Example of Analysts' Valuation Process:

Information Context, Research Findings, and Future Priorities

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ABSTRACT

The focus of the new economy is on finance, information, and people, the relevant sector with equity valuation, most closely associated with the valuation process, it gains interest in today's information society and globalization with its distinctive characteristics. Issues concerning the information content of the analysts' research to determine the intrinsic value of the firm's stock are crucial since the most significant part of this process remains hidden or literally, it is a "black box". This example further studies the valuation process from the sell-side analyst approach, presenting an investment research report beyond valuation models motivated by 1) some gaps in literature/ research, 2) the growing trend of worldwide university competitions between teams of students organized by CFA society and Ben Graham Centre and 3) my previous real-life learning experience in writing investment research report by competing at CFA Research Challenge representing University of Macedonia. This paper, which has an indirect relationship with relevant work for doctorate thesis, identifies research of distinguished quality and usefulness in the valuation process area, highlighting pedagogical implications of the study with business link (Coca Cola Hellenic) by almost entirely using excel, on important issues concerning the information content since the crisis of mid-2007 and to extract clear conclusions.

Keywords: Equity Research, Accounting /Financial /Valuation Analysis, Forecasting Performance, Stock Recommendations, Valuation Approaches /Models, Geographic Regions, Product Categories, Food & Beverages Industry: Alcohol-Free Beverage.

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I. INTRODUCTION-PROBLEM STATEMENT/ISSUE

Analyst's valuation process of companies and business units is not clearly described in the literature. In theory, valuation is a relatively simple process of discounting the firm's expected cash flows by investors required rates of return. In practice, valuation is highly complex and diverse process with the following five steps:

1. Understanding the business to be valued: evaluating macroeconomic and industry prospects, company's sales, earnings, new products, competitive position, and corporate strategies, together with financial statement analysis to forecast performance.

2. Forecasting company performance: forecasts of sales, earnings, and financial position (pro forma analysis), forecasts for the industry, and company are the direct inputs to estimating value.

3. Selecting the appropriate valuation model for the valuation task evaluating a firm's investment characteristics.

4. Converting forecasts to a valuation.

5. Making an investment decision (recommendation).

The goal of this process is to provide stock recommendations. These recommendations include which stocks to buy, which stocks to sell, and which stocks to hold. Therefore, writing an investment research report is an important part of an analyst's job. Report Writing presents a detailed valuation report with numerous comments on why certain items were included or excluded.

The most financial books are full of original and useful financial calculations but offer little knowledge and information on how to combine all these calculations in a robust and reliable valuation model that leads to the development of stock's recommendation. It could be argued that the issue of valuation is treated, among others, in the literature on books of the investment profession and the investment strategies.

In recent years, accounting and finance researchers, both academic and investment industry researchers have explored a number of different valuation-related topics, generating scores of papers (SSRN eLibrary Search Results Showing 2,685 Papers about analysts, 206 of them about sell-side analysts), 1,078 about valuation process and 559 about black box), articles, research reports (mainly from worldwide university competitions between teams of students, like CFA research challenge organized by CFA society and recently MBA Stock Picking competition organized by Ben Graham Centre, create challenges for academic research), and books (mainly in masters for business executives as this author attended).

This paper builds on a previous paper addressing the gaps and trends in literature/ research suggesting a few more methods that have not yet been practiced from the sell-side analyst approach, for example, by investment research report beyond valuation models, as to share several information that better serves society and economies to grow.

II. PURPOSE/ OBJECTIVES /CONTRIBUTION

The paper contributes in response to this need to recognize the value of hidden information. In this project, we consider an outstanding investment research report, which creates challenges for academic research, defining stock recommendation and target price, in other words, an approach of sell-side analysts to study analysts' valuations process in the context of existing literature. The specific objectives are the readers to:

•Experience a sell-side analyst approach to study analysts' valuations process considering the example of investment research report beyond valuation models.

•Realize the value of hidden information in developing a powerful and reliable valuation model implemented in excel spreadsheets and making an informed investment decision, especially for investment report preparers.

•Recognize the benefits and positive impact that this example has from a pedagogical perspective with the assistance of ICT (Information and Communications Technology) as an open challenge.

III. RESEARCH QUESTION/S

The following are the questions to be asked:

•What kind of valuation process is communicated?

•How is accounting/ financial and other information used to generate valuations and stock recommendations?

•How are approaches, models, and other related valuation aspects treated/ communicated (in comparison to peers) as to be realistic?

•How is the firm's intrinsic value, and by extension its stock's value, determined, based on cash flows in making appropriate investment recommendations?

IV. DESIGN /METHODOLOGY /APPROACH

This paper is structured as a series of sections or steps in valuing a company to the theory used requiring analysis combining the findings of previous research developed in an earlier effort to establish papers for Ph.D. dissertation and writing investment research report by competing at CFA Research Challenge representing University of Macedonia.

In Section I-III, the problem is posed, and the solution is outlined. Although to achieve the paper's purpose, the Section V intends to give a brief history of a real-life example within the context of the investment research report that was conducted from November 2011 to February 2012. This report is published for educational purposes only.

In every step of the valuation process, the paper reports appropriate accounting/ financial and other information associated with valuation process or the "black box", results of the analysis, and highlights the most important aspects of the analysis. It explains the qualitative and quantitative methods that have been used, either through survey research or observations, and the analysis of the data obtained from financial annual reports under IFRS (International Financial Reporting Standards) from 2009-2011 and either archival or internet sources (extensive search at well-known websites, papers, articles, books, reports, databases in order to understand valuation approaches/ models, forecasting as well as to gather data, beta, stock prices and other relative information).

Data are presented together with assumptions and predictions from year 2012-2014. Tables and figures are being addressed, related equations, describing the mathematical form of these expressions, are referred. The finance and valuation analysis implemented in excel spreadsheets regarding reported growth and forecasts on this case in providing analysis that leads to informed buy, sell and hold decisions.

Section VI presents the investment recommendation based on the valuation process, and provide solutions and actions taken to decision making and compare the estimated intrinsic value to the up to date (as of 12/01/2012) market price of the firm's stock. It gives some insights into my role in the investment recommendation of the valuation process and my experience on it.

Section VIII summarizes the research findings, draws conclusions from those findings, and indicates some of the implications of the findings. Limitations of the study, the importance of this investment research report/originality, and suggestions for further research in this field are considered.

V. EXAMPLE OF ANALYSTS' VALUATION PROCESS -THE "BLACK BOX"

This example is based on the contribution of personal academic effort and experience (team player who finally work independently) in writing Investment Research Report for publicly

traded firm Coca Cola Hellenic BC SA since competing at the local CFA Institute Research Challenge, representing team of University of Macedonia among five teams (of three-five students) of universities mentoring by an experienced professional.

Thus, "Investment Research for Coca Cola Hellenic" attracted business and finance student's attention when students participated in CFA Institute Research Challenge in 2011 (a four-month period of full-time research during master studies, from November 2011 to February 2012), writing Research Report of the listed Coca Cola Hellenic BC SA in the same way that it is approaching from the professionals (sell-side analysts). Before and since then, like the development of investment research report for CCH in Local, European and global level, has made for many other companies in such competitions.

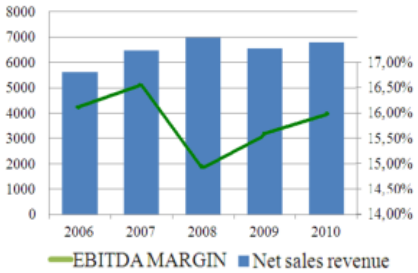
This section can be viewed as the "black box", in fact, analyst's valuation process, the hidden information, otherwise analysts' research, analysts' analysis, or analysts' decision process before the valuation and stock recommendation in the next section. Doing this, this is an effort to clarify even more the analyst's valuation process for a coherent and complete picture. The following understanding of the company to be valued is imperative.

Step 1: Understanding the business to be valued

A. Business Description

Coca-Cola Hellenic began a business in Greece in 1969. It was formed in 2000 as a result of the merger of the Athens-based Hellenic Bottling Company and the London-based Coca-Cola Beverages, with headquarters in Athens. Since then, CCHBC has undertaken ten joint acquisitions. Nowadays, CCHBC is the second-largest bottler of products of The Coca-Cola Company in terms of volume. Its unique portfolio of world-leading brands mix of geographies (operations across 28 countries) and market execution capabilities make **Coca-Cola Hellenic a leader in the alcohol-free beverage industry.** The average number of full-time equivalent employees in the first nine months of 2011 was 42,088 (42,725 for the first nine months of 2010). Its two major shareholders are the Kar-Tess Holding S.A., a private holding company, and The Coca-Cola Company. Coca-Cola Hellenic's shares are listed on the Athens Exchange (ATHEX: EEEK), with a secondary listing on the London Stock Exchange (LSE: CCB). Its American Depositary Receipts (ADRs) are listed on the New York Stock Exchange (NYSE: CCH). It is one of only three beverage companies worldwide to earn a place on the DJSI World index, and one of just two to make it into the DJSI Europe index. In 2010, **Coca Cola Hellenic dominates the market** with increase in net sales revenue 6,794 € million (+4%) while in the first nine months of 2011, net sales revenue grew with a 3% increase in developing markets and a stable performance in established and emerging markets, compared to the same period of the previous year. At the period 2008-2010 Coca Cola Hellenic has an improvement both in EBITDA (+6%) and EBITDA Margin from 14, 91% to 15, 96%.

Figure 1.Sales and EBITDA Margin (million €). Source: Company's Annual Report(2010)



Product Portfolio. Coca-Cola Hellenic produces markets and sells a diverse range of ready-to-drink nonalcoholic beverages. Its product portfolio consists of:

Figure 2. Diverse & balanced country portfolio. Source: Company's Annual Report (2010)

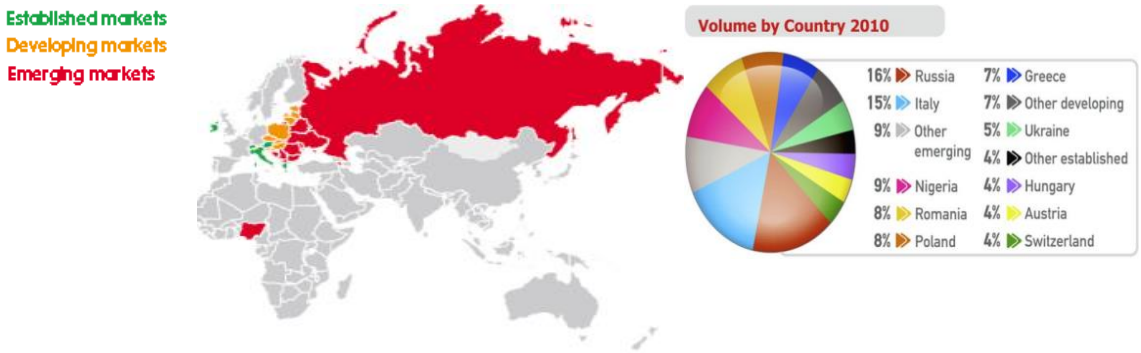


Figure 3. Diverse product portfolio. Source: Company's Annual Report (2010)

-Sparkling beverages (64%): The leading brands are Coca-Cola, Coca-Cola Light (diet Coke), Fanta, and Sprite. The range covers: sugared, 'low sugar' and 'sugar-free' sparkling beverages, in an increasingly diverse range of packaging designed to match today's diverse lifestyles.

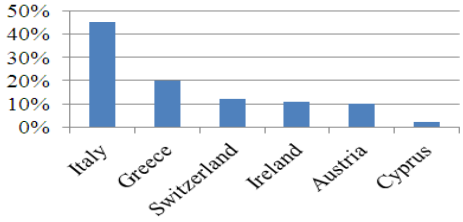
-Still beverages (15%): The range covers: ***1)Juice beverages (9%)*** - The leading brands are Amita, Dobry, and Cappy, offering in a variety of flavors and convenient packages, ***2)Ready-to-drink teas (5%)*** - The leading brand licensed by Nestea, offering in a variety of flavors, and ***3)Energy drinks and Sports drinks*** (Burn, illy coffee, powerade) (1%).

-Waters (21%): The leading brands are Avra, Lilia, and Bonaqua, offering in a range of flavors and tastes.

Geographic Segments. Coca-Cola Hellenic groups its markets into three following segments:

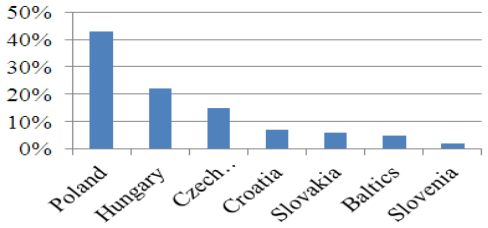
-Established markets *(Austria, Cyprus, Greece, Italy, Northern Ireland, Republic of Ireland, Switzerland)*: This key market contributed €291 million to the Group's operating profit in 2010, a -11% decrease compared to 2009 and it is expected to decline more in 2011 driven by weak consumer sentiment, austerity measures, and taxes in Greece and Italy although there is a low single-digit increase in Switzerland.

Figure 4. Established markets in West Europe (Volume Split). Source: Company's Annual Report (2010)



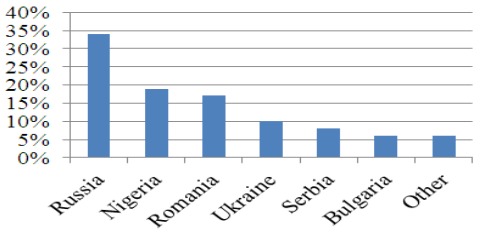
-Developing markets *(Bal tics (Estonia, Latvia, Lithuania), Croatia, Czech Republic, Hungary, Poland, Slovakia, Slovenia)*: The most promising area contributed €92 million to the Group's operating profit for 2010, -6% below the prior year and it is expected to decline more in 2011.

Figure 5. Developing markets in East Europe (Volume Split). Source: Company's Annual Report (2010)



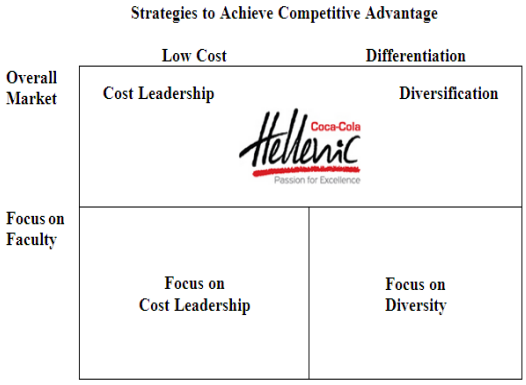
-Emerging markets *(Armenia, Belarus, Bosnia and Herzegovina, Bulgaria, FYROM, Moldova, Montenegro, Nigeria, Romania, Russia, Serbia, Ukraine)*: The most significant region in which CCHBC operates contributed €299 million to the Group's 2010 operating profit in 2010, +32% higher than in 2009 and it is expected further growth in 2011 as the economic recovery continues.

Figure 6. Emerging markets in East Europe & West Africa (Volume Split). Source: Company's Annual Report (2010)



CCHBC's Strategy. CCHBC's main growth drivers are both **cost leadership** - being the lowest cost producer while offering products comparable to those of other companies, so that products can be priced at or near the industry average (light-weighting in both PET and glass packages); and **differentiation** - offering unique products (e.g. Coca-Cola Zero) or services (e.g. SAP Wave 2) that are widely valued by buyers so that the company can command premium prices. In the first nine months of 2011, Net Sales Revenue grew ahead of volume with a 3% increase in developing markets and is expected to increase 9% by 2014 while a stable performance in established and slow growth in emerging markets.

Figure 7.



To support growth in **Developing markets,** CCHBC expands its product line with a focus on value-added products with healthy positioning.

Conversely, in **Established markets**, given that the prospects for economic recovery are very negative, CCHBC will try to maintain with new healthier product innovations, marketing and price discounting, new levels of business process efficiency and customer service, perhaps acquisitions of local companies as Loux in Greece. In February 2011, CCHBC sold all its interests in Eurmatik S.r.l., the vending operator in Italy. The disposal of Eurmatik S.r.l resulted in a gain of €0.8 million in the Group's established segment.

Finally, in **Emerging markets,** CCHBC is to focus on building brand loyalty, expansion, and new product launches. On 20 April 2011, the Group, along with TCCC, acquired through Multon ZAO, the Russian juice joint venture, all outstanding shares of MS Foods UAB, a company that owns 100% of the equity of Vlanpak FE ("Vlanpak"), a fruit juice and nectar producer in Belarus.

Table 1. The internal environment of Coca-Cola Hellenic-Source: personal estimates

The internal environment of Coca-Cola Hellenic (Attributes of the organization)	
Strengths	**Weaknesses**
+ The leader in all countries which operates	– The prices that the bottling company uses are fixed by the prices of the Coca-Cola controls.
+ Broad and balanced geographic footprint	– Some gaps in market share of Juice, Ice tea
+ Wide product range	– Staff's fear of redundancies
+ Successful promotional activity	– No dividend distribution with tax-effective way
+ Customer centricity	– High lending
+ Consumption per capita growth potential	– High advertising
+ Highly experienced management team	– High investments
+ Strong balance sheet	– Processes and systems
+ Continued free cash flow generation	– Operation cost
+ Globally recognized commitment to sustainability	

Figure 8. Value Chain of Coca-Cola Bottling Company S.A.-Source: personal estimates

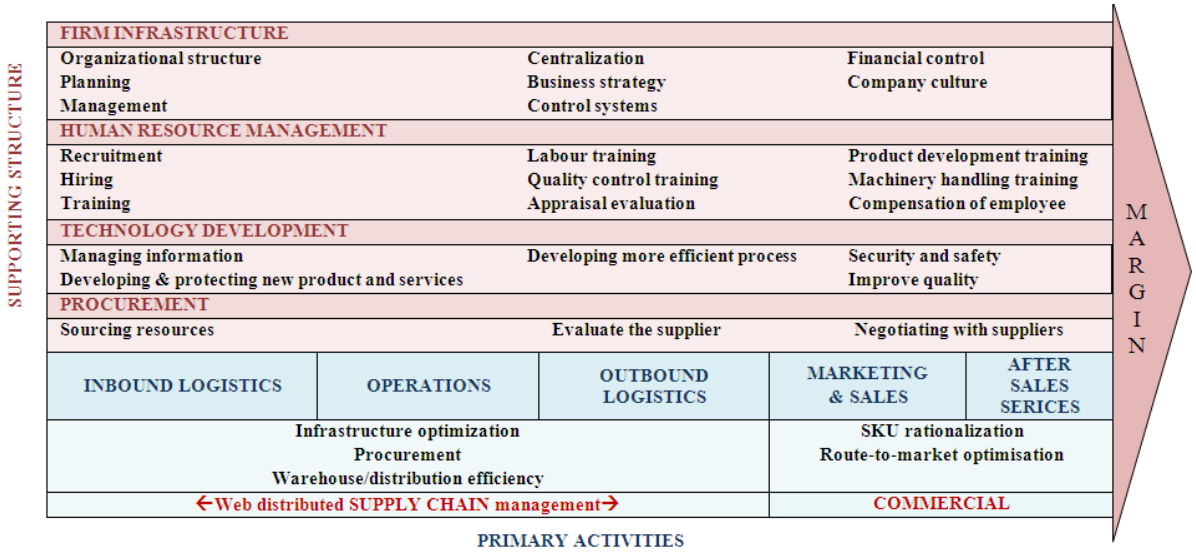
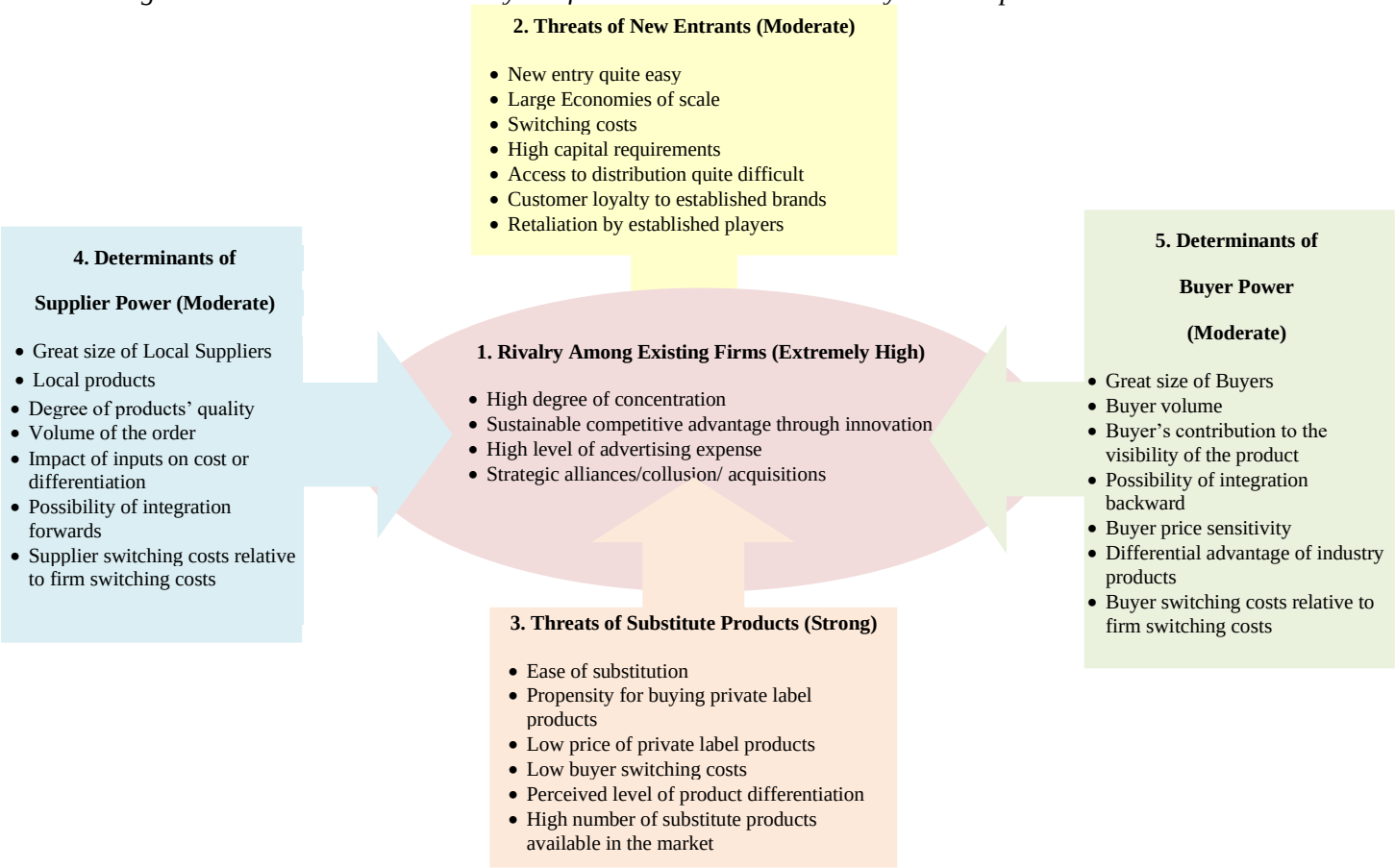


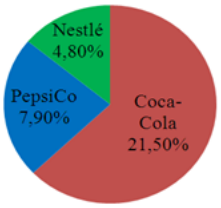
Figure 9. Porter Five Forces Analysis of the Food & Drinks Industry.Source: personal estimates



B. Industry Overview and Competitive Positioning

According to Food for Thought (FFT)'s market study, the size of the Soft Drinks & Juices Market in Europe, as this is captured by the 16 largest countries in Europe, was EUR 72.9 bn in 2009, or 6.6% of all the food and drink market of EUR 1,111 bn. The Soft Drinks & Juices Market in Europe is highly fragmented. There are 784 companies operating in this market, with the Top-10 companies accounting for c.50% of the total sales. Major players are Coca-Cola with a market share of 21.5%, followed by PepsiCo (7.9%) and Nestlé (4.8%) (Figure 10).

Figure 10. Top three major players in the industry across Europe. Source: http://foodmarkets.wordpress.com/2010/10/26/soft-drinks-market-europe/



The study covers 112 country and 7 product markets, with The Coca-Cola Company, have a leading presence, being present in 57 markets, in 26 of which are covered by Coca-Cola HBC S.A. (following by two markets: Asia (Armenia) and West Africa (Nigeria), CCHBC completes presence in 28 markets). However, the Soft Drinks & Juices Market in Europe is forecast to decline at an average annual real -1.16% during the 2009 - 2012 period, compared to 0.51% for the whole food and drink market.

In this section, we analyze the three main markets in which CCHBC operates: Sparkling beverages, Water, and Juices.

Figure 11. Product Market Share. Source: http://foodmarkets.wordpress.com/2010/10/26/soft-drinks-market-europe/

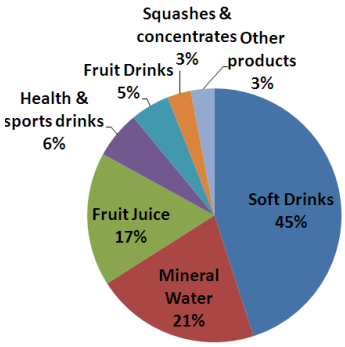
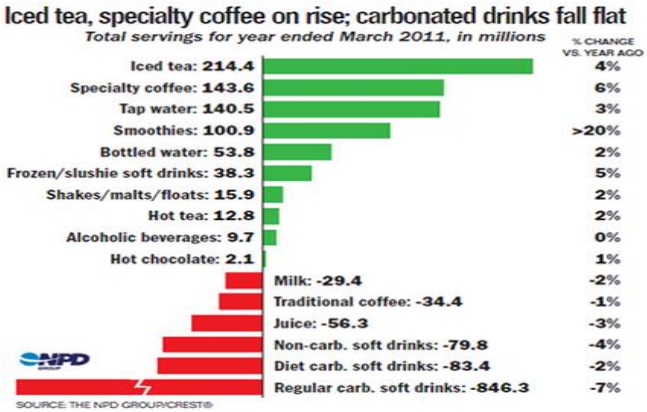


Figure 12.Total servings for the year ended March 2011 in millions. Source: http://www.euromonitor.com/medialibrary/Image/SD_SoftDrinks2010TrendsandFutureDirections.jpg



Sparkling beverages or Soft Drinks

This market is the largest and most popular product market (among the seven products currently selected in figure 11), which makes up 45% of the total 2009 Western European soft drinks market or EUR 32.6 bn. Worldwide, the most significant trends of recent years are three: a) the clear trend for balanced diet has turned part of the consumer public by soft drinks to juices and even in the most ' strengthened ' by them, b) branded products elbowed by private label that gains small but continuously growing market shares, and c) traditional bottlers who are distinguished for the quality of their products are now trying with more and more ways to reach the general public. The market has opportunities to grow due to innovations for beverages with low calories.

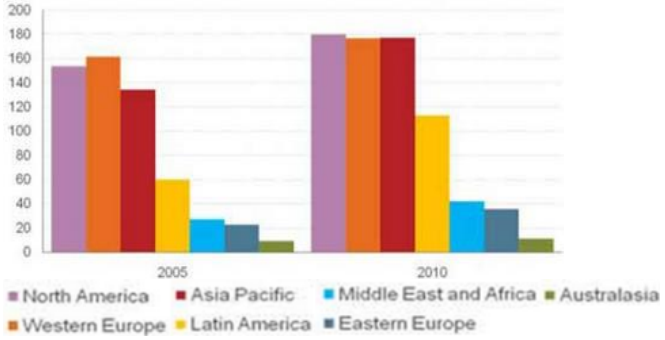
Water

This market is the second-largest product market, accounting for 21% of the Western European total market, or EUR 15.3 bn. Bottled Water performances based on annual real % growth (2010-2011) with +2% (figure 12). Following several years of double-digit growth, bottled water is being hit by the economic crisis. 2009 saw a notable migration towards private labels and a slowdown of volume growth, yet the impact of the crisis was more severe in 2010 when volume sales started to register negative growth with many price-sensitive consumers opting to drink tap water. However, the market has opportunities to grow in Eastern Europe & Russia, due to two main factors: increasing disposable incomes and the bad quality of tap water.

Juices

This market is the third-largest product market, accounting for 17% of the Western European total market, or EUR 12.7 bn. The decline in the juice category slowed to mid-single digits in 2011 as there are many private label products at low prices. According to Euromonitor International Research in Nigeria, Juice is expected to grow by 7% 10-11 CAGR of in total volume terms, which is slower than the 10% 09-10 CAGR. In this section, we analyze the trends in three main regions in which CCHBC operates: Western Europe, Eastern Europe & Russia, and West Africa. In the adjacent Figure 13 shows the trend by each region in soft drinks value sales (in $ billion).

Figure 13. Soft drinks value sales in $ billion, Trend from 2005 to 2010 by region. Source: Recent study by The NPD Group: http://insidepenton.com/nrn/images/CHART_SpecialtyCoffeeTeaRise.jpg



Western Europe: an aging core business

In 2010, Western Europe took the second region in soft drinks value sales globally after North America. The largest country market, Germany makes up 20% of the total soft drinks market in the world or EUR 72.9 bn, following by U.K. and Italy (30%) and the five largest country markets, including France and Spain (27%). However, economic challenges remain throughout this market as the sovereign debt crisis in countries like Greece, Italy, Spain, and Portugal continues to impact growth in the Eurozone. In this market, there are CCHBC's established markets, which are mainly driven by Italy, which accounts for 15% of total sales following by Greece (7%). The crisis seems to continue for much longer, and the tax measures taken to increase government revenue both in Italy and in Greece are not only ineffective but also is expected to hit even more the sales.

On the other hand, the demand for soft drinks in Italy is predicted to grow slightly from 2011-2014. Growth will be driven by three factors: population growth, economic recovery, and purchasing behavior being increasingly oriented towards healthy products. This last trend is affecting almost all soft drinks categories, and in this respect, bottled water has the advantage of being naturally healthy.

Eastern Europe & Russia: boosting sales

In 2010, Eastern Europe took the sixth region in soft drinks value sales globally before Australasia. In Eastern, there are CCHBC's developing and emerging markets in which there are improving economic trends. However, the largest market of the two in terms of volume for Coca Cola Hellenic is the emerging one with Russia as a leading country of CCHBC's total volume. Russian soft drinks market recognized as the largest and fastest growing among the Eastern European ones. Increases in disposable income, decreasing unemployment and a stabilization of the currency brought about the effect of "delayed demand" and the people are ready to spend money on consumer goods again. In recent years, Russia has adopted a trend of switching to healthy foods, i.e. mineral water and juices.

West Africa: a developing world business

In 2010, this market took the fifth region in soft drinks value sales globally before Eastern Europe. Here, there is Nigeria, CCHBC's emerging country in Africa, the third market in terms of volume for Coca Cola Hellenic. Total volume growth will continue to be strong in Nigeria, with a CAGR of 7% in 2011, although this will slow in later years due to slower GDP growth. Juices and bottled water will continue to be strong performers, although growth will be considerably slower than the still-new RTD tea category.

Market drivers vary depending on geographic area and type of product. The three reference markets for Coca Cola Hellenic are sparkling beverages in Western Europe (Italy), sparkling

beverages, Juices, and bottled water both in Eastern Europe & Russia (Russia) and in West Africa (Nigeria). The competitive scenario can be summarized in Tables 3, 4 and 5.

Western Europe

The most relevant drivers of competition are the brand presence, promotional activity, business process, quality, innovative products, price, and distribution channel:

–**Brand Presence:** The visibility of brands and expand is a distinguishing factor.

–**Promotional Activity:** Increased promotional activity offset the adverse impact on sales in the immediate consumption channels from economic conditions and weak consumer sentiment.

–**Business Process:** Efficiency improvements in distribution and production resulted in notable cost savings.

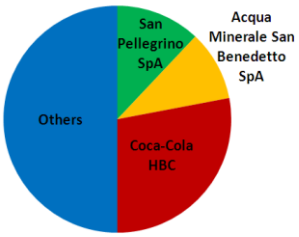
–**Quality:** The desire for healthier products drives sales of RTD tea and low-calorie cola sparkling beverages, while the sales increases for mixers and energy drinks.

–**Innovative Products:** The best opportunity in soft drinks remains with the most innovative products that can combine new types of fruit flavors with a perception that they are healthier.

–**Price:** Economic constraints have forced consumers to become more considered about their spending, and many have turned to private labels.

–**Distribution channel:** The off-trade channel is still the main channel for soft drinks. The growth in this channel was stronger than in the on-trade channel, as consumers were more reluctant to consume soft drinks out of the home.

Figure 14. Market share of sparkling beverages in Italy. Source: http://www.euromonitor.com, Personal estimates



Sparkling beverages in Italy. As we can see from Figure 14, the list of main competitors in Italy (San Pellegrino SpA, Acqua Minerale San Benedetto SpA, and Coca-Cola HBC Italia Srl) is short and the concentration is high with a total market share of nearly 50%. This level of concentration has led to a stable market, characterized by a lack of new launches, with companies having little reason to invest heavily in innovation since it would not be rewarded in terms of adequate returns or market share growth. These three companies invest in substantial advertising campaigns focused on increasing brand loyalty. Coca-Cola increased its advertising activities because of the FIFA World Cup, which has always represented an excellent opportunity for Coca-Cola to strengthen its presence and visibility. Companies are likely to focus on health aspects, both in terms of new products and advertising, in an attempt to exploit the trend of increased health awareness in Italy as the successful launch of coca-cola zero. Within sparkling cola beverages, the fastest growth category was low-calorie cola, which gives plenty of room for further growth. Coca-Cola is the leading brand, with a share of 27% of total volume, followed by Fanta, with a share of 14%. The successful implementation of SAP Wave 2 in Italy is expected to provide competitive advantages by facilitating closer functional integration, enhancing Coca Cola Hellenic's commercial capabilities, and improving overall customer service levels.

Eastern Europe & Russia

The most relevant drivers of competition are brand presence and weather conditions:

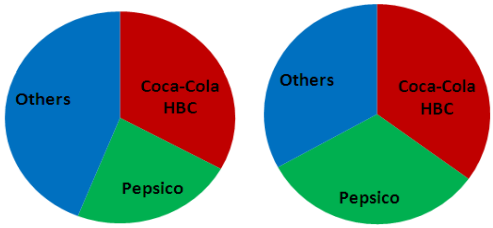
– **Brand Presence:** The visibility of brands and expand is a distinguishing factor.

– **Financial Capacity:** As there are many opportunities for growth and expansion by acquisitions.

– **Weather conditions**: Unseasonably cold and rainy weather conditions in Eastern Europe in the summer months may have a negative impact on revenues.

Sparkling Beverages, Juices, and Bottled Water in Russia. The leading players focused on building brand loyalty and expansion. Coca-Cola started its business in Russia in 1991 and now owns 14 local factories. The company has invested US$2 billion in Russia over the past two decades, while PepsiCo has been present in the market since 1974, currently were operating 11 factories and has invested about US$3 billion in Russia over the last ten years. To hold on to its leading position, PepsiCo Holdings OOO announced the acquisition of Wimm-Bill-Dann Produkty Pitania OOO in 2010. Between them, Coca-Cola and PepsiCo control 56% (33% and 23% respectively) of sparkling beverages sales, 67% (35% and 32% respectively) of juices sales (boosted by the Nidan acquisition by Coca-Cola) and 27% (10% and 17% respectively) of bottled water in total volume terms (Figure 15). The most popular brands of sparkling beverages in Russia are Coca-Cola, Pepsi, Fanta, Sprite, and 7-Up.

Figure 15. Main competitors in the market a) of soft drinks and b) juices of Russia. Source: http://www.euromonitor.com, and personal estimates



West Africa

The most relevant drivers of competition are the brand presence, packaging design, innovative products, quality, and price and distribution channel:

– **Brand Presence:** The visibility of brands and expand is a distinguishing factor.

– **Packaging Design:** Increased availability of one-way packages has a positive impact on sales.

– **Innovative Products:** The best opportunity in soft drinks remains with the most innovative products that can combine new types of fruit flavors with a perception that they are healthier.

– **Quality:** Increased health consciousness among Nigerians, who are becoming more concerned about their sugar intake, is leading many to choose juices instead of sparkling beverages, thereby limiting demand for sparkling beverages. The bottled water category continued to perform strongly in Nigeria due to the scarcity of safe drinking water and electricity. The new RTD tea category continues to develop.

– **Price:** In bottled water in 2009 of brands Mowa (Dansa Foods Ltd) and Aquafina (7-Up Bottling Co Nigeria) have not yet caught on strongly, but their positioning at a lower price in comparison to the leading Eva brand (Coca-Cola Nigeria Ltd) may help them to build share in the coming years.

– **Distribution channels:** Traditional open markets and the traffic channel continued to dominate volume sales in Nigeria. Many consumers buy these drinks for consumption at home or on the go or for entertaining guests at parties and other events. The supermarkets/hypermarkets channel, in particular, is increasing its presence. The recent boom in the fast-food industry has resulted in the dynamic growth of on-trade volume sales.

Figure 16. Market share of sparkling beverages in Nigeria. Source: http://www.euromonitor.com, and personal estimates

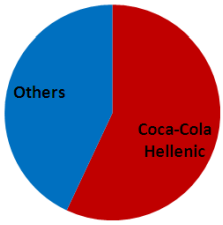
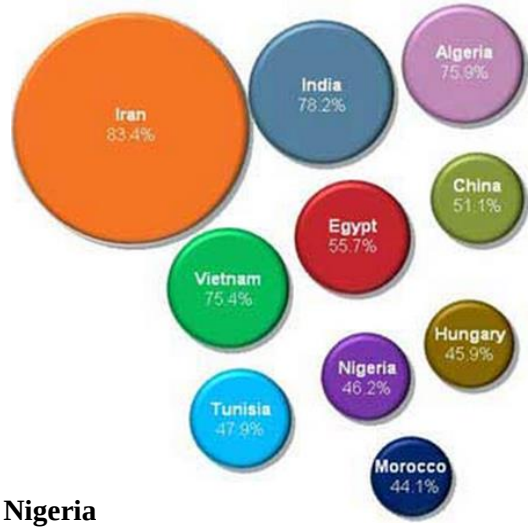


Figure 17. Soft Drinks Forecast Performance, Global Top 10 Volume Growth Rates (%)2009-2014. Source: http://www.euromonitor.com/medialibrary/Image/SoftDrinksMAMarketOpportunities2010.jpg



Sparkling Beverages, Juices, and Bottled Water in Nigeria

In Nigeria, Coca-Cola and PepsiCo have more than 40% of the beverage volume share combined, primarily through their sparkling category. There is a tremendous opportunity for growth. Coca-Cola and PepsiCo are coming into this region in a big way. Coca-Cola HBC's sparkling category dominance with 57% of off-trade volume sales in 2010 due mainly to its vast distribution network, which is crucial in a country where the road networks remain challenging. It also benefits from aggressive advertising and brand-building activities.

Moreover, increased availability of one-way packages resulting from increased capacity had a positive impact on sales of brand Coca-Cola in 2010, while Sprite volume grew in the low double-digits, supported by the continued roll-out of the Ultra glass bottle. Coca-Cola continues to dominate sales in two categories, sparkling beverages (57%) and bottled water (50%), thanks to its well-established name in Nigeria, a strong distribution network, and massive marketing expenditure (Figure 16). Coca-Cola Nigeria Ltd is followed by 7-Up Bottling Co Nigeria (Pepsico), which only entered the bottled water category in 2009. In juices, CCHBC continued to gain category share and expand its product portfolio. **Competition: Local players** have a strong presence, supported by the government's ban on imported juice in Nigeria. Thus, Chi Nigeria Ltd leads in two categories –juices and RTD tea – with a well-known brand name and marketing emphasizing its Nigerian origins, while the first brand of RTD tea category is Cway Food & Beverages Co Nig Ltd, launched only in 2008. The RTD tea and Juice categories are expected to continue to develop in the future with new companies likely to enter, which in turn will lead to an increase in the number of brands, flavors, and pack types being launched. **Multinationals:** Nestle is the leader in still beverages with around an 11% share, following by Coca-Cola (7%) and Danone (3%), while PepsiCo did not appear in the top five. **Substitution:** Nigerians, who are becoming more concerned about their sugar intake, is leading growing numbers to choose juice instead of sparkling beverages, thereby reducing the demand for them. However, this will be offset by a slowing economy and competition from "nutritious" flavored milk drinks, which are considered to be healthy and filling. **The best opportunity in soft drinks** remains with the most innovative products that can combine new types of fruit flavors with a perception that they are healthier.

Table 2. PEST Analysis of Alcohol -Free Beverage Industry. Source: personal estimates

	Economic Environment	**Social- Environmental Environment**
Positive Influence	+ Strength economy trends in East Europe & Russia/ Africa + Large market and trade cycles + New distribution trends + Many customers + Faster growth in consumption of non-sparkling drinks, particularly waters and juices + High earnings of the largest companies + A high degree of concentration + Strong distribution channel + Policies of retail offerings/' war ' of prices + Demand covered by domestic production + Resistant Industry	+ Lifestyle trends for eating and drinking out of home + Consumer trends for a healthy diet and physical activity + Major events and influences + Many brands, companies, technology image + High advertising and publicity + Easy access to the market + Ethnic/religious factors for local products + More hot days a year + Tourist traffic during the period April-October + The modern pace of life + The average number of children per family + Age distribution
Negative Influence	– Competition is rife – European economic crisis – The weak economic situation in Central-Western Europe – General taxation issues/ Taxation specific to beverages in Greek and Italy – High Inflation/Unemployment in Europe – Seasonality – Weather issues – Demand elasticity in price – Increase in the cost of many categories of feed materials – The rise in oil prices Fluctuate interest and exchange rates – Low credits from banks- High-interest rates	– Media views for the quality and nutritional value of beverages – Law changes affecting social factors – Consumer buying private label products – Low consumer credit in Western Europe – Increase in consumption at home in Western Europe – The rumor for the quality & nutritional value of beverages – The sensitivity of the primary production of raw materials to extreme changes in weather conditions. – Ecological/environmental issues
	Political - Legal Environment	**Technological Environment**
Positive Influence	+ International legislation + Regulatory bodies and processes + Trading policies + Funding, grants, and initiatives + Home market lobbying/pressure groups + International pressure groups + E-Government	+ Competing technology development + Replacement technology/solutions + Information and communications + Consumer buying mechanisms/technology + Technology legislation + Innovation potential of new products & packages + Technology access, licensing + Global communications + Continuous intensive advertising support + Increase in the use of coolers
Negative Influence	– Current legislation home market in Greece – Future legislation – Austerity government policies in Greece and Italy – Political and tax instability in Greece – The legislative framework for dividends voted 2010 in Greece (Article 18 of the Law 3697/2008)	– Low research funding – Development in private label production

Table 3. SWOT & Strategy Analysis of Coca-Cola Hellenic. Source: personal estimates

		The internal environment of Coca-Cola Hellenic **(Attributes of the organization)**	
		Strengths	**Weaknesses**
	SWOT & Strategy Analysis of Coca-Cola Hellenic	+ The leader in all countries which operates + Broad and balanced geographic footprint + Wide product range + Successful promotional activity + Customer centricity + Consumption per capita growth potential + Highly experienced management team + Strong balance sheet + Continued free cash flow generation + Globally recognized commitment to sustainability	– The prices that the bottling company uses are fixed by the prices of Coca-Cola's controls. – Some gaps in market share of Juice, Ice tea – Staff's fear of redundancies – No dividend distribution with tax-effective way – High lending – High advertising – High investments – Processes and systems – Operation cost
External environment **(Attributes of the organization)**	**Opportunities**	**SO Strategies**	**WO Strategies**
	+ Acquisitions of Local competitors + Encouraging signs of economic recovery in Eastern Europe & Russia/ Africa. + Technology development and innovation + Business and product development + Could seek better supplier deals. + The modern pace of life + The trend for a healthy diet and physical activity + The trend for eating and drinking out of home + Impressive growth in consumption of Bottled water and Ice tea + Summer months/Tourist traffic	= Probably justifying immediate action-planning or feasibility study. = Revenue growth ahead of volume = Strategic alliances for entry into new markets = Production of new light products with health and wellness benefits = Expansion of production line = Strategic investments in new technologies = Flexibility to changes in consumer preference	= Expansion to RTD and food/snack market = Continuous control of market strategy = Improvement in pricing and category mix = Invest in brands = Investments to coolers and other cold drink equipment in retail outlets and other consumption venues = Joint venture with The Coca-Cola Company
	Threats	**ST Strategies**	**WT Strategies**
	– Protracted recession in the Eurozone- Low purchasing power of the household – Legislation could impact for dividends in Greece – Government austerity measures in Western Europe (Increased taxes/ V.A.T. rate on beverages) – High competition (Pepsico Ivi, Nestle, etc.) – Fluctuations of exchange rates risk. – Market demand very seasonal. – Demand elasticity in the price- growth in private label – Retention is of key staff critical. – Possible negative publicity for the quality and nutritional value – Increased input costs	= Improvement in pricing and category mix, invest in brands = Focus on continuing to invest in brands = New levels of business process efficiency and customer service (SAP Wave II). = Continuing win in the marketplace = Aggressive price policy, by reducing or maintaining stable = Strengthen the leading market presence = Looking for new acquisitions = Advertising strategy promoting quality = Awareness, planning, and implementation required to meet these challenges.	= Assessment of risk crucial. = Improvement in market place execution = Promotion of economic packages = Focus on the reduction of operating costs = Transfer of activities in neighboring countries with a low tax system = Decline in business = Reduction in staff = Sell existing bonds to reduce expenses for interest and to improve the schedule's finish lending

Table 4. SWOT & Strategy Analysis of Pepsico.-Source: personal estimates

		Internal environment of Pepsico **(Attributes of the organization)**	
		Strengths	**Weaknesses**
	SWOT & Strategy Analysis of Pepsico's Subsidiaries	+ Subsidiary of PepsiCo(Multinational) + Operating in many countries + Strong diverse and quality portfolio of foods-snack (63%) & beverages (37 %) + Capacity development of innovative products and improvements to existing ones + Qualitative production process + Low-cost facilities locations + Possibility of producing innovative products + Smart marketing and promotional capacity + Strong sales in juices, tea and snacks	– Some gaps in range for beverages – Lack of competitive strength – Low factories and warehouses – Weak processes and systems – Management cover insufficient
External environment **(Attributes of the organization)**	**Opportunities**	**SO Strategies**	**WO Strategies**
	+ Acquisitions of Local competitors + Encouraging signs of economic recovery in Eastern Europe & Russia/ Africa. + Technology development and innovation + Business and product development + Could seek better supplier deals. + Modern pace of life + Trend for healthy diet and physical activity + Trend for eating and drinking out of home + Impressive growth in consumption of Bottled water and Ice tea + Summer months/Tourist traffic	= Strategic acquisition for entry into new markets = Production of new light products with health and wellness benefits = Strategic investments in new technologies = Flexibility to changes in consumer preference	= Investments for equipment (machinery and buildings) = Investment in more efficient systems and processes which enhance customer service = Strengthen their network and promote their products on the market
	Threats	**ST Strategies**	**WT Strategies**
	– Protracted recession in the Eurozone- Low purchasing power of the household – Legislation could impact for dividends in Greece – Government austerity measures in Western Europe (Increased taxes/ V.A.T. rate on beverages) – High competition (CCHBC, Nestle, etc.) – Fluctuations of exchange rates risk. – Market demand very seasonal. – Demand elasticity in price- growth in private label – Retention of key staff critical. – Possible negative publicity for the quality and nutritional value – Increased input costs	= Aggressive price policy, by reducing or maintaining stable = Increasing advertising = Strengthen its presence and visibility	= Investment to buildings/factories

Table 5. SWOT & Strategy Analysis of LOUX. Source: personal estimates

		Internal environment of LOUX **(Attributes of the organization)**	
		Strengths	**Weaknesses**
	SWOT & Strategy Analysis of LOUX	+ The largest pure Greek company in the industry + The popular image of the undertaking for Quality and authenticity of taste + Approval of membership in the incentive law + Individual business effort + Modern and sophisticated production units, storage and handling of soft drinks + Low-cost facilities locations + Use exclusively of its funds + Development and exports	–Be a small player –No direct marketing experience. –Some gaps in range for beverages –Low R&D activity and innovation –Low sales distribution network –Low marketing –Weak Processes and systems –Gaps in capabilities
External environment **(Attributes of the organization)**	**Opportunities**	**SO Strategies**	**WO Strategies**
	+ Acquisitions of Local competitors + Encouraging signs of economic recovery in Eastern Europe & Russia/ Africa. + Technology development and innovation + Business and product development + Could seek better supplier deals. + The modern pace of life + The trend for healthy diet and physical activity + The trend for eating and drinking out of home + Impressive growth in consumption of Bottled water and Ice tea + Summer months/Tourist traffic	= Expansion into new markets, such as Bottled water = Creation of new innovative products on the market for soft drinks, juices and tea = Production of new light products with health and wellness benefits = Stabilization in mature markets = Development of innovative products and improvements to existing ones	=Investments for equipment (machinery and buildings) =Creation of a PET packaging production unit
	Threats	**ST Strategies**	**WT Strategies**
	– Protracted recession in the Eurozone- Low purchasing power of the household – Legislation could impact for dividends in Greece – Government austerity measures in Western Europe (Increased taxes/ V.A.T. rate on beverages) – High competition (CC HBC, Pepsico,etc.) – Fluctuations of exchange rates risk. – Market demand very seasonal. – Demand elasticity in the price- growth in private label – Retention is of key staff critical. – Possible negative publicity for the quality and nutritional value – Increased input costs	= Investment in the production of innovative products in the broader area of non-alcoholic beverages = Expansion into new markets and products = Strengthen their network and promote their products on the market in order to obtain further widening their share	=Merge to multinational

Step 2: Forecasting company performance

A. Financial Analysis

In this section, we present the principal assumptions on which we base our valuation. We use 10-14 CAGR for consistency with the company‘s strategic plan.

Sales: Growth was driven by the most innovative products and expansion in Developing and Emerging Markets while in Established by healthy value-added products and cost reduction.

Western Europe: maintaining its position in a flat growth scenario

Volume is expected to slightly decrease thanks to the launch of new healthier beverages like coca-cola zero. It is expected a -3,2% volume CAGR and a revenue CAGR -2,4% from 2010 to 2014 as economic crisis impact demand and consumers switch to cheaper private label brands, CCHBC forced to reduce prices and increase packaging offers to maintain its market share. However, acquisitions of local manufacturers such as Loux or closing factories in Greece and transportation in Bulgaria where taxation is lower are likely scenarios.

Eastern Europe & Russia

Coca-Cola HBC is strengthening its leadership position in the beverage market in Russia with its expansion in the juice market and entry in the bottled water market. With Multon ZAO and Nidan Soki OAO, Coca-Cola challenged PepsiCo’s juice market dominance in Russia. Growth in sparkling beverages is driven by the launch of new coca-cola zero and Fanta Grape by 2011, with higher prices and healthier than the usual ones.

West Africa: expansion in Nigerian beverage range

The best opportunity in soft drinks remains with the most innovative products that can combine new types of fruit flavors with a perception that they are healthier. The introduction of healthier beverages in Nigeria is expected to expand unit growth and increased saturation in the category, as well as the acquisition scenario of local brands. CCHBC is expected to expand unit growth to 1,081.2 M unit cases in emerging markets and 540.6 M unit cases in developing markets with a 1,7% CAGR and 8,4% CAGR respectively from 2012 to 2014.

Figure 18. Source: personal estimates using Excel

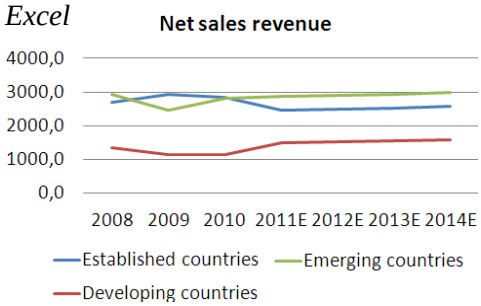
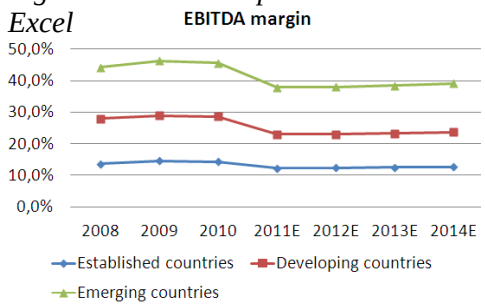


Figure 19. Source: personal estimates using Excel



Margins: Unique and diverse geography product portfolio leads to improvements in profitability.

We forecast EBITDA margin improvement from 13% in 2011 to 13,5% in 2014, driven by:

Efficiency improvements in Eastern Europe & Nigeria: Developing and Emerging markets represented 58% (17%, 41% respectively) of sales in 2010 while we estimate an increase by 2014 to 64% (22%, 42% respectively) but contributed too approximately from 59% of EBIT in 2010 to 65% (19%, 46% respectively) by 2014, and for even a larger percentage of earnings. According to our estimates, we expected EBITDA margin in CCHBC’s emerging markets to remain substantially higher than the company’s average at 15,4% in 2014.

Changes in product mix: Better pricing and category mix benefit EBITDA margin mainly in emerging and developing countries. Coca Cola Hellenic is committed to pursuing a premium pricing strategy, but the introduction of new beverages in Established markets with a low price will put some pressure on margins. Nevertheless, we expect the EBITDA margin in established markets to increase from 12, 3% in 2011 to 12,7% in 2014.

Improvements in operating efficiencies: Coca Cola HBC's on-going investment in coolers, marketing, additional production capacity, and continuous improvement in its processes and customer service through the implementation of SAP Wave 2 across its markets, improve operational efficiency, enhance customer service and also enables in a sound balance sheet and strong cash flow.

Innovations in the industry: Manufacturers are, for example, likely to increasingly replace artificial components with natural substances such as the sweetener stevia or the stimulant guarana; as a result, Health-conscious consumers will be ready to pay more for natural, ecological, low-sugar, or functional drinks with different health benefits.

Figure 20. Source: personal estimates using Excel

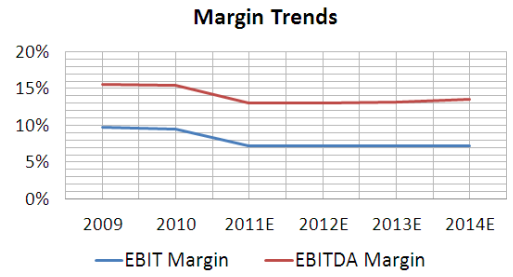
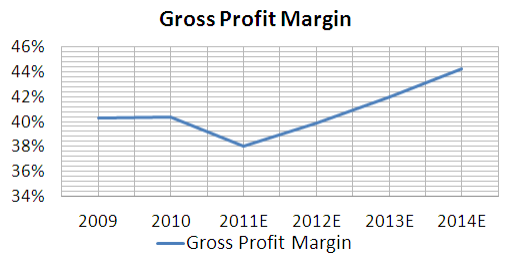


Figure 21. Source: personal estimates using Excel



Cash Flow: Increasing along with revenues and margins.

Sales growth and margin expansion will increase operating cash flow. According to our estimates, Coca Cola Hellenic will generate € 826.6 M operating cash flow per year on average for the next three years. We forecast OCF to sales ratio to reach 12,2% by 2014, moving from 11,6% of 2011. This cash flow will be used to finance € 369.1 M in capital expenditure, € 213,5 M increase in net working capital by 2014, and a reduction in net financial position. As far as dividends are concerned, we estimate an average 20, 9% payout ratio from 2011 to 2014, with a dividend per share rising from € 0, 23 in 2011 to € 0, 25 in 2014 because of taxation.

Figure 22. Source: personal estimates using Excel

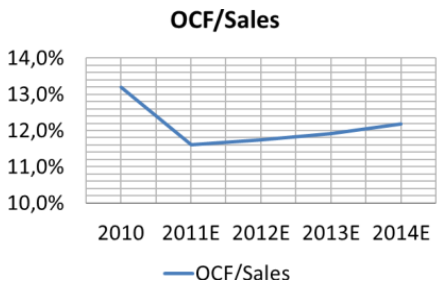
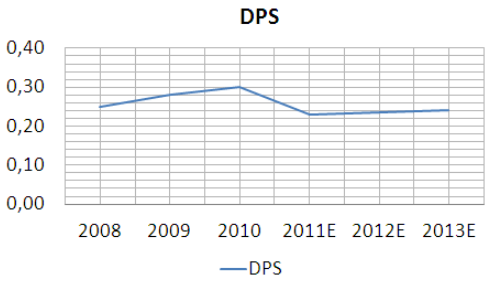


Figure 23. Source: personal estimates using Excel



B. Financial structure

According to our estimates, the Net Financial Position will decrease by 2014. We believe that the resulting debt to equity ratio of 0.29 leaves room for financing future growth plans. We estimate

financial charges to increase over the next years because of rising interest rates. However, the impact on the income statement will be moderate.

Figure 24. Source: personal estimates using Excel

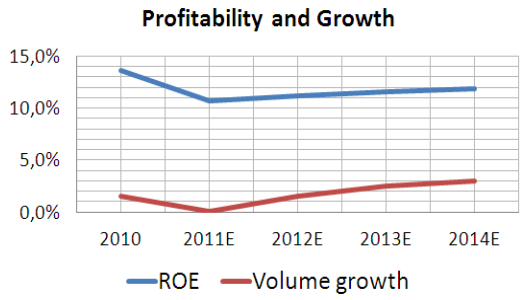


Figure 25. Source: personal estimates using Excel

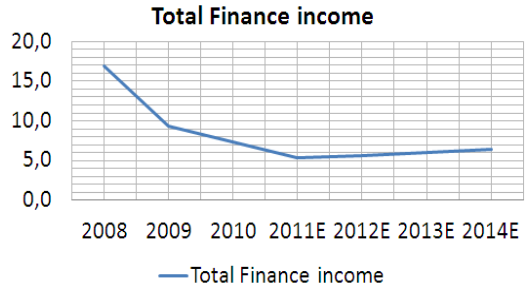


Table 6. Financial Ratios. Source: personal estimates using Excel

Financial Ratios	**2009**	**2010**	**2011E**	**2012E**	**2013E**	**2014E**
Liquidity Ratios						
Quick Ratio	0,81	0,71	0,87	0,94	1,02	1,10
Current Ratio	1,06	0,95	1,09	1,15	1,21	1,28
Asset Management Ratios						
Receivable Turnover (times)	6,16	6,16	5,89	5,89	5,89	5,83
Days' Receivable (days)	59,29	59,30	61,95	61,95	61,95	62,56
Inventory Turnover (times)	9,19	8,41	8,81	8,67	8,52	8,38
Days' Inventory Turnover (days)	39,73	43,42	41,41	42,11	42,83	43,56
Fixed Assets Turnover (times)	3,79	3,79	3,63	3,63	3,63	3,59
Total Assets Turnover (times)	0,96	0,94	0,90	0,90	0,90	0,89
Debt Management Ratios						
Times Interest Earned (TIE) Ratio (times)	8,1	7,8	5,0	5,9	6,3	6,6
Debt Ratio	61,8%	57,2%	60,5%	61,9%	63,0%	63,3%
Debt-Equity Ratio		0,38	0,29	0,32	0,32	0,31
Equity Multiplier	2,62	2,34	2,53	2,62	2,70	2,72
Profitability Ratios						
Profit Margin	6,1%	6,2%	4,7%	4,8%	4,8%	4,9%
ROA	5,9%	5,9%	4,2%	4,3%	4,3%	4,3%
ROE	15,4%	13,7%	10,7%	11,2%	11,6%	11,8%
Market Value Ratios						
MBV	7,10	8,52	8,30	8,14	8,06	8,28
Dividend Ratios						
Payout Ratio	25,6%	21,6%	25,3%	24,8%	24,4%	23,4%
Retention Ratio	0,27%	0,28%	0,28%	0,28%	0,28%	0,28%
Earnings Per Share (€)	1,09	1,16	0,89	0,91	0,94	0,98
Book Value Per Share (€)	7,1	8,5	8,3	8,1	8,1	8,3

Table 7. Income Statement. Source:CCHBC Annual report, and personal estimates using Excel

Income Statement (€ '000)	**2008**	**2009**	**2010**	**2011E**	**2012E**	**2013E**	**2014E**
Net sales revenue							
Established countries	2704,0	2927,8	2834,6	2457,9	2482,5	2519,7	2570,1
Reported growth		8,3%	-3,2%	-13,3%	1,0%	1,5%	2,0%
Greece	728,9	714,3	604,9	341,4	344,8	350,0	357,0
Reported growth		*-2,0%*	*-15,3%*	*-43,6%*	*1,0%*	*1,5%*	*2,0%*
Italy	904,2	1166,4	1135,2	1160,7	1172,3	1189,9	1213,7
Reported growth		*29,0%*	*-2,7%*	*2,2%*	*1,0%*	*1,5%*	*2,0%*
Developing countries	1348,4	1149,1	1140,0	1502,1	1517,1	1539,8	1570,6
Reported growth		*-14,8%*	*-0,8%*	*31,8%*	*1,0%*	*1,5%*	*2,0%*
Emerging countries	2928,3	2466,7	2819,0	2867,6	2896,3	2939,7	2998,5
Reported growth		*-15,8%*	*14,3%*	*1,7%*	*1,0%*	*1,5%*	*2,0%*
Russia	1122,3	878,2	1138,6	1502,1	1517,1	1539,8	1570,6
Reported growth		*-21,7%*	*29,7%*	*31,9%*	*1,0%*	*1,5%*	*2,0%*
Total net sales revenue	**6.980,7**	**6.543,6**	**6.793,6**	**6.827,6**	**6.895,8**	**6.999,3**	**7.139,3**
Reported growth		***-6,3%***	***3,8%***	***0,5%***	***1,0%***	***1,5%***	***2,0%***
Cost of Goods Sold	**4.169,6**	**3.905,5**	**4.049,6**	**4.231,8**	**4.147,2**	**4.064,3**	**3.983,0**
Administrative Expenses	419,8	396,5	388,4	380,5	372,8	365,2	357,8
EBITDA							
Established countries	369,8	425,7	404,6	302,5	307,0	314,7	327,2
Reported growth		*15,1%*	*-5,0%*	*-25,2%*	*1,5%*	*2,5%*	*4,0%*
Developing countries	193,5	165,0	163,9	160,1	162,5	166,6	173,2
Reported growth		*-14,7%*	*-0,7%*	*-2,3%*	*1,5%*	*2,5%*	*4,0%*
Emerging countries	475,7	428,6	478,1	427,0	433,4	444,2	462,0
Reported growth		*-9,9%*	*11,5%*	*-10,7%*	*1,5%*	*2,5%*	*4,0%*
Total EBITDA	**1.039,0**	**1.019,3**	**1.046,5**	**889,6**	**902,9**	**925,5**	**962,5**
Reported growth		-1,9%	2,7%	-15%	2%	3%	4%
Depreciation							
Established countries	108,5	122,3	132,3	136,3	140,4	144,6	148,9
Developing countries	72,8	77,0	72,9	75,1	77,3	79,7	82,0
Emerging countries	184,1	161,4	182,6	188,1	193,7	199,5	205,5
Total Depreciation	**365,4**	**360,7**	**387,8**	**399,4**	**411,4**	**423,8**	**436,5**
EBIT/Operating profit							
Established countries	79,6	297,6	265,5	172,7	173,6	176,2	180,6
Reported growth		273,9%	-10,8%	-35,0%	0,5%	1,5%	2,5%
Developing countries	118,6	86,3	89,2	93,8	94,2	95,6	98,0
Reported growth		-27,2%	3,4%	5,1%	0,5%	1,5%	2,5%
Emerging countries	256,4	254,9	290,3	227,0	228,1	231,5	237,3
Reported growth		-0,6%	13,9%	-21,8%	0,5%	1,5%	2,5%

Total EBIT	**454,6**	**638,8**	**645,0**	**493,4**	**495,9**	**503,3**	**515,9**
Reported growth		41%	1%	-23,5%	0,5%	1,5%	2,5%
Interest Expense							
Established countries	105,6	59,6	106,2	127,4	107,0	102,8	100,7
Reported growth		-44%	78%	20%	-16%	-4%	-2%
Developing countries	5,7	4,7	2,0	2,4	2,0	1,9	1,9
Reported growth		-18%	-57%	20%	-16%	-4%	-2%
Emerging countries	76,6	51,1	21,7	26,0	21,9	21,0	20,6
Reported growth		-33%	-58%	20%	-16%	-4%	-2%
Corporate	213,6	122,3	153,1	183,7	154,3	148,2	145,2
Inter segment	282,9	159,2	200,3	240,4	201,9	193,8	189,9
Total interest expense	**118,6**	**78,5**	**82,7**	**99,2**	**83,4**	**80,0**	**78,4**
Reported growth		-34%	5%	20%	-16%	-4%	-2%
Finance Income							
Established countries	20,9	9,1	49,4	35,6	37,5	40,0	43,0
Reported growth		*-56%*	*443%*	*-28%*	*6%*	*7%*	*7%*
Developing countries	5,6	1,9	2,4	1,7	1,8	1,9	2,1
Reported growth		-66%	26%	-28%	6%	7%	7%
Emerging countries	44,9	41,3	16,2	11,7	12,3	13,1	14,1
Reported growth		*-8%*	*-61%*	*-28%*	*6%*	*6%*	*8%*
Corporate	228,4	116,4	139,7	100,6	106,1	113,0	121,5
Inter segment	282,9	159,3	200,3	144,2	152,1	162,0	174,2
Total Finance income	**16,9**	**9,4**	**7,4**	**5,3**	**5,6**	**6,0**	**6,4**
Reported growth		*-44%*	*-21%*	*-28%*	*6%*	*7%*	*8%*
Tax expense							
Taxes							
Established countries	48,7	87,5	72,3	52,8	51,5	48,9	44,0
Reported growth		*79,7%*	*-17,4%*	*-27,0%*	*-2,5%*	*-5,0%*	*-10,0%*
Developing countries	26,2	20,5	22,4	16,4	15,9	15,1	13,6
Reported growth		*-21,8%*	*9,3%*	*-27,0%*	*-2,5%*	*-5,0%*	*-10,0%*
Emerging countries	28,6	31,4	40,2	29,3	28,6	27,2	24,5
Reported growth		*10%*	*28%*	*-27%*	*-3%*	*-5%*	*-10%*
Corporate	2,9	3,1	2,0	1,5	1,4	1,4	1,2
Total income tax expense	**106,4**	**142,5**	**136,9**	**99,9**	**97,4**	**92,6**	**83,3**
Reported growth		*33,9%*	*-3,9%*	*-27,0%*	*-2,5%*	*-5,0%*	*-10,0%*
Net Income	**227,6**	**399,2**	**423,2**	**321,6**	**328,1**	**334,6**	**348,0**
Dividends per share	0,25	0,28	0,30	0,23	0,24	0,24	0,25
Earnings per share	0,62	1,09	1,16	0,89	0,91	0,94	0,98
Other Information	**2008**	**2009**	**2010**	**2011E**	**2012E**	**2013E**	**2014E**
Number of Shares Outstanding (‘000)	366,3	365,6	363,5	361,4	359,3	357,3	355,2

DPS	0,25	0,28	0,30	0,27	0,28	0,29	0,30
Dividents paid to owners	102,0	102,3	91,3	81,48	87,30	93,54	100,22

Table 8. Balance Sheet. Source: CCHBC Annual report, and personal estimates using Excel

Balance Sheet (€ '000)	**2008**	**2009**	**2010**	**2011E**	**2012E**	**2013E**	**2014E**
Assets							
Current Assets							
Cash	724,6	232,0	326,1	640,0	652,8	665,9	679,2
Accounts Receivable		1.062,9	1.103,7	1.158,9	1.170,5	1.188,0	1.223,7
Inventory		425,1	481,7	480,1	478,5	476,9	475,3
Total Current Assets		**1.748,5**	**1.929,5**	**2.361,0**	**2.667,9**	**3.014,8**	**3.406,7**
Fixed Assets		**5.048,3**	**5.301,9**	**5.180,0**	**5.060,9**	**4.944,5**	**4.830,9**
Property, Plant, and Equipment		2.961,3	3.122,9	3.279,0	3.311,8	3.361,5	3.462,4
Less Accumulated Depreciation	365,4	360,7	387,8	399,4	411,4	423,8	436,5
Net Fixed Assests		1.726,3	1.791,2	1.880,8	1.899,6	1.928,1	1.985,9
Assets							
Established countries	3.390,0	3.512,1	3.657,3	3.364,7	3.162,8	3.162,8	3.162,8
Reported growth		*3,6%*	*4,1%*	*-8,0%*	*-6,0%*	*0,0%*	*0,0%*
Developing countries	1.081,0	1.059,1	1.026,8	1.057,6	1.089,3	1.122,0	1.155,7
Reported growth		*-2,0%*	*-3,0%*	*3,0%*	*3,0%*	*3,0%*	*3,0%*
Emerging countries	2.724,6	2.421,2	2.570,0	2.672,8	2.779,7	2.890,9	2.948,7
Reported growth		*-11,1%*	*6,1%*	*4,0%*	*4,0%*	*4,0%*	*2,0%*
Corporate	326,2	195,6	22,7				
Total Assets	**7.521,8**	**6.796,8**	**7.231,4**	**7.593,0**	**7.668,9**	**7.783,9**	**8.017,5**
Reported growth		*-10%*	*6%*	*5%*	*1%*	*2%*	*3%*
Total Liabilities		**4.200,9**	**4.135,5**	**4.593,8**	**4.743,3**	**4.903,5**	**5.075,1**
Current Liabilities							
Short term Dept		307,0	535,1	433,0	394,0	358,6	326,3
Other Payables		961,3	1.079,4	1.338,0	1.311,2	1.285,0	1.259,3
Total Current Liabilities		**1.642,6**	**2.036,4**	**2.171,0**	**2.323,0**	**2.485,6**	**2.659,6**
Long-Term Liabilities			457,1	517,7	586,3	568,7	551,7
Long-Term Debt		2.100,6	1.656,4	1.919,1	1.861,5	1.805,7	1.751,5
Total Long-Term Liabilities		**2.558,3**	**2.099,1**	**2.422,8**	**2.420,4**	**2.418,0**	**2.415,5**
Owners' Equity							
Common Stock		182,8	183,1	192,3	194,2	197,1	203,0
Capital Surplus		1.113,8	1.119,2	1.175,2	1.186,9	1.204,7	1.240,9
Retained Earnings		1.151,8	1.494,8	1.569,5	1.585,2	1.609,0	1.657,3
Total Owners' Equity		**2.595,9**	**3.095,9**	**2.999,2**	**2.925,6**	**2.880,4**	**2.942,3**
Total Liab. and Owners' Equity	**7.521,8**	**6.796,8**	**7.231,4**	**7.593,0**	**7.668,9**	**7.783,9**	**8.017,5**
Reported growth		*-10%*	*6%*	*5%*	*1%*	*2%*	*3%*

Table 9. Highlights. Source: CCHBC Annual report, and personal estimates using Excel

Highlights (€ '000)	**2009**	**2010**	**2011E**	**2012E**	**2013E**	**2014E**
Volume in unit cases ('000)						
Established countries	743,2	718,2	579,2	587,9	605,5	632,8
Reported growth		*-3,4%*	*-19,4%*	*1,5%*	*3,0%*	*4,5%*
Developing countries	388,3	391,7	496,4	503,9	519,0	542,4
Reported growth		*0,9%*	*26,7%*	*1,5%*	*3,0%*	*4,5%*
Emerging countries	937,8	990,1	992,9	1007,8	1038,0	1084,7
Reported growth		*5,6%*	*0,3%*	*1,5%*	*3,0%*	*4,5%*
Total volume	**2069,3**	**2100,0**	**2068,5**	**2099,5**	**2162,5**	**2259,8**
Reported growth	*-2,2%*	*1,5%*	*-1,5%*	*1,5%*	*3,0%*	*4,5%*
Net sales revenue						
Established countries	2927,8	2834,6	2299,0	2356,4	2438,9	2548,7
Developing countries	*1149,1*	*1140,0*	*1404,9*	*1440,0*	*1490,4*	*1557,5*
Emerging countries	2466,7	2819,0	2682,1	2749,2	2845,4	2973,4
Total net sales revenue	**6543,6**	**6793,6**	**6386,0**	**6545,6**	**6774,7**	**7079,6**
Gross profit	2638,1	2744,0	2187,0	2430,6	2742,0	3127,5
Operating expenses	1987,2	2062,3	2062,3	2062,3	2062,3	2062,3
EBIT/Operating profit						
Established countries	297,6	265,5	223,5	228,0	237,1	251,3
Reported growth	*274%*	*-11%*	*-16%*	*2%*	*4%*	*6%*
Developing countries	86,3	89,2	121,3	123,8	128,7	136,4
Reported growth	*-27%*	*3%*	*36%*	*2%*	*4%*	*6%*
Emerging countries	254,9	290,3	293,7	299,6	311,6	330,3
Reported growth	*-1%*	*14%*	*1%*	*2%*	*4%*	*6%*
Total EBIT	**638,8**	**645,0**	**638,6**	**651,3**	**677,4**	**718,0**
Reported growth	*41%*	*1%*	*-1%*	*2%*	*4%*	*6%*
Net Profit	**399,2**	**423,2**	**389,3**	**397,1**	**405,1**	**421,3**
EBITDA	**1019,3**	**1046,5**	**1009,9**	**1030,1**	**1071,3**	**1135,6**
Profitability ratios						
Gross Profit Margin	**40%**	**40%**	**34,2%**	**37,1%**	**40,5%**	**44,2%**
EBIT Margin	**10%**	**9%**	**10%**	**10,0%**	**10,0%**	**10,1%**
EBITDA Margin	**15,6%**	**15,4%**	**15,8%**	**15,7%**	**15,8%**	**16,0%**
Gearing ratios	**46%**	**38%**	**33%**	**33%**	**33%**	**33%**

Table 10. Cash Flows. Source: personal estimates using Excel

(€ '000)	**2010**	**2011E**	**2012E**	**2013E**	**2014E**
Net Income	423,2	321,6	328,1	334,6	348,0
- (1- d) (Capital Exp. - Deprec'n)	-46,06	-60,98	-12,87	-19,64	-40,41
- (1- d) Change in Work. Capital	-151,03	202,16	106,05	127,00	152,27
Free Cash flow to Equity (FCFE):	620,29	180,45	234,88	227,27	236,16
d=D/A	29,03%	31,91%	31,56%	31,06%	30,13%
Reported growth		9,92%	30,16%	-3,24%	3,9%
Western Europe	217,10	63,16	82,21	79,54	82,65
Eastern Europe & Russia	377,51	109,82	142,95	138,32	143,72
West Africa	25,68	7,47	9,72	9,41	9,78
Operating Cash Flow:	895,9	792,9	809,9	834,5	869,1
Western Europe	313,6	277,5	283,5	292,1	304,2

Eastern Europe & Russia	545,2	482,6	492,9	507,9	528,9
West Africa	37,1	32,8	33,5	34,5	36,0
Capital Spending CAPEX:	322,9	309,9	392,6	395,3	378,6
Western Europe	113,0	108,5	137,4	138,3	132,5
Eastern Europe & Russia	196,5	188,6	238,9	240,6	230,4
West Africa	13,4	12,8	16,3	16,4	15,7

C. Corporate Governance and Social Responsibility

Based on our firm conviction that Corporate Governance (CG) and Corporate Social Responsibility (CRS) could enhance the sustainability of the company, and consequently its long-term value, we performed an assessment of Coca Cola Hellenic in these areas of interest.

Corporate Governance. Coca-Cola Hellenic continuously reviews the Company's corporate governance standards and procedures in light of the ongoing debates and rulemaking projects in Greece, Europe, and the United States, in order to ensure that its corporate governance systems remain in line with international best practices.

Corporate Social Responsibility. The alcohol-free beverage industry is very concerned about CSR. Since 2002 Coca-Cola Hellenic publishes its Social Responsibility Report. 2010 CSR Report has been prepared under the G3 guidelines of the Global Reporting Initiative (GRI), making CCHBC the first European food and beverage company reach the A+ level. The group focuses on CSR performance and sets targets for each of the four pillars of corporate social responsibility – marketplace, environment, workplace, and community (figure 26). Country operations of the Company actively support 14 local networks.

Figure 26. Source: Company's 2010 CSR Report

CSR Issue	CSR Targets
Marketplace 	Expanse of beverages range Reduction of average calorific content of beverages Provision highly visible nutritional information Marketing responsibility Promotion of physical activity & active lifestyles
Environment 	Bottling plants' performance according to four environmental key performance indicators (KPIs): Water, Energy, Waste & Recycling
Workplace 	Safe, Fair and Inclusive Workplace Challenging and rewarding careers Workplace practices
Community 	Development of local communities Protection of water and the local environment Disaster relief and recovery

VI. RECOMMENDATIONS/POTENTIAL SOLUTIONS/ACTIONS TAKEN

This section focuses on stock recommendation, the goal of the previous valuation process, choosing the model that best reflects the best description of the situation and assure that key assumptions and value drivers make sense as to build a comprehensive and systematic valuation model based on valuation theory.

Step 3: Selecting the appropriate valuation model for the valuation task

We value Coca Cola Hellenic by applying two techniques: Discounted Cash Flow (DCF) and Multiple Analysis. The DCF model is based on a sum-of-the-parts approach that values the three main geographic businesses of the company separately. We deem this approach to be appropriate

as the Group operates in regions with different levels of growth, margin, and risk. The Multiple Analysis is used to correct our results at geographic and aggregate levels.

Step 4: Converting forecasts to the valuation

A. Valuation

Table 11. DCF Analysis. Source: personal estimates using Excel

DCF models characteristics	
West Europe	
Model	**Stable growth**
East Europe & Russia, Nigeria	
Model	**Two-stage**
	Analytic stage
	Perpetuity

DCF Analysis	
Variable	**Base case estimate**
Beta	0,85
Risk-free rate	7%
Equity risk premium	3,40%
FCFE perpetuity growth rate	0,5%
FCFE 1st stage growth	1,5%
FCFE 2nd stage perpetuity growth	1,0%
Cost of Equity	9,9%
Target Price	**11,12**

DCF Analysis					
(€ '000)	**2010**	**2011**	**2012E**	**2013E**	**2014E**
Net Income	423,2	321,6	328,1	334,6	348,0
- (1- d) (Capital Exp. - Deprec'n)	-46,06	-60,98	-12,87	-19,64	-40,41
- (1- d) Change in Work. Capital	-151,03	202,16	106,05	127,00	152,27
Free Cash flow to Equity (FCFE)	620,29	180,45	234,88	227,27	236,16
d	29,03%	31,91%	31,56%	31,06%	30,13%
Reported growth		9,92%	30,16%	-3,24%	3,9%
Operating Cash Flow	895,9	792,9	809,9	834,5	869,1
Western Europe	313,6	277,5	283,5	292,1	304,2
Eastern Europe & Russia	545,2	482,6	492,9	507,9	528,9
West Africa	37,1	32,8	33,5	34,5	36,0
Capital Spending CAPEX	322,9	309,9	392,6	395,3	378,6
Western Europe	113,0	108,5	137,4	138,3	132,5
Eastern Europe & Russia	196,5	188,6	238,9	240,6	230,4
West Africa	13,4	12,8	16,3	16,4	15,7
Free Cash flow to Equity (FCFE)	620,29	180,45	234,88	227,27	236,16
Western Europe	217,10	63,16	82,21	79,54	82,65
Eastern Europe & Russia	377,51	109,82	142,95	138,32	143,72
West Africa	25,68	7,47	9,72	9,41	9,78
PV Western Europe		63,16	74,81	65,87	1168,09

PV Eastern Europe & Russia, Nigeria		117,29	138,93	122,33	2291,32
			1	2	3
Equity Value		180,5	213,7	188,2	3459,4
					4041,81
					11,12

Discounted cash flow analysis:

Our DCF values Coca Cola Hellenic at € 11,12 per share for the start of 2012. We estimate this price with the separate valuation of West European, East European, and Nigerian operations. Figures are broken down across the regions according to the following assumptions:

Sales: Western Europe reaches approximately 28% of total sales by 2014 while Eastern European, and Nigeria account for the remaining 72%.

Capex: the € 1.35 bn CAPEX outlined in CCHBC's industrial plan is divided across the regions according to their relative contribution to sales, in line with management's allocation history in forecast period 2011-2014.

Change in net working capital will increase in 2011-14. We divide the total change in net working capital across regions according to the relative sales growth.

Table 12. Assumptions and results of the sum-of-the-parts analysis (2010-2014). Source: http://www.taxrates.cc/html/nigeria-tax-rates.html

	Western Europe	Eastern Europe	Nigeria	Aggregate
Revenues CAGR	-2,4%	3,7%		1,3%
Volume CAGR	-3,2%	4,1%		1,8%
EBITDA margin	12,3%→ 12,7%	12,8%→13,2%		13,5%
Tax rate*	43%	13%	25%	38,0%
Cost of Equity	9,9%			9,9%
Equity Value (€ '000)	1469	2862		4332
Price (€)	4,04	7,87		11,92

*Tax rates in Italy, Russia, and Nigeria respectively

More detailed assumptions are made on each business region, based on the forecasted competitive scenario described below:

In Eastern Europe & Russia, volume and net sales revenues per unit increase because of product line expansion in the juice market and exceptional heat in summer 2010. EBITDA margin is higher than the company's average but slightly decreasing over time because of competitive pressures by Pepsico after the acquisition of 66% of Russian Wimm-Bill-Dann. As far as sparkling category is concerned, we do not expect significant margin improvements except from the launch of coca-cola zero and light as there is trend for healthier beverages.

In Nigeria, sparkling beverages and water category volumes sharply increase as well as the net sales revenues increase along with the EBITDA margin because of the introduction of healthier beverages.

In Western Europe, sparkling beverages volumes and net sales revenues per unit decrease because of declining demand, while a new launch of coca-cola zero and juices growth in volumes sold but lower than expected because of a lower price model and offers in many categories of beverages and juices. EBITDA margin increases because of cost reductions.

Main conclusions of our analysis are that:

-Established Countries are at the moment Coca Cola HBC's cash cow, with high revenue contribution but modest growth potential and that

-The majority of CCHBC's value comes from Established and Emerging Markets. In fact, despite generating small volumes and revenues, operations in Developing markets have an extraordinary growth outlook and limited tax rate (Table 15). In emerging markets, Russia, size, and growth combined are by far the biggest source of value for CCHBC, following by Nigeria, even though it is penalized by substitution.

B. Sensitivity analysis

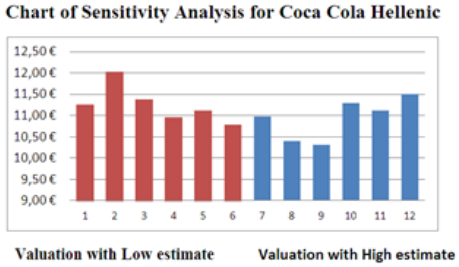
Table 13 shows our base case and the highest and lowest reasonable alternative estimates. The column "Valuation with Low Estimate" gives the estimated value of CCHBC based on the low estimate for the variable on the same row of the first column and the base–case estimates for the remaining variables. "Valuation with High Estimate" performs a similar exercise based on the high estimate for the variable at issue.

Table 13. The base case and the highest and lowest reasonable alternative estimates. Source: personal estimates using Excel

DCF Analysis				Sensitivity Analysis	
Variable	**Base case estimate**	**Low estimate**	**High estimate**	**Valuation with Low estimate**	**Valuation with High estimate**
Beta	0,85	0,8	0,9	11,26 €	10,98 €
Risk free rate	7%	6%	8%	12,03 €	10,39 €
Equity risk premium	3,40%	3,04%	4,73%	11,37 €	10,31 €
FCFE perpetuity growth rate	0,5%	0%	1%	10,96 €	11,30 €
FCFE 1st stage growth	1,5%	1,5%	1,5%	11,12 €	11,12 €
FCFE 2nd stage perpetuity growth	1,0%	0,5%	1,5%	10,78 €	11,49 €
Cost of Equity	9,9%				
Target Price	**11,12**				

As the above chart of sensitivity analysis shows, the value of CCHBC is very sensitive to the inputs. Of the four variables presented, the stock valuation is least sensitive to the range of estimates for the equity risk premium and beta. The range of estimates for these variables produces the smallest ranges of stock values (from € 10,31 to € 11,37 for the equity risk premium and € 10,98 to € 11,26 for beta). The stock value is most sensitive to the extreme values for the risk-free rate and the FCFE growth rate.

Figure 27. The chart of sensitivity analysis. Source: personal estimates using Excel



C. Valuation based on comparables

In this section, we calculate a market-based range and a target price by comparing the valuation of companies in the sparkling and still beverage categories with that of Coca Cola HBC.

CCHBC's peer group. To obtain an accurate market-based valuation, it is critical to identify a set of listed peers that are comparable. Among the currently listed companies, we define three different groups of comparable companies. Table: (a) the companies that are direct competitors of Coca Cola HBC in Europe are subsidiaries of Pepsico and the growing entry of local competitors, for example Loux (Greek Anonymous Industrial Trading company) ; (b) those companies whose core business is the production of beverages (sparkling and still beverages portfolio of Pepsico,

sparkling beverages and juices portfolio of Loux); and (c) those large corporations whose business is largely diversified such as Pepsico business in food and snacks by 63% and Nestea in food processing by 73%. We conclude that there is no direct comparison for Coca Cola HBC.

Figure 28. Life Cycle Matrix and Competitors. Source: personal estimates

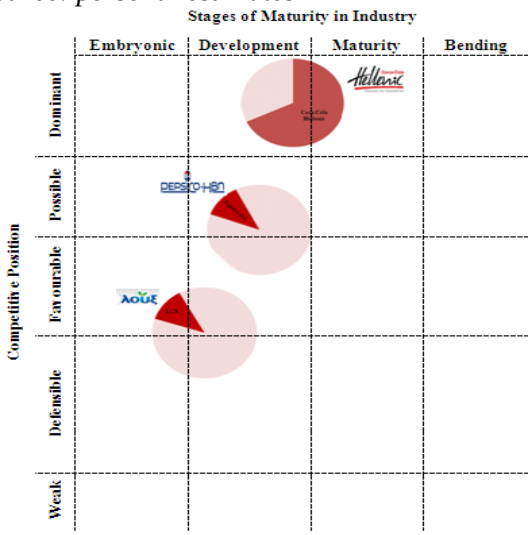
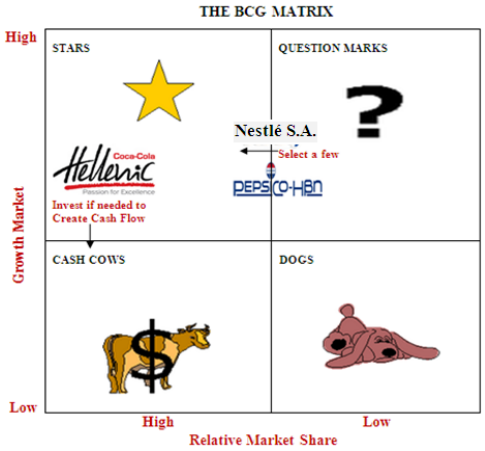


Figure 29. BCG Matrix. Source: personal estimates



As we can see from figure 28, Coca-Cola Hellenic is located in the phase of maturity, as the year's active in the industry and the wider environment. Concerning its position in the industry, the company is located in a very strong position and is expected to dominate a dominant position.

Global players. Coca Cola HBC (as the second bottler in terms of volume of The Coca Cola Company), Pepsico and Nestle have very different growth rates and profit margins. To highlight the disparity, we show in the matrix below (figure 29) for each company difference between those two measures from the same measures of Coca Cola HBC. Consequently, it is more realistic to compare Coca Cola HBC to sparkling beverages and juice categories. However, they have several different characteristics, such as positioning, market exposure, business diversification and product range, which make them also imperfect companies with which to compare CCHBC.

Star-CCHBC has a uniquely diverse geography and the world's most loved brands-stars that will leave the company very well placed to leverage the opportunities ahead. The ongoing rollout of its occasion-based brand, package, price, and channel strategy drove an improved package mix and net sales revenue across the Group that will become the next cash cow and ensure future cash generation. CCHBC generates large amounts of cash because of its strong market positions in 28 countries, but also of its high growth rate in Eastern Europe & Russia, in additional its operations in West Africa (Nigeria).

Multiple Analysis

We consider the EV/EBITDA multiple to calculate our target price. We believe the EV/EBITDA to be the most significant multiple as it is a good proxy for cash flows, and on the contrary to EV/EBIT multiple, it is not influenced by differences in accounting of D&A. We also look at the P/E multiples. We estimated the enterprise value of CCHBC's business to be € 5,251 M. In our DCF valuation Western Europe is 34% of the total Equity Value and Eastern Europe and Nigeria, the remaining 66%. We assume the same for Multiple Analyses (Table 14).

A peer of multiple comparisons. We also calculate competitors' multiples to CCHBC, in order to estimate a market-based price range and multiple target price. We started before that CCHBC can be separated into two businesses, based on their geographic exposure. For the sake of this analysis, we assume multiples for the total Market. We estimate EV/EBITDA multiple calculated

from market multiples of three multinational companies and assuming that sales being equal, and we use the information about their sales to breakdown the EV/EBITDA. We look EV/EBITDA and P/E multiples and derive a price of € 17,52 and € 14,26, respectively (Table 14).

Table 14. Multiple Analysis. Source: personal estimates

	EV/EBITDA next 12 month	P/E
Coca-Cola HBC	5,8	12,3
PepsiCo	9,18	15,2
Nestlé	10,43	19,9
Average	8,47	15,8

	Valuation based on EV/EBITDA	Valuation based on P/E
EV	7.648	
Equity	6.369	5.183
Target Price	17,5	14,3

Target Price	14,57 €
DCF	11,92 €
Multiple EV/EBITDA	17,52 €
Multiple P/E	14,26 €

Conclusions

We estimate a target price € 14,57 that has been obtained from a base case estimate of the prices resulting from our DCF Model and Multiple Analysis (Table 14). Weights are the same. In our opinion, Coca Cola Hellenic offers further upside potential in the medium term, as long as the growth strategy in emerging markets proves to be successful. We believe that the market is still not fully discounting the growth potential from East Europe and Nigeria, but we understand that there is an elevated degree of risk in executing strategy. Results of 2012 and business updates will be of particular importance to show that CCHBC can deliver on growth through, especially in East Europe and Russia.

D. Investment Risks

In this section, we analyze the main risks that could affect our target price.

Strategic risks:

Unsuccessful product launch. CCHBC‘s strategy in emerging markets is growing through product line expansion. If new products do not meet customers‘needs and tastes, the Group‘s sales may be lower than expected. To minimize this risk, the company invests in research to enhance its competitive advantage in the marketplace and generate long-term sustainable growth.

GDP growth rates. CCHBC’s growth strategy is affective by GDP growth. On the basis of the site trading economics’ forecasts, during the next three years GDP at constant prices is expected to grow on average by 4,8% per year in Russia, 0,2% per year in Italy and 7,4% per year in Nigeria; we expect CCHBC’s 2010-2014 revenues to grow 3,7% CAGR both in developing and emerging markets while -2,4% CAGR will fell in established markets (Table 15).

Table 15. Countries Index and Rates. Source: http://www.tradingeconomics.com/

Country	GDP Billion USD	GDP QoQ	GDP YoY	Interest rate	Inflation rate	Jobless rate	Gov. Budget	Debt to GDP	Current Account	Exchange rate	Population
Euro Area	12456	0.20%	1.40%	1.00%	3.00%	10.30%	-6.20	85.10	-0.40	1.31	329.58
Italy	2051	-0.20%	0.20%	1.00%	3.30%	8.50%	-4.60	119.00	-3.30	1.31	60.60
Russia	1480	0.20%	4.80%	8.00%	7.00%	6.40%	-3.90	9.90	4.90	31.70	142.90
Switzerland	524	0.20%	1.30%	0.00%	-0.50%	3.10%	-1.30	55.00	14.20	0.93	7.79
Poland	469	1.00%	4.20%	4.50%	4.80%	12.10%	-7.80	55.00	-3.40	3.43	38.18
Austria	376	0.30%	2.60%	1.00%	3.60%	4.30%	-4.40	72.30	2.70	1.31	8.40
Greece	305	0.20%	-5.00%	1.00%	2.90%	17.50%	-10.60	142.80	-10.50	1.31	11.33
Ireland	204	-1.90%	-0.10%	1.00%	2.90%	14.50%	-31.30	96.20	-0.70	1.31	4.45
Nigeria	194	7.40%	7.40%	12.00%	10.50%	21.10%	-3.28	16.40	6.40	160.30	158.26
Czech Republic	192	-0.10%	1.20%	0.75%	2.50%	8.00%	-4.80	38.50	-3.80	19.70	10.53
Romania	162	1.80%	2.60%	6.00%	3.44%	7.20%	-6.90	30.80	-4.10	3.31	21.45
Ukraine	138	0.50%	3.80%	7.75%	5.90%	8.90%	-5.50	40.50	-1.90	8.00	45.78
Hungary	130	0.50%	1.40%	7.00%	4.30%	10.80%	-4.20	80.20	2.10	242.41	10.00
Slovakia	89	0.70%	3.00%	1.00%	4.60%	13.40%	-7.70	41.00	-3.40	1.31	5.43
Slovenia	48	-0.20%	-0.10%	1.00%	2.00%	11.50%	-5.80	38.80	-1.10	1.31	2.07
Bulgaria	48	0.00%	1.30%	0.20%	3.10%	10.20%	-3.10	16.20	-1.00	1.38	7.56
Lithuania	36	1.30%	6.60%	1.75%	4.40%	14.80%	-7.00	38.20	1.80	2.65	3.32
Latvia	24	1.70%	6.60%	3.50%	4.20%	14.40%	-8.30	44.70	3.60	0.54	2.24
Estonia	19	1.20%	8.50%	1.00%	4.20%	10.90%	0.20	6.60	3.60	1.31	1.34
FYROM	9	5.30%	5.30%	4.00%	2.80%	31.30%	-2.50	24.60	-2.80	44.58	2.06

Stronger competition. The entrance of Loux in Greece, Cyprus, and Italy market may lead competition from an oligopoly to oligopolistic competition. This context may force the company to reduce prices to maintain mainly its 68% market share in Greece, affecting margins.

Penetration of the private label market. The launch of private label juices and bottled water represent a shift from a premiumization strategy to a price strategy. Competition in price strategy focuses on price reduction; therefore, CCHBC's margin could progressively decrease.

Financial risks:

Fluctuations of exchange rates. Foreign exchange risk, primarily in developing and emerging markets, arise as many of its operations have functional currencies other than euro. The impacts of it continue to be a significant driver on its consolidated income statement and balance sheet when results are translated into euro. The Group Treasury's risk management policy is to hedge between 25% and 80% of anticipated cash flows in each major foreign currency for the subsequent twelve months. Each subsidiary designates contracts with Group Treasury as fair value hedges or cash flow hedges, as appropriate. External foreign exchange contracts are designated at the Group level as hedges of foreign exchange risk on specific assets, liabilities, or future transactions on a gross basis.

Operative risks:

Increased input costs across its markets. PET resin, sugar, juice concentrate, and fuel costs weight for approximately 70% of CCHBC's fixed cost. The impact of increased commodity prices continues to be a significant driver of its reduced profitability. Therefore, their fluctuation has important impact on profitability. The Group has no material exposure to the effect of short-term changes in the price of sugar, fructose, and aluminum as where possible it contracts prices with suppliers up to one year in advance.

Business seasonality. Unseasonably cold and rainy weather conditions in Central and Eastern Europe in July and August may have a negative impact on revenues.

Political risk in Greece. Greece's new coalition government seeks to implement reforms needed to secure vital EU/IMF bailout funds while facing a public angry with the pain inflicted by wage cuts and tax hikes. After weeks of roller-coaster politics for referendum plans, the interim government led by former ECB vice-president Lucas Papademos will try to keep the country afloat until elections penciled for February 19. There is a bankruptcy risk in Greece, its defenestration from the euro, and fear of domino in the eurozone.

Vat rate risk in Greece and Italy. The transfer of all commercial beverages except still water in the VAT rate from 13% to 23%, decided by the Government from 1 September 2011 in Greece, will lead to reducing the demand for products and-consequently-in sales. Given that the demand for these products is elastic, an increase in the price by 10% will lead to a decreasing demand by 15%. In addition, VAT increase in the hotel, restaurant, and cafe channel. The above is even more alarming if we take into consideration the fact that around 60% of sales are made in focus areas (cafe, bars, and restaurants). The overall VAT rate was increased by one percent in Italy effective from 19 September 2011.

VII. INVESTMENT SUMMARY

Step 5: Making the investment decision (recommendation)

A. Investment Summary

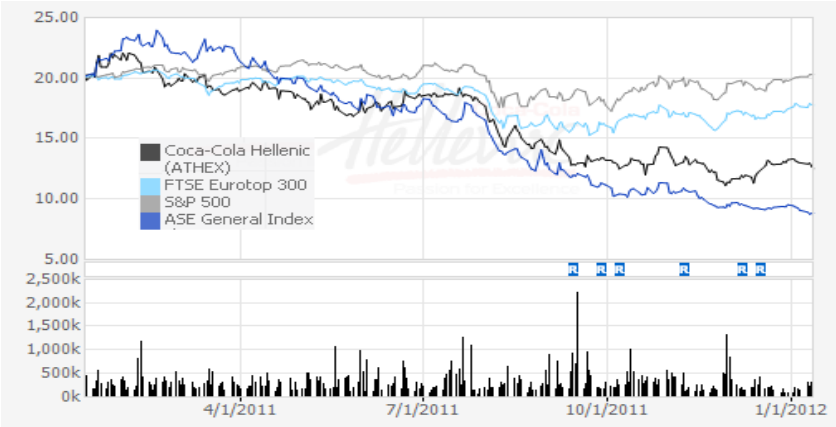
We initiate coverage of CCHBC with an accumulate rating and a target price of € 14,57, offering a 16,56% upside from the current stock price as of 12/01/2012. Coca Cola HBC is one of the world's largest bottlers of products and the second-largest bottler of The Coca-Cola Company. During the 2008 recession, Coca Cola HBC was able to maintain its margins, mainly thanks to improving economic trends in developing markets and its exposure to Russia and Nigeria.

Management targets to increase revenues from Eastern Europe & Russia and Nigeria primarily through product line expansion, innovation, and improvement in operation cost by SAP Wave II platform in twenty countries until 2012, as well as the reduction of operation cost in established markets will play main role. This strategy is expected to deliver a 2011-2014 Volume in unit cases CAGR of 2,3%, EBITDA CAGR of 2,7%, and EPS CAGR of 3,26 %. Further efficiency in European operations will support margin expansion. EBITDA margin is expected to increase from 13% in 2010 to 13,5% in 2014.

Our target price of € 14,57, is based on a Discounted Cash Flow and Multiple Analysis. As the group operates in regions with different levels of growth, margins, and risks, our DCF is based on a sum of the parts approach that values the main geographic business in each region: Western Europe and both Eastern Europe and West Africa. Also, the Sensitivity analysis values Coca Cola Hellenic at geographical and aggregate levels. Our target price is the base case estimate of the prices resulting from our DCF and our Multiple Analysis.

Main risks are connected to Coca Cola HBC‘s expansion into new markets: the Group‘s ability to succeed in entering new markets in Nigeria and Russia is mostly related to the success of new product launches, besides, the high margins of these markets could be negatively impacted by an increase in rivalry among existing local players as well as the entrance of new competitors and bad weather condition in East Europe. Moreover, a relevant degree of volatility in the Group‘s net profit is tied to Emerging and Developing Markets' economic growth and their exchange rates with the Euro. Finally, a stronger than expected increase in PET resin, sugar, juice concentrate, and fuel costs could have a direct impact on the Group‘s operating margins.

Figure 30. Coca Cola HBC’s share price in the last 12 months. Source: http://www.coca-colahellenic.com



B. The Highlights of the Investment Research Report

Table of Highlights (2008-2014)

	2008	2009	2010	2011E	2012E	2013E	2014E
Net sales (€ M)	6980,7	6543,6	6793,6	6827,6	6895,8	6999,3	7139,3
EBITDA (€ M)	1039,0	1019,3	1046,5	889,6	902,9	925,5	962,5
Net Income (€ M)	227,6	399,2	423,2	321,6	328,1	334,6	348,0
Earnings/share (€)	0,62	1,09	1,16	0,89	0,91	0,94	0,98
Dividends/share (€)	0,25	0,28	0,30	0,23	0,24	0,24	0,25

- **We initiate coverage of Coca Cola Hellenic with an accumulate rating and a target price of 14,57 €, which offers a 16,56% upside from the current stock price as of 12/01/2012.** CCHBC is the largest European manufacturer of beverages and one of the leading players in the sparkling category in Europe and West Africa. After the successful turnaround of its business, and the recent downturn of the central-Western European and the Balcan economies, CCHBC's main growth drivers are differentiation by new innovative healthier products and reduction of the operation cost.
- **CCHBC will grow revenues and margins** as there are improvements in economic conditions to Developing and Emerging Markets in East Europe. Expansion in Russia and Nigeria, the launch of new healthier products, will consolidate volume growth with a 2,3% CAGR from 2011 to 2014. EBITDA margin will increase by 2011-2014 from 13% to 13,5%, also because of efficiency improvements in operations with the SAP Wave II platform in 20 countries.
- **The net financial position is expected to stabilize.** Supported by volume growth and margin expansion, Operating Cash Flow is expected to increase, and OCF to sales ratio to rise from 11,6 in 2011 to 12,2 in 2014. Based on our estimates, CCHBC's net financial position will stabilize around € 2,415.5 M from 2011 to 2014. This fact will leave CCHBC with ample financial flexibility to expand the production capacity and gain market share.
- **Valuation.** Our valuation methods lead to a target price of 14,57 € by the start of 2012. We think CCHBC may offer long term upside if it succeeds in executing its 2011-2014 business plan. This fact will be crucial for CCHBC as the economic crisis impact the demand in its established markets. We evaluate Coca Cola Hellenic by applying two techniques: Discount Cash Flow and Multiple Analysis.
- **The main risks to our target price are** the failure to expand into new markets due to unsuccessful product launches and the increase in the level of competition in current markets. Other risks come from lower than expected growth in Emerging Markets, volatility in exchange rates, and a stronger than expected increase in PET resin, sugar, juice concentrate, and fuel costs.

Figure 31. Coca Cola HBC's share price from 11/2011 to 01/2012. Source: http://www.coca-colahellenic.com

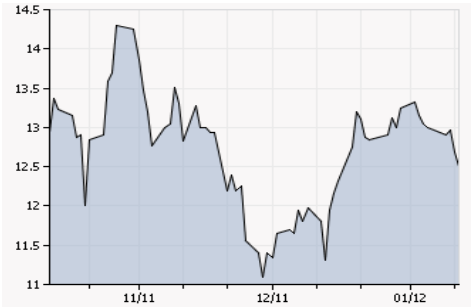


Table 16. Market Profile (as of 01/12/2012). Source: www.capital.gr and personal estimates

Market Profile (as of 01/12/2012)		**Relative Performance of Coca-Cola Hellenic:**	
Market Capitalization	4,57 billion EUR	**ATHEX**	
Shares Outstanding	363,11M	12m	-37.97 %
Main Shareholders:		3m	-6.51 %
The Coca Cola Company	23%	1m	+10.52 %
Kar-Tess Holding S.A.	23%		
Free Float	54%	**FTSE Eurotop 300**	
		12m	-12.47 %
Opening and Closing Price	12.76 - 12.5 / -2.04%	3m	+5.42 %
52-Week Range	11.1 - 22.1	1m	+4.72 %
Volume / 30-Day Average	278.54K / 192.80K	**S&P 500**	
		12m	+0.74 %
		3m	+7.63 %
Coca Cola HBC's multiples		1m	+5.69 %
P/E before tax	8	**ASE General Index**	
P/E after taxes	10,5	12m	-56.04 %
Price to book value (P/BV)	1,5	3m	-18.15 %
Price to sales (P/S)	0,7	1m	-3.74 %

Forward ratios

EV (in €'000)	**2012E**	**2013E**	**2014E**
EV	5.540	5.182	5.114
EV/EBIT	11,2	10,3	9,9
EV/EBITDA	6,1	5,6	5,3
EV/Sales	0,8	0,7	0,7

Disclosures

Ownership and material conflicts of interest:

The author(s), or a member of their household, of this report [holds/does not hold] a financial interest in the securities of this company.

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C. My role in the Recommendation

I played a critical role in collecting, organizing, analyzing (accounting/ financial/ valuation/ other analysis), and communicating corporate information (writing investment research report), as well as in recommending appropriate investment actions based on analysis, in the same way that it is approaching from sell-side analysts, mentoring by an experienced professional.

It was a very personal decision when team-members had not time to go for invest time and effort researching and to analyze a vast range of data applying the tools of equity valuation directed toward exploring real-world business and writing outstanding investment research reports.

It was needed not only to understand what information is available and important in a complex, unknown, and different level but also to be able to spend countless hours with extremely hard work and clear mind to accomplish it on time in a research report format.

It offered me the opportunity to study a real business issue developing my knowledge in depth and then applying that knowledge to an extent, in master and later doctorate level. In fact, it was a ticket to pursue my master thesis, where the investment research report included by a different approach and translated in Greek - it is available for downloading from the site of library from November 2012 inside library only, and after thirty-six-month period available generally - directly improving educational outcomes at the context of the library's role, within University of Macedonia and beyond, PhD project in this direction.

VIII. CONCLUSION

A. Summary

This example is designed primarily to give a good overview of the analyst's valuation process, and the hidden information, the "black box". So, in this paper, I present the valuation process at Coca -Cola Hellenic Bottling Company S.A. for determining the intrinsic value of its stock, making further assumptions regarding aspects of combined operations and specific characteristics and comparing the estimated intrinsic value to the market price of the firm's stock. The

investment research report (valuation process) has covered several different topics and conducted several different studies that have collectively advanced our understanding of analyst's valuation process. Specifically, the DCF valuation links various fields of finance. In addition, the paper highlights that the identification and valuation of companies require numerous assumptions to be made in estimating the intrinsic value combining valuation models and comparing this value to the market price of the firm's stock.

B. Practical Implications

The intrinsic value of companies is among the most controversial issues in modern corporate financial accounting theory and practice. The research has practical implications for investment report preparers in identifying the issues that must be addressed in complying with the valuation process, just like professionals. All readers, however, with a ''serious interest in security values'' should find the paper useful for a more in-depth appraisal of the valuation process as well as accounting/financial and other information to build a robust and reliable valuation model implemented in excel spreadsheets.

C. Anticipated Problems and Limitations

The availability and quality of data are limiting factors in making forecasts, using specific financial performance measures, and on the choice of the valuation model in this case. Besides that, it is challenging to find analysts that are willing to cooperate with researchers to go through the investment research report process except from competition concepts like CFA research challenge and recently Ben Graham Center's stock pricing competition (for teams of three-five students) mentoring by an experienced professional as to be reviewed and criticized by judges' committee.

D. Significance /Originality of the Research

Since accounting and finance researchers are interested in how accounting, financial, and other information is used, it is useful to study valuation processes from the sell-side analyst approach, who are the primary users of those information converting forecasts to a complex valuation model combining methodologies in making an investment decision.

Besides, this approach help addresses unsolved areas related to hidden information or the "black box" increasing our understanding of analysts' valuations and meeting society's needs in economics, management, and education, which may eventually contribute to the improvement of a more efficient capital market.

According to literature, the quality of the industry and company analysis bears heavily on the qualitative as well as quantitative factors and other considerations in financial forecasting and valuation affecting the recommendation. Valuation, however, is relevant and critical to active investment strategies. The reader can understand the prospects for both the industry and the company and look for persuasive supporting arguments inside the paper. An investor's most fundamental concern, for example, is generally the risk and return prospects of his or her total investment position.

This paper has as a main purpose to present an outstanding investment research report from a sell-side analyst approach at a competition concept like CFA research challenge, not only to demonstrate the valuation process that leads to informed decision making but above all to consider this subject from a pedagogical perspective. At this point, lies and the originality of research, because it is not limited to the analysis of terms and concepts but additionally presents specific techniques and methods for their application in a public traded firm, a better understanding of the benefits offered by an example, in the context of an outstanding investment research report beyond valuation models and existing literature.

It provides real-world insight into the valuation process of public companies in practice, aiming at improving our understanding of how analysts use the information for valuation purposes. It would

be an extension of the body of knowledge in this area. I hope the results from this study will not only contribute towards better understanding of analyst's valuation process and their industry associations, but also have practical implications into the classroom in excel spreadsheets or other ICT open challenges as (individual or team) coursework from basic to more complex valuation models on finance courses improving the quality of education. This example serves to bridge the gap between corporate valuation theory and practice in investment decision making. I hope to contribute to the area of valuation theory into practice.

E. Suggestions for Future Research/Research Priorities

The assumptions behind any of these techniques and models will be challenged by the passage of time and actual performance under future conditions. A valuation is not timeless, quite the opposite. The main challenge will always involve the inside or outside analyst, choosing the right approach for the problem at hand.

2012 results and business updates will be of importance to show that CCHBC can deliver on growth through its geographic regions and product categories by collecting data from the annual report.

Furthermore, by collecting data from annual reports, it will be essential to compare my predictions for the years 2012-2014. By doing this, we will see how accurate the predictions were. Finally, it will be of particular importance to define target price by the start of 2017, result in up to date data.

In conclusion, we have learned a lot about analysts' valuation process from a sell-side analyst approach. The advantages and limitations associated with this approach were addressed. As results of a previous paper, both empirical studies and sell-side analyst approaches are helpful in examining analysts' valuation process beyond valuation techniques and models, and are required for studying analysts' valuation process; using only one of the two approaches is not enough for us to have a clear understanding of analysts' valuation process.

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