first half of 2016 with progress on our shareholder value proposition, delivering a 3.2% increase in Group EBIT to $326.9 million.

Our Group earnings profile has continued to evolve with strong performance in our growth markets of Indonesia, PNG, Fiji and Alcohol & Coffee making a strong contribution to the overall Group result, as well as a solid performance in New Zealand with an EBIT increase of 5.4%.

With structural changes continuing in the Australian market, brought about by the shift in consumer taste and preferences, Australian Beverages experienced a 1.9% decline in EBIT and we continued to focus on rebalancing the portfolio.

Net operating cash flows increased to $331.7 million with cash realisation of 98.1%.

These outcomes combine to set the course to return to sustainable mid-single-digit growth in earnings per share over the next few years with an increase in EPS of 7.8% to 26.0 cents per share in the half. It also delivers shareholders a final dividend declared of 21 cents, franked at 75%, a payout ratio of 80.8%.

This outcome reflects the strength that comes with our diversity of markets, products and categories and a continued focus on delivering against the framework we laid out in the October 2014 strategic review.

For almost two years our focus has been building a platform on which Coca-Cola Amatil will once again generate attractive, sustainable returns for our shareholders. At the centre of this are our strategic themes of Lead, Execute and Partner. I am sure this slide is familiar to all of you and I don't propose to go through this in detail.

We are confident in this strategy and know that while our markets will continue to evolve our medium to long term plans are on track.

We are also making progress against our shareholder value proposition, and while pleased with what we have achieved, we are committed to delivering on all aspects of our investment case for shareholders. Our individual business teams understand the contribution that they each make to the overall Group outcome and how each part of our organisation contributes to our target of mid-single-digit EPS growth, a strong dividend and a strong balance sheet. We will continue to track our progress against each target.

Turning now to the half year result in more detail.

Australian Beverages EBIT decreased by 1.9%, while we continued to rebalance the portfolio to address ongoing structural adjustments in the market.

In New Zealand & Fiji EBIT increased by 5.4% driven by revenue and volume growth.

Indonesia & PNG EBIT increased 65.2% contributing an additional $14.6 million of reported earnings.

Our Alcohol & Coffee EBIT increased 33.6%, continuing its strong growth trajectory, and earnings in the Corporate, Food & Services segment declined by $7.7 million.

Looking now at each of the segments in detail…

As I mentioned, structural changes continued for our Australian Beverages segment which delivered an EBIT decrease of 1.9%.

While volume declined in Sparkling beverages, strong cost and revenue growth management enabled the ongoing rebalancing of the business as we actively shape choice in the market and evolve our portfolio with consumer trends.

The revenue decline in the segment was driven by a 1.5% reduction in volume and 2.2% lower revenue per unit case reflecting pressure in channel mix and a shift in category mix from Sparkling to Still beverages.

We continue to be ahead of schedule with our $100 million cost optimisation program. Savings from the program are being reinvested in brand development and price to support our leadership position and to enhance business capability.

The segment continued to achieve a strong EBIT margin of 16.8% and return on capital employed of 32.7%.

As the business took targeted action to move with the market changes we saw a shift in our volume composition by category with an overall 1.5% decline in volume.

In Australia, volumes in still beverages increased by 9.3%, driven by strong performances in the water, energy and dairy categories. This was the result of innovation and investment that started in 2015 including the introduction of FUZE Tea and Monster Energy and the new Mount Franklin marketing campaign. Improved arrangements in the water category with our partner The Coca-Cola Company also allowed us to leverage our full water portfolio to gain volume and value share.

This improved performance across Stills helped to offset the shifts in Sparkling beverages, which experienced a decline in volume in the first half of 5.8%. This was primarily due to lower volumes in the cola category, including cycling of Coca-Cola Life which had been launched in the first half of 2015. This was partly offset by growth in flavours and adult categories.

As consumer tastes and trends in Australia continue to evolve we remain focused on portion size and product reformulations in Sparkling. The first half saw continued progress in each of these including development of our new 250ml PET bottle which was released in July and ongoing product reformulations.

We also continued to experience shifts in channel mix. Performance in grocery was positive and while in petroleum & convenience we experienced some ranging challenges with water, we performed well in the dairy and energy categories. We continued to see a shift in demand from state operational accounts to national account chains and quick service restaurants. Targeted price investment in state operational accounts was offset by strong cost management.

We also continued our targeted approach to new business with around 3,800 new outlets being supplied and positively contributing to earnings. At the same time, we continued to deploy our technology enabled route-to-market strategy focussing on improving the customer experience resulting in a 7% increase in online orders half on half.

We know the challenges will continue in Australia, which is why we are actively managing our category and channel mix, continuing with strong cost-management, improving route-to-market performance and reinvesting cost savings into price and brand. With a strong pipeline of reformulation and innovation across Sparkling and Still beverages, unrivalled relationships, reach, and manufacturing and sales capabilities, we will continue to rebalance the portfolio to assist in shaping choice and delivering against consumer trends.

Barry will take you through more of the detail later in the presentation.

Now turning to New Zealand & Fiji…

Our New Zealand & Fiji segment delivered a strong result with a 10.5% increase in volume and a 6.0% increase in revenue on a constant currency basis.

In New Zealand growth across Sparkling and Still beverages, particularly in water, drove strong volume, revenue and EBIT growth for the business. The result in all categories was further enhanced by recent portfolio and structural changes to improve execution, operations and capability.

A highlight of the first half was the successful transition of the Restaurant Brands franchises, KFC and Pizza Hut from January 2016. This delivered strong incremental volumes in Sparkling and secured Coca-Cola Amatil a solid market leadership position across the quick service restaurants channel.

In Still beverages, strong performance in the water category delivered positive volume and earnings, with growth across all water brands. The energy category was strengthened by the launch of the Monster in May and early indications have been very positive with growth also achieved in our existing brands.

The business also commissioned the new hotfill production facility bringing sports, cordial and flavoured water production in-house. The transition to the new facility was achieved with limited interruption to supply.

Going forward we will focus on maintaining our leadership position in all categories and our strong relationships with our brand partners. We are continuing to enhance our manufacturing and distribution capability, building our sales and marketing execution capability and expect continued growth in the second half.

Fiji continued its revenue, volume and EBIT growth, underpinned by favourable economic conditions and strong local market execution. With revenue and volume growth in both Sparkling and Still beverages across all channels, the business continued to manage costs as trading activity increased.

Fiji will be an important growth market and the continued expansion of our distribution network will ensure we are well placed to achieve this growth.

Looking now at Indonesia and PNG…

Our Indonesia & PNG segment delivered a strong result in both markets with an increase in EBIT of 71.4% on a constant currency basis, contributing an additional $14.6 million to total Group earnings. This was driven by a volume increase of 14.2% and revenue growth of 12.1% on a constant currency basis.

Our Indonesian business had a strong first half and, while soft economic conditions continue, we are pleased to see that the improvements we have made in our route-to-market, brand position and presence are delivering results. The business also benefited from the month of Ramadan being 10 days earlier this year.

Revenue and volume growth across Sparkling and Still beverages in both the traditional and modern trade channels was achieved with volume growth ahead of market growth.

While there is still work to do to drive growth in Sparkling beverages at an industry level, we are making good progress in winning transactions, volume and value share. Volume growth was particularly strong in our smaller sized single serve packs and we continue to drive initiatives to increase the availability of these products.

Still beverages achieved strong transaction, volume and value growth, particularly in tea where we saw volume and value share gains.

We are pleased with our first half result in Indonesia and while it continues to be an exciting growth market, we also understand that, as an emerging market, volatility will continue with soft economic conditions.

In response to this, we will continue to invest in our leadership position in Sparkling with a focus on strong market execution and new pack and product launches, supported by broad brand marketing and advertising. We will also invest in the juice and dairy categories.

Our route-to-market transformation model will roll out to other parts of Indonesia and further productivity gains will also help deliver a lower overall cost to serve.

In PNG, our business delivered double-digit EBIT growth on a constant currency basis with modest volume growth despite economic headwinds. This growth in EBIT, ahead of revenue, was a result of strong cost management and improved efficiency.

Going forward PNG will also be an important growth market and we expect continued growth in the second half, despite economic challenges. We will continue to expand our distribution network while driving productivity and efficiency in manufacturing and logistics.

Turning now to Alcohol & Coffee….

The Alcohol & Coffee segment has continued its strong growth in the first half building on the momentum of 2015.

In Alcohol we achieved double-digit revenue, volume and EBIT growth with strong performance in Australia, Fiji and New Zealand.

In Australia, strong volume growth in the Spirits and Beer, Bitters & Cider categories was achieved. In Fiji, Paradise Beverages reported double-digit EBIT growth as the business continued to perform strongly in all its major categories. The Beam Suntory partnership in New Zealand also delivered strong revenue and volume growth in beer and cider.

The business worked closely with its partners on brand development, to leverage the significant opportunities across all categories. All of this combined to further strengthen our leadership position.

Our Coffee business also delivered a solid contribution and further growth building on the achievements of 2015 with a successful upgrade and repositioning of the Grinders brand and growth in capsules.

We expect we will continue to achieve strong growth in all key categories in the Alcohol & Coffee segment. Our Beam Suntory partnership in Australia and New Zealand represents a significant growth opportunity as we focus on maintaining our leadership position in bourbon, through category innovation. We will work closely with our partners in the Beer, Bitters & Cider categories to develop our brands and leverage our distribution and footprint.

And now our Corporate, Food & Services….

This segment, which represents around 2% of total EBIT for the Group, delivered a reduction in earnings of $7.7 million.

Our SPC business had a modest loss for the half with declines in both volume and revenue. While we invested in price, increased price competition resulted in a decline in household penetration. Volume and revenue declines in SPC's traditional canned business was partly offset by growth in snacking fruit and tomatoes.

Cost management remains a priority as SPC continues to face challenges with increasing pressure on volumes in core categories, due to private label and competition from imports. We continue our efforts to revitalise the brands and product portfolio while at the same time simplifying and upgrading our manufacturing footprint and asset base.

I'll now pass over to Martyn Roberts, our Group CFO who will talk to our financial performance.

Thank you Martyn….

Martyn Roberts Chief Financial Officer

Thanks Alison and good morning everyone. In the next few slides I'll cover some brief commentary on the finance update.

Firstly the income statement.

As Alison noted before, EBIT growth was solid at 3.2% reflecting strong growth in Indonesia & PNG, Alcohol & Coffee and New Zealand & Fiji. This was offset by a modest decrease in Australian Beverages and a reduction in our Corporate, Food & Services segment.

Net finance costs reduced by 30% reflecting the benefit of The Coca-Cola Company's equity injection in 2015 for an entire half year, together with good cash flow and lower interest rates in Australia.

Our effective tax rate at 29.9% was similar to the first half of 2015.

The strong performance in Indonesia has increased the non-controlling interest line, remembering that last year was just one quarter.

Now, moving to capital employed.

Return on capital employed improved 0.4ppts to 18.6%, well above our cost of capital.

This was largely driven by an improvement in working capital which we reduced by $80 million.

The improvement reflected a reversal of timing issues in the first half of FY15, as well as improved supplier management and increases in our growth businesses.

Property, Plant & Equipment increased $49.3 million reflecting increased capital investment in Indonesia, particularly in the second half of 2015.

Capital expenditure is explained in more detail on the next slide.

We said at the 2015 full year results that capex in 2015 was lower than forecast due to the deferral of spend on certain projects in Indonesia into 2016.

We've seen exactly that in the 1H16 results with capex increasing by $35.9 million to $127.5 million.

At the group level, capex is approximately equal to depreciation and amortisation.

The major capex in Australian Beverages was continued investment in technology to support its strategy which Barry will walk you through shortly

New Zealand & Fiji capex increased to $16.7 million with additional investment in the hotfill production facility in Auckland and rollout of additional cold drink equipment.

In Indonesia & PNG capex increased to $60.5 million, with continuing investment in the supply chain to increase manufacturing capacity as well as the continued rollout of cold drink equipment.

In Corporate, Food & Services, we continued the SPC program to modernise the business and in Services, we invested in replacing cold drink equipment in Australia.

We're expecting total capex for the year of approximately $300 million. This is lower than we forecast in February and reflects a lower spend rate on approved projects in developing markets

Moving on to cash flow.

We are pleased with the improvement in cash flow for the period.

Operating cash flow increased to $331.7 million and free cash flow to $206.2 million for the half.

This resulted from improvements in working capital and lower net finance costs, offset by higher capital expenditure in the half, particularly in Indonesia.

We are especially pleased with the cash realisation result which improved 48 percentage points to 98.1% for the half.

Free cash flow was sufficient to cover dividend payments. [CHECKED]

Finally, I'll turn to net debt and interest cover.

The balance sheet continues to be in a strong position.

Thanks to the good free cash flow result, we decreased net debt to $1.1 billion.

It should be noted that a substantial proportion of cash assets is held for specific purposes or reasons. For example, in Indonesia for future capital expenditure and as a term deposit held for a 2017 debt maturity or in PNG where there are presently constraints on the convertibility of the Kina.

Total available debt facilities at period end were $2.1 billion and all debt maturing up until February 2017 is fully funded.

So, in summary

- EBIT growth of 3.2% and NPAT growth of 7.8%
- Return on capital employed increased to 18.6%;
- Strong cash flow with cash realisation of 98.1%;
- Continued dividend payout ratio above 80%; and
- Our balance sheet continues to be in a strong position.
- This all demonstrates progress on our shareholder value proposition.

I'll now hand over to Barry.

Barry O'Connell Managing Director Australian Beverages

Thank you Martyn and good morning to everyone

There is a lot to be positive about in Australian Beverages and I would like to take a few minutes to provide you with a quick update on the progress we're making towards rebalancing our portfolio.

Given it's only a few months since we last provided an update, there are no material changes in our thinking but important to call out a few highlights.

Just to remind you, Australian Beverages' priorities mirror our group strategic themes of lead, execute and partner and our targets to stabilise earnings and return to growth follow our 2014 strategic review.

As we have outlined before, complementing the group strategic themes, Australian Beverages is building additional capability and focussing on rebalancing our portfolio, leveraging our route-to-market and revenue growth management capability and driving cost optimisation.

Towards rebalancing our portfolio we are achieving significant growth in Still Beverages and gaining volume and value share.

We are making significant progress most noticeably via a major reversal of our performance in the water category driven by new packaging, new product innovation in added value waters and a new media campaign for our flagship brand Mount Franklin. Also, with improved alignment with The Coca-Cola Company in this category, there is a strong pipeline of added value innovation which will help further to extend our leadership position.

We are very excited about the addition of the Monster Energy portfolio in the energy category. Since we have taken on the brand we have achieved significant increases in distribution relative to its previous levels and we are assessing a full suite of innovations as we look to the next 6 to 12 months.

In the dairy category, Barista Bros continues to perform well taking volume and value share and we will continue to explore ranging and distribution opportunities in the second half and beyond.

In the tea category, we launched FUZE Tea in the first half and the consumer awareness, distribution, sales velocity and market share results to date are pleasing.

We continue to experience challenges in the sports category mainly from a pricing perspective. We are responding with the introduction of a larger pack offering, pricing investment and promotion, and confident these efforts will achieve the desired outcome.

We are also rebalancing within our Sparkling Beverages portfolio and believe it is imperative that our portfolio evolves with the consumer by, not just offering choice, but actively 'shaping' choice moving forward.

In this respect, we continue to modify our consumer proposition with a significant focus on smaller portion sizes and reformulations to offer lower calorie variants.

We continue to lead the market in offering expanded choice of small portion sizes through the introduction of our 250ml PET bottle as a build on the 250ml can. Distribution of this very affordable pack – at just $2 - is already at 40% since its launch in July.

On reformulations, the portfolio now contains some 190 formulations: 37% are no added-sugar, 36% are low kilojoule and 27% are no kilojoule. This year alone we have been working on KJ reduction projects for 30 existing formulations. These and other projects will continue to positively impact a reduction of overall kilojoules across the portfolio.

Importantly in Sparkling Beverages, we are also targeting growth categories – with recent gains in flavours and the adult category with more innovation in the pipeline for each.

We have also seen the beginning of a major new direction for the Coca-Cola brand with the global One Brand campaign "Taste the Feeling". It's still early days but you can expect to see more developments in this space between now and year end and into 2017.

Our route to market strategy is progressing well and I look forward to showing you more details later in the year on what is emerging as a World Class approach.

Our strategy is based on an enhanced customer experience through leading edge technology solutions shared by our sales force and customers. At the end of the half, approx. 34% of ordering transactions were on-line (relative to 27% last year). This means these customers are transacting with us when and how they want and critical time is released for sales reps to concentrate on in-outlet execution, business development in existing customer and capturing new customers.

In addition to increasing efficiency and points of interaction with these accounts we are also improving customer service to all customers. This continues to strengthen our reputation in the trade, best evidenced by recently achieving first place in the recent Advantage awards for C&P, second place in retail and first place in the Australian Association of Convenience Stores awards.

We also continue to develop our revenue growth management capability developing a relevant and profitable pack set by customer segment across our changing portfolio.

We have invested significant resources in data and analytics to enable deeper understanding of our price, pack and promotional architecture and how this differs across our expanding portfolio.

We use this increasingly to plan with our customers giving us both a longer term perspective on category development.

We're also cognisant of the fact that not all customers are the same so we're making sure we deliver compelling portfolio offers relative to them.

When we combine with our RTM capability it gets even more exciting as we can now issue such offers to in excess of 50,000 customers instantaneously on-line whereas previously, it could take our reps weeks to cover a smaller customer base.

In relation to cost optimisation, we are tracking ahead of schedule and expect to achieve our commitment of at least $100 million.

In the first half these savings have again come from procurement, reduction in manufacturing overheads and aligning our structures to properly support the business.

These savings have been reinvested in brand development, NPD and enhancing our price competitiveness to support our leadership position and to enhance business capabilities.

I want to recognise the efforts of everyone in Australian Beverages for their contribution to this target.

Importantly, the team is confident that we will deliver the target ahead of schedule.

I can also say that we are well advanced in identifying additional opportunities above the original target.

Finally, I'd like to make a couple quick comments about two of our partners, The Coca-Cola Company and Monster.

Arrangements with The Coca-Cola Company on our water portfolio provide us significant opportunities in this category as we look to leverage their extensive international category portfolio and expertise.

We are also very pleased to have brought the Monster Energy products into our portfolio and see excellent potential for this partnership in the future.

As a final point of interest – through new product formulations, packaging changes, promotional campaigns and new products – we have in the first half with our partners, delivered 26 product innovations and we expect that number to escalate in the second half and into 2017.

With that, I'll hand back to Alison.

Alison Watkins Group Managing Director

Thank you Martyn and Barry.

Before closing I would like to take a moment to outline some progress we have made in relation to Sustainability.

Our Sustainability Framework focuses on delivering real outcomes for our people, consumer wellbeing, the environment and our communities.

Earlier this week we released our 2015 Sustainability Report, detailing our performance in each of our sustainability pillars for 2012-2015 period. While we recognise we have more work to do, there are several highlights, including:

- a 50% reduction in total injuries
- 86 million litres – or 2% – of water saved from Australian and New Zealand manufacturing plants
- 594 tonnes of Fairtrade coffee sourced by Grinders

We have committed to an enhanced approach to sustainability reporting with more data and analysis on the performance of all our businesses. This report establishes a new baseline, committing us to continuous improvement in both performance, and reporting, on an annual basis.

Recently, the New South Wales, Queensland and Western Australia Government have outlined their intention to introduce of a Container Deposit Scheme in each state.

We know we have a responsibility to work collaboratively with industry, government and environmental groups to help reduce litter and increase recycling. We operate responsibly and have been a leader in packaging innovation and recycling for many years. For almost 40 years we have operated the CDS in South Australia, via our wholly owned subsidiary Statewide Recycling and more recently in the Northern Territory. With this experience we are committed to working with each of the state Government's to ensure any new CDS is operated efficiently and consistently across all states, with minimal impact on consumers and manufacturers.

We welcome the draft legislation and discussion paper that was released by the New South Wales Government earlier this week. These documents define a regulatory framework that is very similar to the South Australian framework which is very encouraging. That said, given that a lot of the detail of the framework will be documented in the regulations and contractual arrangements with the parties managing the CDS, the full impact of the scheme is still unknown.

Today's result speaks directly to the strength of our underlying value proposition for our shareholders.

We remain confident that our October 2014 strategy and aligned plans are moving each business in the right direction towards the Group achieving our target of sustainable mid-single-digit EPS growth.

We anticipate net finance costs in the second half of 2016 to be marginally higher than the first half.

We expect group capex of around $300 million for the full year. This is slightly below the forecast provided in February due to a potentially slower spend rate on some approved projects in developing markets.

We expect to maintain a conservative balance sheet position which provides us with 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%.

While the pace of recovery will depend on the success of revenue initiatives in Australia, and Indonesian economic factors, the plans we put in place two years ago are starting to deliver the outcomes we anticipated. We have taken another step forward in this half and our continued focus, and we intend to build on this.

Thank you.

Before we take questions I would like to say we are looking forward to holding an Investor Day in October in Sydney, our first since October 2014. The day will include presentations on our group strategy and each of our businesses with members of our Group Leadership Team presenting. Please contact David Akers if you need the details.

I will now hand you back to David, ahead of our Q&A.

Ends…