

Company Name: Anadolu Efes
Company Ticker: AEFES TI
Date: 2017-05-05
Event Description: Q1 2017 Earnings Call

Market Cap: 11,842.11
Current PX: 20.00
YTD Change(\$): +2.37
YTD Change(%): +13.443

Bloomberg Estimates - EPS
Current Quarter: 0.210
Current Year: 0.505
Bloomberg Estimates - Sales
Current Quarter: 3177.500
Current Year: 12131.100

Q1 2017 Earnings Call

Company Participants

- R. Aslı Kılıç Demirel
- Onur Çevikel

Other Participants

- Ece Mandacı Baysal, CFA
- Walid Bellaha
- Anirudh Patwari

MANAGEMENT DISCUSSION SECTION

Operator

Ladies and gentlemen, welcome to Anadolu Efes Beer Operations First Quarter 2017 Financial Results Conference Call and Webcast.

I'll now hand over to your Investor Relations Manager, Mrs. Aslı Demirel. Madam, please go ahead.

R. Aslı Kılıç Demirel

Hi, everyone. Welcome to Anadolu Efes Beer Operations 2017 first quarter results conference call and webcast. Before we start, I would kindly request you to refer to our notes in our presentation regarding forward-looking statements.

Now, I'm leaving the ground to Mr. Onur Çevikel, Anadolu Efes CFO. Sir?

Onur Çevikel

Good morning and good afternoon, ladies and gentlemen. Thank you very much for joining today's Anadolu Efes first quarter 2017 results conference call.

I'll be delivering today's presentation together with Aslı. Unfortunately, our CEO, Mr. Gavin Hudson, will not be able to join us today since he had an unfortunate traffic accident, recovering now. I'm confident that he will be back to office by this June, less than a month time and wish him our best regards and a fast recovery. I had a talk with him today. He sends his best regards to you all and his apologies for not being able to join the call today.

Going to the highlights on our consolidated performance of Anadolu Efes. Our volumes moved up by 6% in first quarter 2017 versus prior year, which is the highest quarterly volume growth since 2014, benefiting from strong performance of both Soft Drinks and International Beer Operations. Our revenues moved up by 25.5%, outperforming the volume growth. Main contributors being strong volume growth, local currency price increases as well as positive translation effect of local currencies of International Operations into TL.

Our EBITDA BNRI increased by 16.7% to TRY 295.2 million. Net income was negative mostly due to FX losses. Our consolidated net debt-to-EBITDA was at a healthy 2.1 times despite the devaluations we have seen on TL. On our consolidated performance, as I've already said, our sales volume grew to about 6%. Our net sales revenue grew by

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25.5% and we had an EBITDA growth of 16.7%.

Talking about Soft Drinks volume development, very shortly, in first quarter 2017, Soft Drinks volumes grew by 5.1% in first quarter 2017, and our Turkey Soft Drinks business delivered a 2.7% volume growth and our International Soft Drinks Operations delivered a 7.6% volume growth. Positive momentum continued in Pakistan with 9.4% volume growth, Central Asia posted 7.6% growth and Middle East contributed by 3.8%. So, I'll not spend too much time on the Soft Drinks since we had a conference call of Coca-Cola █çecek yesterday, so we are not going to be spending too much time.

I will go through the Beer segments and our Beer volume development in first quarter 2017. Our total Beer group sales volume was at 4.3 million hectoliters, up with 9.1%. One of our biggest markets, Russian beer market, is estimated to be down mid to high-single digit basically on the back of the new PET regulation and downsizing.

Turkey Beer market, on the other side, continued to be under pressure due to slowdown in economy, decrease in consumer confidence with lower personnel spending, increased security concerns especially at the beginning of the year and affordability issues. In our Turkey Beer Operations, our domestic sales volumes were under pressure due to market conditions. Turkey Beer market is estimated to be down by low-single digits.

Apart from challenges in the Beer market, Anadolu Efes volumes were also impacted by high competition. Our market share in first quarter 2017 was at 62%. Having said this, we will continue our strategy of refining the portfolio strategy with a non-negotiable stance on quality, addressing affordability, sales force efficiency, and obviously, strong execution going further.

Our International Beer Operations, on the other hand, had a successful first quarter in 2017 with a volume growth of 14.8%. We had above the expectation volume performance across almost all operating countries. Our Russian operations outperformed the market in first quarter 2017 with a 15.4% market share in first quarter 2017. Continued focus and consistent focus on brands, collective approach in PET transition, improved execution in marketplace, the basic key success factors that we will keep on focusing going further as well. Before getting to the details of the financials, I would like to remind you our Beer group strategy that basically keeps a high focus on brands, execution, efficiency and relations.

Going through our financial performance, as usual, I will start with our consolidated performance on Anadolu Efes. Our volumes have reached to 17.5 million hectoliters with a strong 6% growth in first quarter 2017. International Beer and Soft Drinks segments were the main contributors, as I discussed a couple of minutes ago.

Net sales of Anadolu Efes have reached to TRY 2,425.7 million with a growth of 25.5% in first quarter 2017 compared with the same period of 2016. Volume growth, as well as price increases and positive translation effect of local currencies versus TL were the main drivers of this successful revenue increase.

EBITDA BNRI [audio gap] (07:25) Efes were recorded to be at TRY 295.2 million with a 16.7% increase compared with the same period of the prior year. EBITDA BNRI margin was at 12.2%, slightly less than prior year with 91 basis points slight decline. Net income of Anadolu Efes was recorded to be a loss of TRY 84.9 million, the reason being TRY 121.4 million of non-cash FX loss which was recorded as a result of devaluation of TL against hard currencies in first quarter 2017 versus 2016.

Going to our Beer performance for the first quarter of 2017, starting with Turkey. Our Turkey Beer Operations had about a volume of 1.2 million hectoliters with a decline of 3.6% compared with the prior year the same period. As mentioned, this decline is mostly attributable to the slowdown in the economy, decreasing consumer sentiment, increased security concerns, affordability issues as well as high competition. Our net sales revenue in Turkey Beer Operations grew by 4% ahead of revenues and reached to TRY 294.8 million in the first quarter of 2017.

Our EBITDA BNRI was recorded to be TRY 58.7 million with a decline of 10.7% and our EBITDA BNRI margin was at 19.9% with a decline of 328 basis points. This decline is mostly attributable to high FX costs and expenses due to lower volumes as well as higher cost inflation due to increasing commodity prices, as well as TL devaluation despite the proactive hedges. Net income in Turkey Beer Operations was recorded to be minus TRY 59.9 million due to TRY

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81.3 million of non-cash FX losses due to TL devaluations.

Going to International Beer Operations performance, our first quarter volume were 3.2 million hectoliters with an increase of 14.8% compared with the same period prior year. The increase in volumes is mostly thanks to our volume growth in Russia.

Our net sales revenue was recorded to be TRY 570.3 million with an increase of 65.9%. Apart from the volume increase, translation effect of local currencies to TL has played an important role in this eye-catching increase. If we were to look at the constant currency increases, this increase could be close to 10%.

Our EBITDA BNRI has reached to TRY 54.3 million with a 28.6% increase compared to the same period. Our EBITDA margin was recorded to be at 9.5% with a 275 basis points of decline, of which is the result of both higher commodity prices, pressuring cost of sales, higher tax hikes in some of the operating geography like Kazakhstan, as well as the mix and product changes in the operating geography. Our net income in our International Operations was at TRY 33.6 million with a 55.4% increase mostly due to the exchange rates.

Finally, in our Beer Operations, as consolidated, our volume reached to 4.3 million hectoliters with an increase of 9.1%. Our revenues rose at TRY 870.1 million with an increase of 37.7% compared to quarter one 2016. Finally, our EBITDA BNRI was at TRY 101.5 million with an increase of 3.8% and EBITDA margin of 11.7%.

Talking about the free cash flow and the balance sheet performance. As you well know, free cash flow is – for the last years has been a priority for all our businesses across the segments. You also well know that our business in both segments tends to generate negative cash flow at the beginning of the financial year given the seasonality. In first quarter 2017, our available free cash flow after investing activities was at minus TRY 43.6 million, slightly better than the same period of 2016.

Continuing with our balance sheet of first quarter 2017, net leverage ratios continue to be in the comfortable area, despite the significant devaluation we have seen in TL in the last 12 months. On a consolidated level, net debt-to-EBITDA ratio of Anadolu Efes was at 2.1 times with a net debt of \$1.28 billion. Similarly, on the Beer group level, our net debt-to-EBITDA ratio was at 1.8 times with a net debt of \$337 million.

Continuing with our balance sheet management, average maturity of debt for Anadolu Efes is approximately 3.1 years and it's 4.6 years for our Beer Operations with a manageable capital payment schedule. As we have discussed, as well, in our latest conference call, most of our debt is at fixed interest rate which minimizes the interest rate risk as well.

Finally, on our Anadolu Efes consolidated free cash flow, as stated earlier, our businesses in both segments tends to generate a negative free cash flow in the first quarters of the year given the seasonality. Our consolidated free cash flow on Anadolu Efes level was recorded to be at negative TRY 75.5 million and a negative TRY 94.3 million after other investing activities. It is important to emphasize that free cash flow continues to be one of our primary focus and we keep on targeting a positive free cash flow both for our Beer business and Soft Drinks Operations for the full 2017 year.

Finally, to emphasize once again, our financial priorities will continue to be sustaining consolidated cash flow to a balance sheet management, rational and optimized CapEx as well as keep on focusing on working capital optimization. Deleveraging and efficiency improvements will be continuing to be in our focus, as well as managing the impact of FX volatility and having committed to do investment-grade ratings, are going to be our priorities.

So this, basically, which is the end of our today's presentation. Just to conclude, we haven't changed much on our long-term key priorities and to keep on having value generation with the margin improvement and free cash flow generation in our Beer Operations, capitalizing on brands, achieving optimal brand and SKU mix, excelling in execution, focusing on quality market share and, of course, the strong free cash flow generation towards strong balance sheet management. We'll be keeping on our long-term priorities.

Finally, the guidance of 2017, since the first quarter of 2017 is relatively a small quarter for our businesses, we cautiously reiterate our guidance for Anadolu Efes and keep it unchanged.

So, this concludes my presentation. So, I think we can open the stage for questions.

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Q&A

Operator

Thank you. [Operator Instructions] And we have a first question from Ece Mandac from Tacirler Investment. Please go ahead.

<Q - Ece Mandac Baysal, CFA>: Hi, Onur [ph] Bay (17:08). Thank you for the presentation. Could you please provide some color on market environment for the second quarter of this year? And previously, you guided a flattish market demand for Turkish and Russian markets – Beer markets. Do you maintain that guidance after this – your first Q performance? That's my first question.

And secondly, I assume that the 15% growth in the first quarter was a result of the depletion of activity inventory. So, have you seen a normalization in this growth as of April? Thank you.

<A - Onur Çevikel>: Well, thank you very much for the questions. Let me start with the first question. Well, actually, as I said, we are not going to be changing our guidance after the relatively small first quarter. We would like to see the performance going further in the second quarter to our operating geographies. And later on, if there's going to be a need for the revision, we are going to be ready to think those revisions.

Well, actually, in our markets, I mean, the performance in April was relatively mild, so we haven't seen much of a change of the first quarter in the – in April as well. However, yet we still look forward for the end of second quarter to revisit whether we are going to be having any change in the guidance or not.

And I believe your second question was on the PET side and growth on Russia. I think one of the things that is very important for the Russian market is the regulatory change on PET starting from the beginning of 2017. And you might remember that we had a guidance of having a flat market in Russia despite the PET ban because we were thinking that the loss on the bigger packages that we are going to be seeing in the Russian Beer market is going to be replaced by smaller packs, as well as some volume getting into the dealer channel.

So, on first [audio gap] (19:49) was – it seems to be that in the Russian Beer market, we have seen some mid to high-single digit decline, but through our proactive approach in the PET conversion issue as well as our very successful execution in the marketplace, we were able to recover and get some market share in the markets. But as I said, first quarter is relatively a small quarter, so we'd like to observe the performance in the second quarter, and then, we will be able to say some more on the Russian Beer market.

Operator

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

<Q - Walid Bellaha>: Hi, good afternoon. Thank you. Thank you very much for your presentation. Just have a question regarding the competitive environment. You mentioned a higher competition. Do you see price pressure in terms of competition or your competitor coming with the new products was driving the higher competition – competitive environment?

<A - Onur Çevikel>: Well, I mean, the higher competitive environment basically means the competition both on the brand side and both on the execution side, so it's basically these two which we are ready to face and make sure that we keep on [ph] continuing (21:26) our brands, and we make sure that we keep on refining our portfolio and throughout the well and good execution. We are looking forward to make sure that we are going to be recovering our market share in mid to long-term. So, that's basically what we mean by the higher competition.

<Q - Walid Bellaha>: Okay. Thank you. And can you comment on any recent volume trading in Turkey? How do you see it over the – how were the volumes were in the first few months of Q2?

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<A - Onur Çevikel>: Well, as we said, I mean, the first few months are not a real good indicator of the whole year. That's why after the first quarter, we said we are not going to be changing our guidance and we want to see a couple of more months until the first quarter recourse, second quarter recourse. Our geography is to give you a better color on how the trading goes on. According to how we see the markets right now, we decided not to change our guidances and we are going to be keeping our guidances.

<Q - Walid Bellaha>: Thank you very much. And so, maybe lastly, can you comment on the impact? Did you expect for Ramadan since it should be falling this year in the Q2 period?

<A - Onur Çevikel>: Yeah. I mean, Ramadan is going to be on the Q2 which is going to be covering the June period this year. Having said this, while giving our guidance, we have already taken this into consideration. Of course, this will have an – this really has an impact on the quarter, [ph] the results are (23:26) on the year, [ph] the results (23:27) in our guidance. They had taken this place.

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

Operator

[Operator Instructions] We have a question from Anirudh Patwari from Goldman Sachs. Please go ahead.

<Q - Anirudh Patwari>: Hi. Thank you for the presentation. Just a follow-up question on the Russian market. Can you please give us some more color about the [indiscernible] (24:21) for this year in the market? So as you have highlighted about that you expect the market to remain flat in – for the full year, what are your volumes expectations? And can you give us some more color about the PET ban? Will there be no impact and if you still continue to gain market share from the competitors or do you see it normalizing going forward?

<A - Onur Çevikel>: Well, thank you very much for the question. I think the line was not that good, but as far as we could hear, the question is about, first, the Beer market in Turkey being flat and our volumes are going to be affected. We keep our guidance as well as what we have said, so we are not going to be changing both on our Turkey Beer market guidance as well as our guidance, so it's going to be remaining the same.

For your second question on the PET ban, as I said, we expect and we see the Russian beer market going down with mid to high-single digits in the first quarter, which is mostly attributable to the PET ban on the bigger format and those being converted into smaller packages. So, we do think that this had an impact. However, having said this, we had seen at the beginning of the year, Russian beer market being flat and thus, outperforming the market. And we also haven't changed that guidance, so we have kept that guidance.

We assume that going further, we do think that Russian beer market is going to be flattish this year and this effect of PET is going to be recovered through the conversion of these bigger packages into smaller packages. However, having said this, I, again, had to say that first quarter is the first quarter that the restriction is in place on production. So, I think we need to see a couple of more months to make sure what the real impact is going to be, but we haven't changed our estimations on that.

<Q - Anirudh Patwari>: Okay. Thank you very much.

<A - Onur Çevikel>: Thank you for the question.

Operator

[Operator Instructions] We have no other questions. Mr. Onur Çevikel, back to you for the conclusion.

Onur Çevikel

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Well, thank you for joining today's call of Anadolu Efes on the first quarter results and I wish all of you a happy weekend. Thank you very much for joining.

R. Aslı Kılıç Demirel

Thank you.

Operator

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

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