# CCA Strategic Review 2007-2012

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Managing Director

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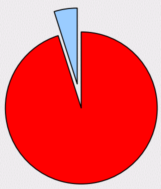
**18 April 2007**



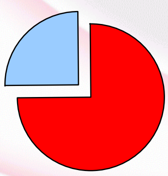
## 2001–2006: "A non-alcoholic beverage for every occasion"

**2001 – Low levels of product innovation and over reliance on CSDs to generate growth**



- 95% CSDs
- 5% Non-carbonated beverages

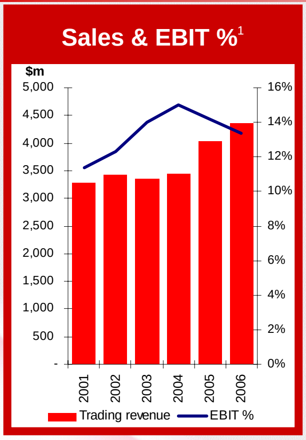
**2006 – A broader based, better balanced and more profitable business mix**

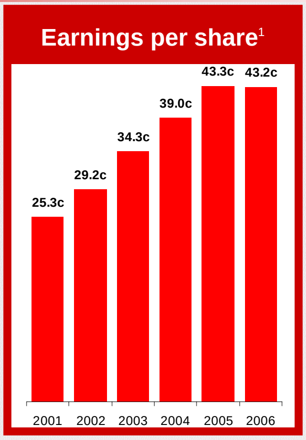


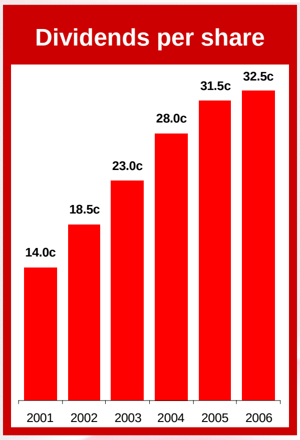
- 68% CSDs
- 32% Non-carbonated beverages & food

Graphs represent revenue split

## 2001–2006 Results: Strong delivery of margins, EPS and dividend growth




EBIT CAGR of +9.3% since 2001

EPS CAGR of +11.3% since 2001

DPS CAGR of +15.7% since 2001

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1. before significant items



## 2007-2012: Strategic Review Fundamentals

Priorities

- Focus on leveraging CCA's core competencies
  - Development capability of premium and market leading brands
  - Scale and reach of sales force
  - High tech and high touch of our customer servicing capability
  - Highly efficient national manufacturing and physical distribution capability

- Capital allocation focussed on Australia and New Zealand where CCA's competitive advantage is strongest financial returns are greatest

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## 2007-2012: Strategic Review Fundamentals

Primary outcomes

- ➔ Grow CCA's share of non-alcoholic beverages by continuing to expand the product portfolio
- ➔ Broaden the beverage portfolio into the highly profitable alcoholic beverages market in Australia and New Zealand
- ➔ Actively review ownership options and/or arrangements with The Coca-Cola Company (TCCC) for the South Korean business while remaining committed to growing the developing markets of Indonesia, PNG and Fiji
- ➔ Undertake a major IT infrastructure development to re-engineer business processes and create a world class operating system

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## 2007-2012: "A beverage choice for every occasion"

To extend its market leadership position, CCA will seek to further leverage its core competencies in premium brand development, sales and customer service and national distribution and manufacturing.

**Six long-term value drivers:**

1. Grow our share of the non-alcoholic beverage market
2. Develop a material presence in premium alcoholic beverages in Australia and New Zealand
3. Expand the scope and scale of the Food & Services division
4. Extend our key customer relationship capabilities
5. Re-engineer our operating systems to world best practice
6. Ensure the sustainability of our business platform

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## 1. Grow our share of the non-alcoholic beverage market

**Aim: To drive increased share of category value and volume across each market segment**

How:

- Product and package innovation
- Innovation in cold drink equipment
- Tailored channel offering
- Expand our premium product offerings

Outcome:

- Expect market volume growth of the NARTD market of 2-4% pa in Australia and New Zealand
- Gain a greater share of that increased market



## 1. Grow our share of the non-alcoholic beverage market

### Indulgence

**CSDs**


Continue to develop low sugar alternatives

**Energy**


Focus on consumption occasions

Female, day/night segmentation opportunity

**Flavoured Milk**

Watch This Space

Test market in Australia in 2007

**Coffee**

Segmentation of brands in grinders into super premium (Giancarlo), premium (Grinders)

Opportunities for bolt-on acquisitions

Market share data relates to the Australian foodstores channel

## 1. Grow our share of the non-alcoholic beverage market

### Functional & Hydration

**Water**


Progressively segment the market into super premium, premium, commercial and functional to protect margins and accelerate category growth

**Juice**


Shift from commodity offerings to value-added, functional and single-serve products supported by growing our chilled distribution capability

**Sports**


Further segmentation of Powerade into pre, during and after sports occasions

**RTD Tea**


Drive the health and wellbeing trend - seen as a good for you carrier of herbs, antioxidants, minerals, etc

Market share data relates to the Australian foodstores channel



## 2. Develop a material presence in premium alcoholic beverages in Australia and New Zealand

**Aim: To be the clear No. 3 player in the Australian beer market by the end of 2012**

How:

- Leverage the scale and efficiency of CCA's sales, distribution and manufacturing infrastructure with SABMiller's marketing and technical brewing expertise into premium alcoholic beverages
- Bring CCA's innovative merchandising concepts and customer service ethos to the alcoholic beverages business

Outcome:

- To be recognised and rewarded by our customers for having materially improved their alcoholic beverage business
- To successfully build a material new earnings segment for CCA

## 2. Develop a material presence in premium alcoholic beverages in Australia and New Zealand

### Beer

- Step 1: Establish credibility and scale through the growth of Peroni, Pilsner Urquell, Miller Genuine Draft and other selected SABMiller brands
- Step 2: Develop a local brewing capability in Australia – subject to feasibility study outcome
- Step 3: Manufacture selected imported brands locally
- Step 4: Develop new locally produced brand(s)

### Spirits and ARTDS

- Expand the customer base and alcoholic RTD product offering
- Increase volume per outlet of existing customer base through direct sales presence, cold drink equipment innovation and introduction of CCA's innovative merchandising concepts

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## 3. Expand the scope and scale of the Food & Services division

**Aim: To expand the sourcing and sales base of our food business**

How:

- Improve the scale and sales execution focus of our food and services businesses by consolidating into a dedicated division
- Centralize CCA cold drink equipment and procurement management
- Develop SPCA's international business

Outcome:

- International earnings base of SPCA to be the same size as the domestic earnings base by 2012
- Improve the visibility of the cost and returns of CDE within the Australian business

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## 3. Expand the scope and scale of the Food & Services division

### Consolidate food and services activities into one division

- Combine SPCA, Neverfail, Quirks and Grinders
- Develop greater focus on successfully managing lower volume and non-trade operations while maintaining integration benefits made post acquisition
- Increased responsibilities for Nigel Garrard, enabling Warwick White to focus CCA beverage team on growing base NARTD business faster and execution of emerging alcoholic beverage strategy

### Single procurement of CDE for the group function

- Procure and manage the whole CDE fleet within one business function

### Scale up the international sourcing resources of SPCA

- Target joint ventures or supply agreements in China and South Africa, similar to existing JVs in Spain and Thailand



## 4. Extend our key customer relationship capabilities

**Aim: To grow the importance of our brands and service performance to each of our customers**

How:

- Continue to develop our tailored solution capability for our key customers
- Further drive customer engagement with breakthrough product and package innovation

Outcome:

- Deliver greater levels of customer satisfaction by ensuring our customers consistently make more profit selling CCA brands than competitor brands
- Develop a service level strategy that cannot be profitably matched by our competitors

## 4. Extend our key customer relationship capabilities

Shift to specific channel focus from state based focus

- Grocery & Petroleum, Licensed, Immediate Consumption, Vending
- Align Australia and NZ businesses to better execute go-to-market strategies and best practice transfer across the business

Direct-to-consumer database development

- Utilise modern technology to deepen our direct relationship with consumers through a greater focus on and frequency of one-on-one communications (SMS, internet, email, Blog sites)

Tailored solutions for customers

- Increased focus on product and package segmentation by store utilising more sophisticated shopper basket analysis



## 5. Re-engineer our operating systems to world best practice

**Aim: Re-engineer our business processes to develop a world class operating system that will provide the engine for CCA to move to the next level of customer service and facilitate CODB reduction**

How:

- Material end-to-end technology development partnership consortium with other major Coca-Cola Bottlers and TCCC

Outcome:

- To modernise the complete process of order to cash
- Re-engineer business processes that facilitate a more efficient transfer of and use of information across the total business
- Enable us to develop a shared services capability across CCA
- Maintain our cost to income ratio leadership amongst global Coca-Cola Bottlers
- Lower our CODB

## 5. Re-engineer our operating systems to world best practice

### Technology development – approx $65m cost

- OAisys - Back office complete by end 2009, front office by end 2010
- Upgrade our sales force and customer interface capability

### Supply chain upgrade

- Automated distribution/warehouse development
  - Auckland – NZ$80m cost, to be completed by end 2007
  - Sydney – $180m total cost, to be completed by early 2009 (CCA capex $90m, leased component $90m)
- Full warehouse management system deployment in all major non-automated warehouses by early 2009
- Upgraded mobile capability for sales force

### Back office consolidation

- Creation of back office shared services across Australian & NZ businesses



## 6. Ensure the sustainability of our business platform

**Aim: To commit to continuous improvement of our economic, social and environmental performances**

How:

- Improve the transparency and accountability of our sustainability agenda, a mainstream business agenda driven at Board level and continuing through the Managing Director and other senior executives across the Group

Outcome:

- Regular reporting on our sustainability platform, measured under four pillars, Environment, Community, Marketplace, Workplace – CCA's first sustainability report to be released in May07

## 6. Ensure the sustainability of our business platform

### Environment

- Continually improve our sustainable use of water and energy and to decrease our generation of greenhouse gases - target is to be waste water neutral by 2012
- Continue to reduce the amount of material used in packaging

### Community

- Continue to contribute to our communities via our Foundations, food and beverage donations, workplace giving and partnerships with environmental groups like Landcare Australia

### Workplace

- Invest in the development of our people through leadership programs and succession planning
- Continue to reduce lost time injury rates to make CCA a safer place to work

### Marketplace

- Meet community demands for “better for you” products by increasing the range of no-sugar beverages, supporting a range of sport and physical activity programs and improving product labelling



## 2007-2012: Outlook for non-Australasian assets

### Indonesia, PNG & Fiji – remain committed to growth

- A small exposure to a highly populous developing market with strong upside potential
  - A competitive environment with few major players
  - High barriers to entry – manufacturing requirements across each of the main islands and RGB capital cost
  - ~7% of CCA capital employed (~$250m) – not betting the house
  - Growing prosperity of the country – shift to higher value one-way packs, consumer segmentation strategy is working
  - Developing a framework to better manage earnings volatility

## 2007-2012: Outlook for non-Australasian assets

South Korea – review ownership options or arrangements with TCCC

- Sale process progressing well
  - Information memorandum released in Mar07
  - Strong interest from local and international players with a sufficient number of parties of financial and operational scale for CCA to now seriously consider the sale
  - Short list of bidders will be confirmed by the end of April



# CCA Strategic Review 2007-2012

John Wartig
Chief Financial Officer

**18 April 2007**

## 2007 Outlook – Q1 trading update

**Australia**

- Key influences for 2007:
  - Cycling of Coke Zero launch (Jan06)
  - Recovery of COGS increases
  - Aligning of Australian and NZ businesses
- Q1 trading update:
  - Solid start to the year with volumes in line with last year combined with revenue per unit case improvements driven by better mix and rate

**New Zealand**

- Key influences for 2007:
  - Cycling of Coke Zero launch (Feb06)
  - Recovery of COGS increases
- Q1 trading update:
  - Volumes in line with last year with solid revenue per case improvements



## 2007 Outlook – Q1 trading update

**Indonesia**

- Key influences for 2007:
  - The continuation of improved economic conditions in Indonesia
  - One-off impact of increase in container deposit liability - $3m
- Q1 trading update:
  - Excellent start to the year driven by continuing strong volume growth combined with solid recovery of COGS increases

**South Korea**

- Key influences for 2007:
  - Recovery in demand for brand Coca-Cola following Jul06 extortion
  - Insurance claim recovery receipt in H2
  - Non-core asset sales in South Korea to continue
- Q1 trading update:
  - Maintaining good price discipline during reduced demand period

## 2007 Outlook – Q1 trading update

**SPCA**

- Key influences for 2007:
  - $5m EBIT impact of frost damage to 2006 fruit intake
- Q1 trading update:
  - Solid start to the year despite impact of short fruit season combined with higher tinplate costs
  - Expecting modest earnings growth in H1 2007

**Pacific Beverages**

- Key influences for 2007:
  - Commenced manufacturing and distribution of Maxxium portfolio in Apr07
  - Focus on driving VPO of combined NARTD and alcoholic beverage portfolio into the licensed channel
- Q1 trading update:
  - Strong momentum into Easter for beer
  - Expect minimal earnings contribution due to reinvestment back into brand development



## 2007 Outlook – Guidance

**H1 2007**

- Key focus will continue to be recovery of 5-6% COGS per case increases across all markets
- Expect high single digit EBIT growth in H1 2007

**2007 Full year**

- High single digit EBIT growth achievable assuming a continuation of current trading conditions
- Expect full year effective tax rate of 27-30% with first half expected to be lower

## Capital Management

**Dividend policy**

- Maintenance of 70-80% target payout range – 75.4% payout in 2006

**Gearing**

- Long-term interest cover target range of 3.0 – 4.0x
- Comfortable with current 4.0x interest cover given current interest rate environment

**Cash flow**

- Expect free cash flow to be in excess of $200 million

**ROCE**

- Expect improvement of at least 0.5pts in 2007

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## Capital Management – Capital Expenditure

| | 2007 | 2008 | 2009 |
|---|---|---|---|
| Maintenance capex | ~5% | 5-6% | 4-5% |
| Infrastructure capex - Automated warehouses (Sydney & Auckland) + Major IT upgrade | ~2% | ~1% | ~1% |
| **TOTAL** | **7%** | **6-7%** | **5-6%** |

- Reaffirming maintenance capex ~5% pa (around 1.0x depreciation)
- Automated warehouses on budget and on schedule for completion by end 2008 / early 2009
- $65 million major IT upgrade phased from 2007-2009
- Excludes any potential brewery development or capital projects which may be brought forward if South Korea is sold

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## Capital Management

**Potential use of proceeds if South Korean business is sold**

- Combination of capital management initiatives, debt reduction and potential to bring forward future year capital projects

**Insurance claim update**

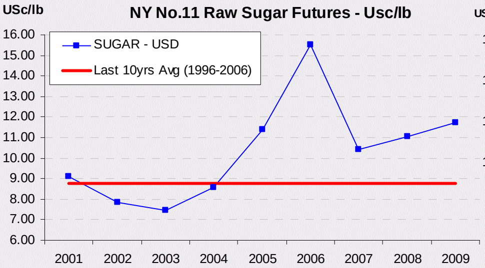
- Any further brand rehabilitation costs which may be incurred will be recognised as significant items in 2007
- Amounts received relating to loss of gross profit to be recognised as significant items on receipt of the insurance payment
- Expect claim to be finalised no later than end of H2 2007

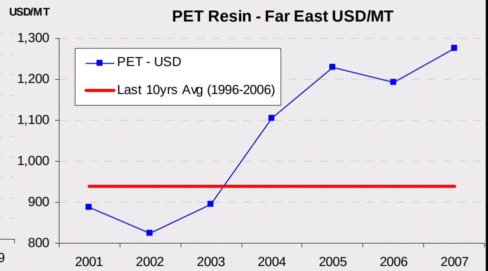
**Acquisitions**

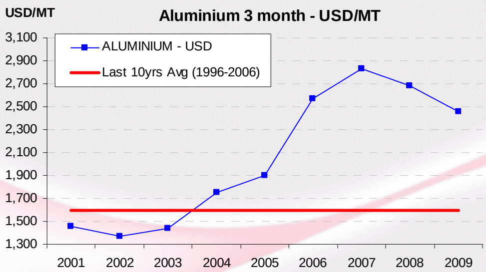
- Opportunities for small bolt on acquisitions
- Overall, sufficient organic growth options to deliver higher returns at lower risk



## COGS Update – Commodity Prices Easing



## COGS Update

**COGS Breakdown**

- Commodity and currency exposure to sugar, aluminium and PET resin
- Commodities based costs represent ~30% of COGS
- Commodity inputs still trading well above 10 year average prices

**2007 Outlook – Beverages**

- Expect higher commodity input costs to drive a 3-4% increase in COGS per unit case for beverages
- Product mix shift to higher value products expected to drive a further increase in COGS per unit case of around 2%
- Overall, on a constant currency basis, expect total COGS per unit case for beverages to increase by around 5-6%

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## COGS Update

**2007 Outlook – Food**

- Expect higher tinplate costs to drive like-on-like COGS increases of ~5%

**2008 Outlook**

- Beverages – Expectations that COGS per unit case for beverages may increase in a range of 1-3% in 2008 on the basis of the current commodity price and currency outlook
- Food – Expect higher fruit pricing due to drought impact to drive COGS increases of <5%

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## Reporting Changes

### Formation of Australasian business unit

- CCA has aligned its Australian and New Zealand businesses to create an Australasian business platform to align the operating structures and go-to-market strategies for the two countries
- George Adams, Managing Director – New Zealand & Fiji will report to Warwick White, Managing Director – Australia & New Zealand
- Alignment of Australian & NZ businesses is targeting $25m pa in additional earnings through better revenue management, procurement synergies as well as in cost reduction initiatives



## Reporting Changes

### Formation of Food & Services division

- Includes SPC Ardmona, Neverfail, Quirks and Grinders, reporting to Nigel Garrard, Managing Director – Food & Services
- Provides greater focus on successfully managing lower volume and non-trade businesses while maintaining the integration benefits made post acquisition
- Simplifies the reporting structure within the Australasian business and allows the Australasian management team to increase their focus on the emerging alcoholic beverage strategy while continuing to drive growth in non-alcoholic beverages

## Reporting Changes

### Changes in segment reporting

- At this point, CCA will continue to report segmental earnings information for Australia and New Zealand & Fiji separately
- The Food & Services division will be reported as a new segment, replacing the SPC Ardmona segment
- As the Food & Services division will include earnings previously reported within the Australian business, CCA will provide restated segmental information prior to the release of the H1 2007 financial results
- As part of the review and associated business restructuring, it is unlikely that any restructuring charges taken in 2007 will be greater than $25 million



# CCA Strategic Review 2007-2012

Terry Davis
Managing Director

**18 April 2007**

## 2007 Action Plan

- NPD focus – energy, flavoured milk, sports drinks, juice
- Sell South Korean business and/or reach better arrangements with TCCC in South Korea
- Align Australia and NZ operating structure and go-to-market strategies
- Scale up presence in licensed channel – upsized sales force with concentrated portfolio of 22 major non-alcoholic, premium beer and spirit brands
- Bring forward feasibility study for Australian brewery development – recommendations expected no later than end 2007



## 2007 Action Plan

- Expand Pacific Beverages beer JV into New Zealand
- Expand the scope and scale of the Food & Services division
- Technology and supply chain platform – OAisys (IT) and automated warehousing
- SPCA packaged fruit supply agreements ex China and South Africa
- Establish foundation for creation of back office shared services across Australia and New Zealand

## 2007-2012: Strategic Review Fundamentals

Priorities

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## 2012: What could CCA look like in 2012?

" A beverage for every occasion"

- CSDs will still dominate the brand portfolio but will represent a lower % of group earnings
- Non-sugar CSDs to represent >40% of CSD volume
- Non-CSDs, alcoholic beverages and food to generate > 50% of earnings growth
- Asset allocation to be further concentrated in Australia and New Zealand



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