

Company Name: Anadolu Efes  
Company Ticker: AEFES TI  
Date: 2016-05-05  
Event Description: Q1 2016 Earnings Call

Market Cap: 11,250.00  
Current PX: 19.00  
YTD Change(\$): +.11  
YTD Change(%): +.582

Bloomberg Estimates - EPS  
Current Quarter: 0.470  
Current Year: 0.770  
Bloomberg Estimates - Sales  
Current Quarter: 3303.000  
Current Year: 11129.353

## Q1 2016 Earnings Call

### Company Participants

- Ayse Dirik
- Robin Michael Goetzsche
- Onur Çevikel

### Other Participants

- Nick J. Ashworth
- Walid Bellaha

## MANAGEMENT DISCUSSION SECTION

### Operator

Ladies and gentlemen, welcome to Anadolu Efes Beer Operations First Quarter 2016 Financial Results Conference Call and Webcast. I now hand over to you Investor Relations Manager, Ms. Ayse Dirik. Madam, please go ahead.

### Ayse Dirik

Hi, everyone. Welcome to Anadolu Efes Beer Operations 2016 first quarter results conference call and webcast. Before we start, I would kindly request you to refer to our note in our presentation regarding forward-looking statements.

Now I'm leaving the ground to Mr. Robin Goetzsche, Anadolu Efes Beer's Group President and CEO. Sir?

### Robin Michael Goetzsche

Good afternoon to all from Istanbul and morning to those further west. I'll quickly cover the consolidated performance and then spend a bit more time on the beer business because I think most of you would be familiar with CCR's results already, so I won't dwell much on CCR.

But just to reiterate that broadly, our overall group volume is in line with our expectation at about 16.5 million hectoliters, with revenue performing better which is really being driven by mix and pricing and so on. And what we're seeing is our net sales relatively flat. EBITDA margin at about 13.1% with good focus in both [ph] businesses (1:36) on cost management and continued focus on efficiencies. and a good improvement in the bottom line so, in fact, moving to a profit of just under TRY 55 million. This is, in fact, a Q1 loss in 2015 of over TRY 200 million, really driven by some noncash forex gains that we had versus Q1 2015. And what we do see as well is our consolidated net debt-to-EBITDA ratio sitting at 2 times, so not much change there.

If we just look at our overall volume, so 3.2% down, and if you exclude Ukraine, 2.2% down, with our revenues marginally up – flat, including Ukraine, and just under 1% up, excluding Ukraine, with EBITDA margin slightly down and, excluding Ukraine, about 7% down. I won't dwell on the mix of the businesses, suffice to say that we have a fairly healthy mix across our businesses.

Quickly on the soft drinks business. Positive growth both in Turkey and the international business, the international business particularly being driven by good growth in Pakistan, while we've seen continued weakness in the Central

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Asian businesses, driven essentially by the economic issues that they face there and, of course, the slowdown in Iraq really driven by the obvious conflicts that we're familiar with. I think just the other point to make in Turkey is that we are seeing good growth in volume cases, which is really driven by tapping into the different consumer occasions.

If we can move on to the beer business, probably just some introductory comments first. Certainly, the Turkey operations had much tougher time than we've expected, with clearly aspects such as sanctions, ongoing terrorism and the impact on both of those on the visitors to the country from a tourism point of view and then, of course, the relatively high excise increase that we got at the beginning of January. The international beer business faring better than our expectations, and certainly that led us to, at this stage, keep our guidance, which we'll talk about a bit later, of the overall business at where it was.

As we have pointed out, quarter one is relatively small, and so we obviously would want to wait until we've been through H1, half one to give a better view on our guidance, but clearly seeing a change in the mix of the business. I think a positive is that we're generally holding market share in all of our businesses. And I think, just to give a heads up, that we certainly, from a volume point of view, had a better April than we saw in Q1.

So the total beer group volume seeing an underperformance in Turkey, driven by the major issues I've highlighted, but an outperformance particularly in Russia and Kazakhstan, and that has really given us a bigger mix of volume, in fact, sitting outside of Turkey.

If I can just dwell on Turkey for a little bit. A number of new launches focusing particularly on new SKUs targeting the returnable bottle, which obviously gives the consumer value for money and also works for us from a margin point of view, and then tapping into the can market, and we'll continue to look at innovation particularly in cans.

We've also continued to invest mainly in the marketplace, and we've moved our cooler doors and now are going into the season from 1.8 at the beginning of the year to 2 cooler doors on average per outlet, and our target will be soon to be at 2.2.

Also just to comment on the volumes, we, of course, have reduced stock in the channel, both in terms of our own stock and the distributor's truck dealer stop days and, as mentioned, market share has been now stable for the past six months.

Looking at international operations, I think just the highlights there are, certainly, the business is performing better than we expected. We're taking a lot of costs out of that business on an ongoing basis, and we've had some positive benefits carried forward on all levels of stocks. While we've had softer currencies and economic issues, we're certainly hedged against it and, at the same time, had positive mix in our businesses.

Turning on Russia in particular, we are holding our market share, we have for the last couple of months now, but I think the very positive is gaining good market share in what we call the margin segments after mainstream and premium, and that's working positively for our mix. At the same time, our PET SKUs are positive from a gross margin point of view. So, PET is low in contribution to our overall volume but positive from a margin point of view. And we continue to innovate around particular brand and pack launches on the key brands. And certainly, we'll continue to look at new initiatives to make sure that we gain share in the right segments without eroding value.

So, just in summary, I mean, certainly, our strategy hasn't changed, very much around our brands, innovating and renovating as appropriate, continuing to execute better in the markets, so simply gaining impact, and much more focus on the modern trade capability, as well as ensuring that we present our brands in the on trade.

From an efficiency point of view, a lot of work being done on SKUs and rationalizing SKUs that aren't delivering at the right level, continue to take costs out and driving efficiencies. And then, in terms of our ongoing stakeholder relationships, particularly making sure that we are close to our stakeholders and protecting our license to trade.

What I'll do is ask Onur to take us through a more detailed financial overview, and then we'll come back to your conclusion and in Q&A. Thank you. Onur?

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## Onur Çevikel

Thank you very much, Robin. Good morning and good afternoon, ladies and gentlemen. Welcome to the first quarter 2016 results conference call of Anadolu Efes. I'll take you through our first quarter financial results.

Starting with our consolidated performance, our volumes were at 16.5 million hectoliters with a decline of 3.2% compared with the same period of 2015. Our net sales revenue was TRY 1.933 million, flattish when compared with the same period of 2015, thanks to both local currency price increases and positive mix impact despite the volume decline, as mentioned by Robin.

On EBITDA, our EBITDA was recorded to be TRY 252.9 million, 8.7% less than the same period of 2015 and our net income was recorded to be TRY 60.3 million that is just over TRY 212 million of a loss back in first quarter previous year. On a consolidated level, we registered 13.1% of EBITDA margin and 3.1% of net income margin.

Going to the Beer group segment and Beer group performances starting with Turkey, our volumes in Turkey are at 1.2 million hectoliters, down with 18.6% compared to first quarter of 2015. As broadly mentioned by Robin, the decline is mostly attributable to negative consumer segment and sentiment mainly caused by unrest and lower tourism activity, as well as higher prices due to higher than inflation excise tax increase. The decline in the net sales revenue was lower compared to volume decline due to price increases and higher per-liter sales prices.

EBITDA BNRI was recorded to be TRY 65.7 million, with a 40% decline compared to first quarter 2015. This decline is mostly attributable to higher fixed cost due to lower volumes and higher cost of goods sold due to a fixed volatility despite the hedges. Our EBITDA margin was recorded as 3.2% in our Turkey segment, and the registered net income of TRY 40.3 million in first quarter 2016 in Turkey segment.

Going through international operations, our volumes are at 2.7 million hectoliters or 14.4% lower than the same period of 2015. When we exclude Ukraine, the decline is now moderate and comes down to 9.4%.

Net revenue of EBI was recorded to be \$116.9 million, reflecting a decline of 25.4%. However, our internal calculations show that this decline is mostly attributable to local currency devaluations and weaknesses. On a constant currency basis, we estimate our sales revenue to be close to flattish despite the volume decline on the back of local currency price increases, mix and brand impacts.

We recorded \$14.3 million of EBITDA BNRI, which is 62% higher than previous year with an EBITDA margin of 12.3%, indicating 661 basis points of improvement. We also managed to report \$7.4 million of net income in our international beer operations. And consecutively, our consolidated Beer Group results reflect an EBITDA of TRY 97.8 million with a 15.5% of EBITDA margin, which reflects a very limited 46 basis points decline compared to prior year despite the challenging environment. We are also particularly happy that the generation of TRY 47.6 million net income in our consolidated Beer Group results.

You will all remember that the people constantly talking for a couple of years that they are focused on free cash flow generation and balance sheet management. Due to seasonality, we generated a net negative free cash flow of TRY 51.1 million in first quarter in our beer segment. However, [inaudible] (12:57) free cash flow generation has given very positive results in the last two years. And we are still targeting positive free cash flow generation for 2016 despite cycling very slow performance for the last two years.

So, balance sheet performance continued in the first quarter of 2016. As mentioned by Robin on the latest consolidated level, net debt to EBITDA ratio was at 2 times with a total net debt of \$1.257 million. Similarly, on the Beer Group consolidated numbers, net debt to EBITDA was 1.7 times with a limited net debt slightly over million. Our debt maturity, on the other side, on a consolidated level is at 3.7 years on Anadolu Efes consolidated level and more than 5 years on Beer Group consolidated level. Also, a significant portion of that is at 16 [indiscernible] (14:05) minimizing interest rates as well. As mentioned before, we have had significant part of our operational FX exposures both in Turkey and Russia due to the volatility that we see in the markets.

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Anadolu Efes consolidated level free cash flow generation was negative TRY 68.9 million again due to seasonality which is around more than TRY 18 million better than the previous year. As mentioned earlier, we see balance sheet management and positive free cash flow as our major priorities of the group and targeting another strong free cash flow generation in the year 2016.

And finally, talking about our financial priorities, as we have spoken in the past, [ph] explaining consolidated (15:00) cash flows to all but not limited that's focusing on working capital, making sure that we optimize our CapEx and making sure that we manage our balance sheet tightly, deleveraging, and efficiency improvements, managing impact of FX volatility in our operational expenses and cost of goods sold. And we keep on being committed to our investment grade ratings.

So, briefly, that is the summary of our first quarter 2016 results. So, I will leave the floor to Robin again.

## Robin Michael Goetzsche

Thank you, Onur. Just to summarize before we take questions, as mentioned, I mean, a tough Q1 in Turkey and a good Q1 in the international business. As I said, Q1 is relatively small and certainly a more promising April, and we'll see what holds for us in Q2 to give us some sense of half one.

Ongoing focus on our brand and development of our brands and then, of course, targeting cost efficiencies right across the business. And then, market share in all our businesses certainly a focus – so our management teams are focused on market share. They're getting profitable market share, making sure they manage working capital and then, of course, free cash flow.

In the soft drinks business, adjustment to their focus areas but certainly continuing to drive – winning both at point of sale but also ensuring they grow revenue and margin and make sure their sales force is effective.

So I think that as a summary, Onur, do you just want to reiterate the guidance and then we can take questions?

## Onur Çevikel

Yeah. As we mentioned during the conference call as well as in our announcement, we are not changing our guidance and we are cautiously reiterating our guidance going further. So as we mentioned, we had that first quarter, it's relatively a small quarter, so we are going to be evaluating and talking about our performance at the end of the second quarter.

So that concludes the presentation, I believe.

## Robin Michael Goetzsche

Yeah. So we'll open for questions.

## Q&A

### Operator

[Operator Instructions] We have a question from Nick Ashworth from Morgan Stanley. Please go ahead.

<Q - Nick J. Ashworth>: Hi. Good afternoon, everybody. A couple of questions from me, if I may, both on Russia. Can you talk a little bit about the PET sales and the volumes that you are going to discontinue from July? Is that still in place with the other brewers? And how has that impacted the volume over the last quarter or two because, presumably, that's already starting to – you already started to pull back on those volumes into the market? So that's first on the PET

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one.

Secondly, in terms of relationship with the modern retailers and your key accounts, some of them are saying, given the macro backdrop and the struggles that they've been having, they've been rationalizing beer SKUs on their shelves. Is that something that you've been seeing? Is it – has it being impacting your business in Russia?

**<A - Robin Michael Goetzsche>**: Okay. Thanks very much. Just to cover the PET issue, so subsequent to industry stating that they would self-regulate from the beginning of July 2016, there was a new piece of proposed legislation that went to the [indiscernible] (19:31) to propose, in fact, some restrictions from beginning of 2017. So, the industry decided that they would actually await for that. So there's no decision now by the industry on actually restricting PET to 1.5 and below at the moment.

Expectations are beginning of 2017, but I think I would be cautious on that to say that we've seen this coming for some time, and it seems to get close to the sort of finish line and then there's a new development or a new set of stakeholders that influence it.

So we're not sure when it will happen. What we have done is we've done two things. One thing is we've resized all of our PETs to the industry standard. So you'll recall all the brewers, the big brewers have moved their sizes down to 2.38 and 1.4, 1.35, et cetera, and we've done the same.

So we're very competitive going into the season now from a pricing point of view. But at the same time, that has helped us from a margin point of view on our PET packs but also under-emphasized PET. So we've seen significant volume and market growth in our premium and upper mainstream brands countered by declines in PET, which is kind of on strategy for us.

So I'd say it's kind of uncertain, and our expectation would be that PET, in its current form, will be around for 2016, at least. And hopefully by the time we talk again, which I think is around August, we'll then be able to give you some more definitive input.

On key accounts, certainly we expect and will continue to see consolidation of key accounts in new accounts in Russia into key accounts, which of course comes with its trading terms, challenges and so on. We have quite a lot of volume that goes direct now, which obviously helps us quite significantly. We believe we've got a fairly healthy and good range of assortment in Russia. So what we focus on our work, we call our mass stock, six SKUs and then the regional SKUs that complement that.

So we haven't had a major impact of anything we've seen in a number of the [indiscernible] (22:06) black, red and white, for example, because [indiscernible] (22:09) where we've seen, in fact, an increase in our listings of particularly our Premium and Upper Mainstream SKUs.

But I would agree that over time, we should see some sort of rationalization in both the modern and, to some extent, traditional trade around SKUs because there are just too many, and I think it's a just reflection of a lot of the brewers particularly a lot of the regional brewers as well are pushing to have the SKUs in the attic. So I think we'd expect that but certainly has an impact to last year. Hope that answers the question.

**<Q - Nick J. Ashworth>**: Yeah. Absolutely. So you believe that you are – but for as when that happens, do you believe that you are – you had the right mix of products in the shelves already, so you shouldn't be the target if you like of that change?

**<A - Robin Michael Goetzsche>**: Yeah. Absolutely. And I mean one of things we worked hard at is, particularly in our Premium brand is multipacks. So selling obviously four can or four bottles on a value basis and we've got – in Russia now, we've got 15 SKU multipacks and that's positioning us well. So, I think if we go down to a restriction of not greater than 1.5, from our brand pack mix, that's positive for us. So that's not a negative for us.

**<Q - Nick J. Ashworth>**: Okay. Thank you.

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## Operator

Our next question is from Walid Bellaha from Barclays. Please go ahead.

**<Q - Walid Bellaha>**: Hi. Good afternoon. Thank you very much for your presentation. I have three questions, if I may. So you mentioned higher cost of sales in Turkey despite the hedges. Are you referring to particular cost? I mean, I remember you've said in the previous quarter that barley prices were increasing. Is that the main driver?

My second question is regarding the cost efficiencies that you've done in Russia. How much more can we expect for the next quarter? And finally, for the excise tax that you had earlier this year in Turkey, just wanted to know whether you fully passed on this increase in the prices, or did you have to cut some of your margins following this excise tax?

**<A - Onur Çevikel>**: Well, thank you very much for the question. I will be answering them. First of all, talking about the cost of sales in Turkey, as I mentioned, there have been two major impacts on those. One of them is the lower volumes leading up to a higher cost of sales coming from the fixed cost portion of that as well as – as you know, we have been mentioning that around one-third of our total cost of goods sold is on hard currency in Turkey, so that has an impact. Though we have hedged them with a quite favorable rate, we are comparing them back to first quarter of 2015 where the exchange rate devaluation just had been starting to take place. That's why mainly these are the two major factors that are affecting our cost of goods sold.

Our cost efficiencies in Russia, we have been running to a lot of cost efficiency studies, we are going to be keeping on doing that. We are not going to be just sharing guidance of how much of that is going to be coming in the quarter, but we want to make sure that we optimize our costs because you will all remember that we have been leading in making sure that we optimize our cost like shutting down some of the breweries, making sure that we optimize our head count, we optimize our SKU mixes, as well as our production rate. We are going to be keeping on making sure that we do this.

And let me also mention that our cost of goods sold in our international operations has been quite favorable. And there's also an impact of stock carryovers that are coming in the first quarter which is going to be normalizing in the second quarter as well.

And with reflect to the excised tax increases, yeah, we have mostly increased our prices in order to make sure that we get – we cover the impact of the excised tax increases. And if you look at our gross profit margins throughout the years, we have been making sure that our gross profit margins either stay stable or improve throughout the year. So, even if some of the inflation has not been yet reflected to the prices, it's just that time gap that it takes in order to make sure that we reflect more to the price. So, those impacts are being reflected to the prices to our beers.

**<Q - Walid Bellaha>**: Thank you very much. And just one follow-up question if I may on the cost of sales. Do you expect any increase in some of the costs over the next quarters?

**<A - Onur Çevikel>**: Well, actually, as I said, we are cycling some cost stock carryovers back in the first quarter. So, it might be more reasonable to see some increases in our cost of sales in the international business going further as we had guided. But as we have reiterated our guidance, we are committed to the guidance that we have provided on that front as well.

**<Q - Walid Bellaha>**: Thank you very much.

## Operator

[Operator Instructions] We have a question from [ph] Dmitri Tikhonov (28:45) from Commerzbank. Please go ahead.

**<Q>**: Hello. You mentioned in your presentation about certain activities linked to working capital improvement and optimization. Could you maybe a bit put some small color on that, what we should expect and perhaps some ratio as a guidance where should we see working capital as percentage of sales? Thank you.

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<A - Onur Çevikel>: Well, thank you very much for the question, [ph] Dmitri, (29:08) but we are not actually guiding what ratio is going to be going further on the working capital improvement. But let me put it this way that our improvements in working capital especially has been very strong back in 2015, which has been around TRY 116 million of an improvement that we had faced back in 2015. And I think our free cash flow generation, again, back in 2015, that has been around over TRY 500 million has been good, that's fine how we have been managing our working capital. And part of that is obviously coming from the working capital part, and part of that is also coming through the CapEx optimization.

We are going to be still [indiscernible] (30:03) on making sure that we optimize our working capital, and our basic aim is to make sure that each year we get a better performance of working capital as a percentage of net sales. But we are not just putting or we are not publicly guiding a ratio about that.

<Q>: All right. Thank you. And that's it from my side. Thank you very much.

## Operator

[Operator Instructions] We have no other question. Mr. Robin Goetzsche, back to you for the conclusion.

## Robin Michael Goetzsche

Right. So, thank you for the questions. And, of course, if you have any other clarification you require, we're obviously available for you. But thank you very much, and we look forward to catching up with you in our next sessions either in – after H1 or when we meet you before then.

## Onur Çevikel

Thank you very much.

## Operator

Ladies and gentlemen, this concludes today's conference call. Thank you all for your participation. You may now disconnect.

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