COCA-COLA AMATIL
2019 HALF YEAR RESULTS
22 AUGUST 2019

Ana Metelo Investor Relations

Good morning everyone. Thank you for joining the conference call and webcast for our 2019 half year results.

This is Ana Metelo, from Investor Relations.

On the call this morning we have Alison Watkins, our Group Managing Director, Martyn Roberts, our Group Chief Financial Officer and Peter West our Managing Director, Australian Beverages.

Slide 2 shows our standard disclaimer for presentations.

Turning to Slide 3, the Agenda for this morning.

Alison will present the group performance and provide a result overview, including how we're progressing against our shareholder value proposition.

Peter will discuss Australian Beverages performance and give an update on progress against the Accelerated Australian Growth Plan. Martyn will take you through the business performance, and our financials. And Alison will then conclude with comments on our sustainability agenda and outlook.

As always, there'll be time at the end for questions.

I'll turn the call over to Alison.

Alison Watkins Group Managing Director

Good morning everyone. Thank you for joining the call this morning.

As Ana noted, I'll start by taking you through the Group performance.

Turning to slide 5.

Group revenue increased strongly for the half, rising by 5.2 per cent. This reflects the successful outcomes from strategic initiatives in several of our businesses.

Statutory earnings before interest and tax (EBIT) increased to $273.5 million, up 4.7 per cent, and statutory net profit after tax (NPAT) increased to $168.0 million, up 6.3 per cent.

Statutory earnings per share (EPS) grew by 6.4 per cent while ongoing EPS declined by 4.0 per cent.

Ongoing[1] EBIT was $289.9 million and ongoing NPAT was $173.3 million representing declines of 3.8 per cent and 3.9 per cent respectively, in line with our expectations.

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[1] Ongoing refers to continuing operations results adjusted to exclude non-trading items.

There was a strong cash flow result, with ongoing free cashflow before lease accounting changes improving by $86.2 million on the previous period. In addition we received a further $40 million as proceeds from the sale of the SPC business.

The total dividend for the half is 25 cents, which is unfranked. This comprises an interim dividend of 21 cents per share (1H18: 21.0 cents per share) and a special dividend of 4 cents per share, following the SPC business sale.

Overall, this half year result is a solid financial performance for the Group.

Looking at the businesses.

The Australian Beverages results show accelerated volume growth in several categories, offset by impacts from the Queensland Container Refund Scheme, additional investment in "Feet On The Street" and the cycling of a one-off $10 million EBIT credit from HY18 relating to the NSW container deposit scheme.

There was volume growth in diet and no-sugar colas, led by Coca-Cola No Sugar which again proved to be a market success. Energy and dairy were also sturdy performers.

New Zealand delivered an excellent all-round performance, continuing robust momentum from previous years. And Fiji achieved solid profit growth despite challenging economic conditions.

Indonesia delivered encouraging single-digit volume and revenue growth. As expected, the EBIT result reflected additional marketing spend with The Coca-Cola Company and unfavourable FX impacts on commodities.

Papua New Guinea delivered double digit volume and revenue growth as we put the operational issues of 2018 behind us.

Alcohol & Coffee achieved modest revenue growth and double digit EBIT growth, following a further successful expansion of our spirits and craft beer portfolio in Australia and New Zealand.

Corporate & Services recorded a $6 million loss, in line with the FY19 earnings guidance for the segment.

I will briefly highlight a few additional developments.

On 28 June we successfully completed the sale of the SPC business to Shepparton Partners Collective Pty Ltd., for a consideration of $40 million. A profit on sale of $14 million was recorded upon completion.

We are proud of the contribution we made to SPC over the last 14 years, and wish its new owners all the very best as they take the business forward.

Our corporate venturing platform Amatil X entered its second year with a major expansion into Indonesia, with Jakarta becoming an important start-up hub in Asia.

The Indonesia program kicked off in April, with a pilot partnership between Coca-Cola Amatil Indonesia and Digitaraya, an local accelerator program.

We made further progress in sustainability, in keeping with consumer and customer demand for sustainable packaging and business operations.

Progress in Australia included our announcement that from 2020, 7 out of 10 of our plastic bottles in Australia will be made from 100 per cent recycled materials. This has more than doubled our use of recycled plastic in bottles and secured our position as a market leader in recycled packaging. I will provide more details on our progress in sustainability later in the presentation.

Finally, we made significant and continued progress in the rationalisation of our property portfolio, including progressing the sale of lots 2 and 3 of our former bottling facility in Thebarton, South Australia.

I know you are all familiar with our shareholder value proposition. It's what we said you should hold us accountable for.

Our performance in many areas is strong. We are confident that we are on track to return to our mid-single digit EPS growth as we complete our transition phase over the next few months.

This slide provides an overview of the EBIT contribution for each of our businesses.

We will start off with the Australian Beverages business and I will ask Peter West, our Managing Director for the business to provide an update before Martyn takes you through some commentary on the other businesses and the financials.

I will now turn the call over to Peter West.

Peter West Managing Director Australian Beverages

Thank you, Alison and good morning everybody.

I'd sum up the Australian Beverages result as a solid performance with more to do in the second half.

As this slide shows, we experienced a slight decline in net revenue, and a volume decline of 1.2 per cent which was largely driven by implementation of the Queensland Container Refund Scheme. Excluding Queensland, total volumes declined by 0.3 per cent.

Trading revenue per unit case was 0.7 per cent higher comprising:

- 1.5 per cent increase from container deposit scheme charges;
- A net 0.4 per cent decrease from investment in realised price; and
- A 0.4 per cent decrease from changes in product and channel mix

Underlying EBIT was down. Alison has mentioned the impact of the Queensland CDS on that number, as well as cycling of a one-off $10 million CDS credit for NSW in half 2018.

Additional impacts include the previously announced investment in "Feet On The Street," additional commissioning costs at Richlands in both distribution and manufacturing, and a $4.6 million benefit from the introduction of the new lease accounting standard.

Turning to our four category focus areas.

Our focus in each section is to drive sustainable value.

In **must win** we delivered price realisation in both water and cola, with some mixed progress on volumes.

Diet & light colas achieved mid-single digit volume growth, mostly offsetting a small decrease in Classic Coca-Cola. This is on top of low-single digit volume growth in the Coca-Cola brand in the second half of last year.

Underlying volumes in water were solid given we ceased sales of the low value and low margin Peats Ridge in Officeworks in September 2018. This reduced net water volume sales by 1 million unit cases. We also experienced a further 6 months of Mount Franklin Everyday Low Pricing, cycling a high-low pricing strategy in grocery in the prior year.

There were some excellent results in our **"double down"** categories with energy and value-added dairy showing double-digit volume growth and gaining value and volume share. The result also builds on some good numbers for volume and value share growth in the previous half.

The portfolio was further enhanced with the launch of Nutriboost in May - it's a flavoured milk drink with a five-star health rating that is already proving popular.

In energy, we expanded the portfolio with commencement of distribution of Coca-Cola Energy in late June. We'll see the impact of this major product launch over the second half of this year.

The results also show there's more work to do in our "**stabilise**" category.

Adult and flavoured sparkling volumes declined as a consequence of changed pricing and ranging strategies. We're making progress on this, and are working closely with our customers on getting this pricing strategy right for the next half.

We commenced distributing Mojo Kombucha during the half, representing our first foray into this growing beverage category. It's too early to draw many conclusions from the numbers on kombucha, which are listed in "Other Stills" on this slide.

The next slide shows the volume performance by channel.

We prioritised grocery as one of our "must win" channels and were highly disciplined in our revenue management strategy in the last two halves. Successful price realisation was achieved in colas and water, with some volume impact in the short term as consumers adjust. As I said earlier, our water result was impacted by the cessation of sales of low value, low margin water in Officeworks.

In Convenience & Petroleum we delivered good volume growth driven by the double down categories of energy and value-added dairy, which offer the greatest potential for growth in this channel.

We have delivered significant trajectory improvement in volumes in On-the-Go, which includes national and state operational accounts, restaurants and cafes, and licensed.

In restaurants and cafes, we maintained volume momentum from FY18, including channel-specific product launches. We also grew our customer base by 2.3 per cent, compared with half one 2018.

One strategic initiative of the Accelerated Australian Growth Plan is "Feet On The Street" which has nearly doubled our sales force in the State Immediate Consumption channel.

That's delivered a real step change in the quality and frequency of customer visits. The rollout is ongoing but we're seeing some excellent results - particularly in Sydney and Adelaide where the program is most advanced.

The charts on the screen show the improvements in volume trajectory in this channel in those two markets, and where we are at with the program overall.

In the Sydney area we changed our volume sales in State Immediate Consumption from negative seven percent a year ago to positive 1.5 per cent for this half. In Adelaide a smaller but still significant gain, from negative 4.2 per cent to flat.

It's a great set of results in the early months of this program.

Next, a few call outs on container deposit schemes, on volumes in Queensland and on our CDS rates.

While it is not possible to isolate the impact of these schemes as they come online, we did see Queensland volume for the half decline by 3.8 per cent compared to a nationwide change in volumes (excluding Queensland) of negative 0.3 per cent.

This also compares to a 1.3 per cent decline in NSW for the same period last year as that state was embedding their scheme.

While volume reduction is never a good thing, it's worth comparing our result with the figures in the recent Queensland Productivity Commission interim report on the CRS, which found that beverage volumes statewide were down an average 6.3 per cent.[2]

So we're clearly tracking better than some of our competitors, which is a testament to the strength of our portfolio.

From 5 August we increased our CDS charge in NSW and ACT from 10.91 cents (excluding GST) per eligible container to 11.82 cents (excluding GST). This is due to a rising cost base for the ACT and NSW container deposit schemes and as the schemes mature.

The next CDS to come online will be Western Australia in June 2020. This state represents around 10 per cent of our total volumes, so we are not expecting a significant impact from this CDS when it comes online. As in other states we have been appointed scheme co-ordinator for the WA CDS, and will aim to administer an effective recycling system while keeping costs as low as possible.

I trust that was a useful breakdown of our performance for the half. I might now say a few words on strategy, and then hand over to Martyn.

You've seen this slide before – outlining the objectives and categories of our Australian Accelerated Growth Plan. I probably don't need to go though this in detail again, but am happy to take any questions at the end of the presentation.

This slide outlines some of the building blocks within the Plan, which we believe will underpin volume and revenue momentum in the second half.

In terms of categories:

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[2] Queensland Productivity Commission, *Container Refund Scheme Price Monitoring Review: Interim Report,* August 2019 - https://qpc.blob.core.windows.net/wordpress/2019/08/Container-Refund-Scheme-Interim-Report.pdf

First, for the first time since 2011 we will launch the "Share a Coke" campaign in partnership with The Coca-Cola Company, providing consumers the opportunity to find hundreds of different names to celebrate with our famous brand. We see this as a strong building block for Christmas and summer trading.

Second, we expect stabilisation of cola volumes in grocery as price realisation is embedded.

Third, we will build on the launches of Nutriboost and Coca-Cola Energy and Energy No-Sugar, to extend our growth in the "double down" categories that I mentioned earlier.

Fourth, we will have lapped the High-Low price strategy in Mount Franklin multipacks in grocery, which should remove the impact of this issue on volume sales.

Fifth, we will benefit from commencement of distribution of the Made brands - Rokeby Farms and Impressed Juice – for which we acquired distribution rights earlier this year.

Sixth, we will again capitalise on the trend towards "better for you" beverages with extended distribution of Mojo kombucha.

And seventh, we will look to grow sales in Powerade Active - our new no-sugar sports water - which was launched in July this year.

Our channel strategy is also expected to advance in the second half, with further benefits from "Feet on the Street" across all states.

We have strong plans to improve retail execution by bringing store merchandising back in-house, and a laser-like focus on key selling weeks – for example football finals and Christmas.

There are also some key enablers that will help deliver our category and channel plans and optimise the business. These include price normalisation for flavour 24-pack cans back to hi-low promotions and implementation of key revenue management initiatives including the recent launch of the 20-pack Mini-cans in grocery in NSW. We are confident that our Richlands commissioning will be on-track from the third quarter of this year.

We'll also make further progress towards sugar reductions and sustainability, both of which are key selling points with customers and consumers.

In summary the Accelerated Growth Plan has delivered a solid result for Australian Beverages for this half, and some good growth trajectories in "Must Win" and "Double Down."

There's more to do in some areas, and we have detailed plans for these which will be delivered in half two.

We're working hard to reach our growth targets for Australian Beverages, and contributing to the Group target of mid-single digit EPS growth from 2020.

Thanks, and I'll hand over to Martyn.

Martyn Roberts Group Chief Financial Officer

Thanks Peter, and good morning.

Looking at our other businesses now.

I am pleased to report that our New Zealand and Fiji segment had an excellent start to 2019, achieving strong revenue and volume growth as well as double digit EBIT growth.

In New Zealand we achieved a particularly good result which continued the momentum from FY18.

This segment delivered excellent revenue growth, with delivery against our strategies and operational improvements in PNG.

In Indonesia we demonstrated that we can deliver a robust result in a challenging market. Disciplined execution of our Accelerate to Transform strategy produced pleasing growth in sparkling, water and value-added dairy categories, and rate realisation across the portfolio.

Furthermore, we had solid volume growth across all channels, particularly in Traditional Trade which grew by double digits. This result is a credit to the important changes implemented in the market in the past few years, which built our channel relevance and route-to-market.

We gained overall volume share in NARTD, particularly in sparkling where we grew volume and value share driven by effective promotions, outstanding Festive execution, new products and consumer-centric marketing. As expected, Indonesia's EBIT result reflected planned additional marketing spend and an unfavourable FX impact on commodities.

The highlight in PNG was achieving double digit revenue and volume growth following the successful resolution of the operational issues experienced in FY18.

Alcohol & Coffee achieved modest revenue growth and double-digit EBIT growth. New Zealand returned a strong result, benefitting from the strength of the Beam Suntory Premix & Spirits portfolio. In Australia, the business grew share in bourbon, gin, rum and vodka. Canadian Club, Jim Beam White, Roku Gin and Maker's Mark all delivered increased volumes.

Grinders coffee drove revenue and profit growth in its segment, primarily through increased grocery sales.

Other developments included strong growth in the Feral craft portfolio and a new distribution agreement with New Zealand-based brewer Fortune Favours.

Corporate & Services recorded reduced earnings, in line with the outlook provided in FY18. This was a result of lower rental and services earnings, and investment in group capabilities and IT platforms.

Moving on to the Financials.

From an accounting perspective, there have been some adjustments to the financial statements as a result of the introduction of the AASB16 lease accounting standard. We have provided an explanation of these impacts in the Appendix to this presentation.

Note that we have followed the modified retrospective approach in adopting the standard, which means it has been applied to the current period only and there is no restatement of the financial statements of prior years, including the first half of 2018.

What we've done in our financial report is to provide note disclosures with the financial statements and other note disclosures to assist you in understanding the impact of the changes on our result.

Additionally, consistent with our approach at the 2018 full year result, SPC has been treated as a discontinued operation in these results, and is not included in the segment performance of the presentation or Operating and Financial Report.

Our half year 2019 statutory NPAT increased 6.3 per cent as a result of lower non-trading items than in the prior year. NPAT adjusted to exclude non-trading items declined by 3.9 per cent, which is in line with a 3.8 per cent decline in ongoing EBIT.

Net finance costs were lower by 4.9 per cent than last year despite a $7.1 million increase due to the introduction of the AASB16 lease accounting standard. This decline in net finance costs was due increased interest income on deposits held in Indonesia and PNG as a result of increased interest rates.

Taxation expenses declined in line with reduced ongoing EBIT, with an effective tax rate of 28.8 per cent.

In line with our stated business strategy we had a total of $11.5 million in non-trading items after tax, mostly associated with restructuring programs in Australia.

We reported a decrease in working capital of $61.0 million due to improved debtor collections and receivables management in the Australian business, and cycling extended customer credit in Indonesia during Ramadan in the first half 2018.

Property, plant and equipment was largely unchanged.

The Intangible assets increase of $41.1 million was driven by the acquisition of the Rekorderlig Australian distribution rights and foreign exchange translation impacts. Current and deferred tax liabilities decreased by $13.4 million due to the tax benefit associated with the 2018 SPC impairment.

The "Other assets" net increase of $52.7 million reflected investments in the Made Group, Amatil X, transfer of Thebarton site assets into assets held for sale and container deposit schemes in NSW and Queensland.

The new lease accounting standard had an impact of $450 million in Capital Employed. This translated into a lower ROCE. However, adjusting for this impact ROCE was still strong at 19.3 per cent.

Capex at the half year was lower than 1H18 by $28.0 million at $98.0 million due to the timing of spend in Australia and New Zealand.

The largest capital requirements came from the Australian Beverages, Indonesia & Papua New Guinea and Corporate and Services segments. We spent $23 million in the Australian Beverages business in equipment at Richlands, solar panel installations at three facilities and investment in technology to support sales, customer service programs and automation.

In Indonesia we allocated capital towards the affordable small sparkling line in Surabaya and operational and production efficiencies. Papua New Guinea spend was on the construction of a new warehouse in Lae and upgrade of the can line.

Corporate and Services capex spend is primarily in relation to cold drink equipment investment in Australia.

For the 2019 financial year we anticipate capital investment requirement to be approximately $300 million which is slightly lower than full year 2018 capital spend of $334 million.

We increased our ongoing free cash flow (before lease accounting changes) by $86.2 million for the half, reflecting our rigorous approach to cash and working capital management.

Other contributors to increased free cash flow include: a decline in tax payments in Australia due to a lower instalment rate applied by the Australian Taxation Office and a refund received in relation to the 2018 year and reduced capital expenditure through completion of significant projects carried out in 2018.

This was partially offset by the impact of PET resin prepayments in Indonesia to secure better pricing outcomes. Our ongoing cash realisation (before lease accounting changes) was 96.9 per cent, representing an improvement of 17.6 points on the first half of 2018.

Our balance sheet remains strong and continues to provide a long-term funding platform to support our growth aspirations. Our net debt balance has been increased by $491.5 million due to the introduction of the new lease accounting standard.

Excluding this impact, we increased our EBIT interest cover from 8.8 times in FY18 to 10.3 times and reduced our net debt. This was driven by a strong cash flow result which included a cash benefit from the sale of SPC.

We continue holding a significant proportion of our cash assets in Indonesia and in Papua New Guinea. We are exploring opportunities to repatriate some of the cash from Indonesia and it is pleasing to note that the Kina balance held in Papua New Guinea has remained flat over the past 12 months as we gain more access to foreign currency to pay suppliers. We also recently paid a small dividend back to Australia.

Our total available debt facilities at 28 June 2019 amounted to a total of $2.6 billion with an average maturity of 5.6 years.

So with that I will now hand back to Alison to talk you through the sustainability updates and the outlook for 2019 and beyond.

Alison Watkins Group Managing Director

Thank you, Martyn.

As with previous Results I'd like to take a moment to highlight a couple of areas of progress in the half against our sustainability goals before I move on to our outlook.

Our approach to Sustainability underpins our future commercial performance. Our focus is across four pillars, in the areas where we can have the greatest impact – Our People, Wellbeing, the Environment and Our Community. Progress in each of these areas is critical to our relationship with customers and our ability to tailor our portfolio to changing consumer trends.

In the first half of 2019 we continued to make progress against all of our sustainability goals, including sugar reduction, energy consumption and sustainable packaging.

I have spoken to you on several occasions in relation to our role in addressing the obesity challenge across our community and our consumer-driven approach to sugar reduction, choice and information.

We recognise and welcome the opportunity to play our part in reducing obesity, for example through more diet and no-sugar beverages, smaller pack sizes, and new products in different categories.

Together with The Coca-Cola Company we have committed to reducing sugar[3] across our Australian and New Zealand portfolio of sales by 10 per cent by 2020, and by a net 20 per cent by 2025.

We're pleased to confirm we are making good progress. At the end of this half we had achieved a 7.0 per cent reduction in sugar content in Australia and 4.1 per cent in New Zealand, since the baseline of 2015.

In addition to these milestones, we are progressing our sugar reduction agenda in other markets.

In Indonesia we've achieved a 7.8 per cent reduction in sugar across the portfolio of beverages sold since 2015.[4] We are looking forward to continuing this progress as we rollout new lower sugar beverages this year including Sprite Waterlymon which has a lower sugar content than Sprite.

In relation to energy consumption we are progressing towards 60 per cent renewable or low-carbon energy use across our operations.

To this end, we have already installed more than 10,000 solar panels in three different locations in Australia and have one of the largest rooftop solar installation in South East Asia underway at our Cibitung production facility in Jakarta.

We're also facing up to our responsibilities on plastics. We've heard the community message loud and clear - that unnecessary plastic packaging is unacceptable, and we need to do our part to reduce it.

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[3] Based on portfolio-wide weighted volume average total sugar content (g/100ml). All targets and actuals are for 2020 compared to 1 January 2016 unless otherwise specified.

[4] Based on portfolio-wide weighted volume average total sugar content (g/100ml). All targets and actuals are for 2020 compared to 1 January 2016 unless otherwise specified.

We’ve made strong progress in that direction in this half, in response to customer and consumer demand for more sustainable production and a reduction in single-use materials.

All our bottles and cans have been 100 per cent recyclable for some time, however this on its own isn’t enough.

That is why in the last half we have:

- Committed to make 7 out of 10 of our plastic bottles in Australia, and 6 out of 10 in New Zealand, from 100 per cent recycled materials, by next year.
- Ceased distribution of plastic straws from our portfolio and replaced them with durable, biodegradable paper alternatives;
- Signed a Partnership with Keep Australia Beautiful to support adequate recycling facilities at litter hotspots nationwide; and
- Maintained our support of Mission Pacific, Fiji’s long-standing collection scheme.

Our step change commitment to significantly increasing our number of bottles made from 100 per cent plastic in Australia and New Zealand includes what we believe is the world’s first carbonated beverages in 100 per cent recycled plastic – a technical innovation achieved in this half by our team in Australia, and now being rolled out across our Australian and New Zealand single-serve range.

This last commitment is significant because it very much secures our leadership in the use of recycled materials use in Australia and New Zealand.

The switch to 100 per cent recycled materials will be a central factor in addressing customer demand for recycling and renewability in the range of products we sell. In partnership with The Coca-Cola Company, we will be making sure customers and consumers are aware of progress through communications such as the following, which will appear in social media from today.

We are very excited about this campaign which our research tells us will resonate very strongly with consumers.

[SEE HERE FOR TVC: https://www.youtube.com/watch?v=AeF8dp0rz2Q]

In terms of outlook, the end of 2019 will mark the completion of a two-year transition period for the Group.

Australian Beverages is positioned for growth in 2020 with the completion of the additional investments in our Accelerated Australian Growth Plan and with container deposit schemes in NSW and Queensland substantially embedded by the end of 2019.

In Indonesia we are encouraged by the growth achieved since April 2018, and will continue to deliver our Accelerate to Transform strategy - with additional marketing expenditure in 2019 as we navigate soft macroeconomic conditions, a weak Indonesian Rupiah and subdued market growth.

New Zealand & Fiji, Papua New Guinea and Alcohol & Coffee are expected to deliver growth in line with our Shareholder Value Proposition.

Corporate & Services is expected to record an EBIT loss of approximately $12 million in line with the outlook previously provided.

We anticipate one-off costs of up to $30 million as part of ongoing cost optimisation processes across the Group. We are pursuing opportunities to dispose of surplus properties which would result in one-off gains in 2019 and partially offset the one-off costs.

We remain committed to our Shareholder Value Proposition and target a return to delivery of mid-single digit earnings per share growth from 2020.

And as we've said before, achieving this target will depend on the success of our revenue growth initiatives in Australia, Indonesian economic factors and the regulatory conditions in each of our markets.

Capital expenditure for 2019 is expected to be approximately $300 million.

We continue to target a medium-term dividend payout ratio of over 80 per cent. Amatil dividends are expected to return to being franked in 2021. At that stage, depending on the mix of earnings between Australia and other countries, we expect the level of franking to be above 50 per cent.

Finally, we expect our balance sheet to remain conservative with flexibility to fund future growth opportunities. We're expecting to maintain a strong return on capital employed and will seek to maximise value for our shareholders by pursuing additional sales of surplus properties.

Thank you, and we’re happy to take questions.