

Anadolu Efes 1H2025 Financial Results Conference Call

Asli Kilic Demirel

Ladies and gentlemen, welcome to Anadolu Efes's Second Quarter 2025 Financial Results Conference Call and Webcast. I'm Asli Demirel, I'm the Investor Relations and Risk Management Director of Anadolu Efes.

Our presenters today are CEO, Mr. Onur Alturk; and our CFO, Mr. Gokce Yanasmayan.

The first part of this today's call will be in a listen-only mode. Afterwards, we will open the floor for a Q&A session. You may submit your questions at any time using the question box on your screen. However, we kindly encourage you to do so before the Q&A session begins to ensure you have adequate time to review and address them. Unless explicitly stated otherwise, all financial information disclosed in this presentation are presented in accordance with inflation accounting.

Just to remind you, this conference call is being recorded and the link will be available online. 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 Alturk, Anadolu Efes's CEO.

Onur Alturk

Good morning, and good afternoon, everyone, and welcome to Anadolu Efes 2025 first half operational and financial results conference call.

So in the second quarter, Anadolu Efes leveraged its diversified footprint, brand strength, and agile operating model to deliver solid volumes in both Beer Group and total soft drink operations. We continued the growth trajectory from the first quarter yet at a slower pace in the second quarter at the consolidated level, while Beer Group increased volumes by 5.3%, indicating improved momentum compared to the first quarter of the year. Strong volumes supported topline growth, but the effect was pressurized due to our deliberate focus on affordability, especially in our soft drinks operation.

Softer top-line performance along with last year's high base affects pressured operational profitability, leading to a decline in EBITDA margin. Consistent with our business cycle, peak season supported our free cash flow generation, yielding a positive cash generation. Lastly, with the cash generated in the second quarter, our net debt-to-EBITDA ratio was recorded at 1.9x, reflecting a slight improvement compared to first quarter.

So when we look at the closer look to the Beer Group in the second quarter, volatility across our footprint remained elevated, with intensifying competition in Türkiye, evolving retail dynamics and retail landscape in Georgia, and a changing environment among players in Kazakhstan. Inflation, especially in our domestic markets and geopolitical tensions, applied pressure across the board. Yet, beer operations delivered a solid second quarter performance, with volumes up by 5.3%. The rebound was supported by contributions across all beer operations and countries.

In Türkiye, beer volumes recorded solid 5.9% growth, building on a softer first quarter results. Likewise, international operations volume rebounded in the second quarter and registered 4.7% growth. CIS operations delivered low-to-mid single-digit growth on average, while Ukraine contributed to a consolidated volume growth with low-teens, supported by ongoing market recovery and low-base effect of the last year.

Turning to international beer operations. In Kazakhstan, we recorded slight volume growth in the second quarter, marking a recovery from the first quarter. The improvement was driven by strong commercial execution of the Kazakh team and increased focus on KEG and Draft sales. Share of premium portfolio increased through the Miller and Corona brands. We also successfully launched

Wukong Ju in the mainstream segments, a launch that exceeded our expectations and reinforced our portfolio strength.

Meanwhile, Georgia delivered mid single-digit volume growth, supported by accelerated export activities and the successful execution of domestic route-to-market initiatives. In Moldova, we sustained a strong momentum, delivering mid to high single-digit growth in the second quarter, marking our seventh consecutive quarter of growth. Growth was fueled by positive market dynamics and enhanced product mix. Furthermore, early shipment activities by dealers and distributors to meet the rising consumer demand during the high season, supported the volumes in the quarter.

Looking closer at the operations in Türkiye, volumes grew mid single-digit in the quarter, making a meaningful contribution to our consolidated performance. Competition stayed intense, as I mentioned at the beginning, with promotions and deep discounts shaping the market dynamics. Ahead of the summer season, we introduced Miller Lime in the upper mainstream segment, enhancing our portfolio as well as our market presence. We continue to observe the change in channel structures with a continued shift in the consumer behavior, with demand moving away from on-trade channels towards off-trade and modern trade channels.

Tourism, which normally supports our seasonal volumes, started softer this year and lacked expectations. That's why we are keeping a close watch on it in the third quarter, as it remains a key contributor to seasonal volume performance. Last but not least, we observed promising initial results from our William Grant & Sons portfolio within the Turkish Spirits category, supported by ongoing portfolio enrichment initiatives, including the launch of new Vodka and Gin brands. In parallel, a dedicated sales team structure was established to drive further growth and execution excellence in the segments.

When we look at the soft drinks operations, following the increasing momentum in volume in the first quarter, soft drink operations delivered a volume growth in second quarter, yet in a slowing trend. At the consolidated level sales, volumes increased by 4.7% year-on-year, with Uzbekistan, Kazakhstan, and Iraq as the main contributors. In Türkiye, volume declined 5% during the period. The shift of the Eid's holiday to the first quarter, in addition to softer household spending, tighter trade promotions together with price adjustments, weighed on demand.

Moving to international operations. Volume performance was stronger year-on-year, supported by Central Asian markets and Iraq. Kazakhstan recorded robust 16.7% growth, helped by a low base and effective in-market execution. Iraq posted another 10.6% increase, extending the solid trajectory seen since second quarter of '24. Uzbekistan posted 44.8% growth, supported by low base and consistent marketplace execution. Yet in Pakistan, volumes were down by 1.5%, as the same calendar shift seen in Türkiye affected consumption and more importantly, regional tensions impacted volumes negatively.

And now, let's move on to our operation results and performance. As we have been discussing, in the second quarter, we delivered solid volume growth, however, with a of course, favorable mix. However, deeper discounting in domestic beer and affordability-focused pricing in domestic soft drinks limited the top-line, resulting in a decline in net revenue. While zero-based, spending-driven, disciplined expense management helped us to keep OpEx increase limited. Margin declined year-on-year on the back of weaker top-line performance and last year's high base.

Furthermore, the impact of inflationary accounting applications also weighed on margins. Anadolu Efes consolidated net income was recorded at TRY4.1 billion. Earnings were supported by lower tax expenses, particularly in soft drinks, yet it was not enough to compensate softer operational profitability performance and lower monetary gains compared to the same period last year. The Beer Group, on the other hand, there were the year-on-year improvement in second quarter underpinned by higher monetary gains and deferred tax income.

Following a seasonality-driven negative free cash flow in the first quarter, the second quarter marked a return to positive free cash flow and consistent with our historical patterns before. In the current environment, strengthening free cash flow stands as a clear business priority for us. In line with this

approach, we continue to take concrete steps to support cash flow generation. We launched a working capital optimization program across all our operations. In the second quarter, the program includes initiatives, such as effective receivables management, inventory optimization, alignment of sales investments with sales teams with cash flow timing, and review of supplier payment terms. Consequently, an improvement was observed in our consolidated net debt-to-EBITDA ratio compared to the first quarter with a ratio at 1.9x.

So let me leave the floor for Gokce for more detailed financials.

Gokce Yanasmayan

Good morning, good afternoon to everyone. As Onur covered the Anadolu Efes's financials, I will quickly give you more insight to the Beer Group performance for the second quarter and first half. But before I start, I want to remind again that the figures disclosed are on a pro forma basis in my presentation too. So meaning that they exclude the financial results of Russian operations as of January 1, 2024 to ensure comparability.

So in the second quarter, Beer Group sales revenue declined by 1.2% on a pro forma basis to TRY15.6 billion. Although volume performance was good, international beers operations revenue was also recorded with a decrease of by 6.5%. Actually due to similar impacts we have observed in prior quarters. In general, Turkish lira depreciates less versus local currencies of international operations when compared to the inflation rate in Türkiye, which creates a negative impact on TAS29. Excluding TAS29, international beer operation revenue grew by 24.2%.

TRY9.4 billion was the revenue from Türkiye beer operations in the second quarter, representing a 2.4% increase. We have seen an improvement in revenue per hectoliter versus first quarter of the year, even though discounts have increased. Thus, on a proforma basis, Beer Group revenue decreased 4.3% to TRY23.9 billion in first half. Beer group gross profit declined 2.9% on a proforma basis again to TRY7.7 billion in the second quarter, with a slight margin contraction of 82 bps. However, gross margin remains at a remarkable 49% level. The gross margin decreased as anticipated after the first quarter's exceptionally high gross profit was it, mostly because of Türkiye's beer operations, while international beer operations remained very strong.

In the next slide, please, I'll give you an update of EBITDA. Yes, with an EBITDA of TRY3.2 billion, Beer Group had a 20.7% EBITDA margin in the second quarter, which indicates a 327 bps decrease. The strong base in the same period of last year, especially in Türkiye, and negative effects of TAS29, which I have explained, are the reasons for the margin drop. The primary cause of margin dilution in domestic business was the increase in general and administrative expenses. Strong performance across CIS operations where profitability and margins exceeded 30% level, helped to somewhat offset these effects. Consequently, Beer Group EBITDA in first half was TRY2.7 billion, with an 11.4% margin.

In the second quarter of 2025, Beer Group generated free cash flow of TRY3.7 billion, which is one of the year's highest contributing quarters. Lower operational profitability and the negative impact of rising interest expense were the causes of the year-over-year decline in free cash flow. This year's CapEx includes extraordinary items, like capacity expansions in Türkiye. However, in absolute terms, the increase remains below revenue growth, while certain markets, like Kazakhstan achieve saving versus budget.

We are also focused on enhancing working capital management, particularly in Türkiye and Georgia, where we currently see double-digit working capital to sales ratio. In other countries, this ratio remains at a healthy 0% to 5%. All of these led this led to an improvement in the net debt to EBITDA ratio with which as of June 30 was recorded at 3.7x. We expect the net debt-to- EBITDA ratio to remain at the current levels by year-end, while Anadolu Efes consolidated leverage is already low at below 2x, Beer Group ratio is higher and our mid-term objective is to bring it down to our comfort range.

Well, to give you an idea about the financials without TAS29, again just a reminder first, Anadolu Efes's financial statements are prepared in accordance with TAS29. However, financial information presented on this slide excludes the impact of TAS29 and they are solely for analysis purposes and they won't be aligned to Anadolu Efes's financials and have not undergone any independent audit.

So excluding the impact of TAS29, Beer Group revenue in the first half was TRY24 billion, with a growth of 30%. And excluding the impact of TAS29, EBITDA increased by 22% to TRY4.4 billion. And net income was reported as TRY1.1 billion excluding the CTA impact coming from scope changing consolidation of Russian operations.

Cash and debt management. So as of June 30, we had 60% of our cash in hard currency in Beer Group and 58% in consolidated Anadolu Efes, and net debt ratio again was 1.9x for Anadolu Efes and 3.7x for Beer Group, both showing a slight decline versus first quarter.

Next page, please. So risk management part, updating the key figures. Here, our hedge percentage increased to 91% of our exposure for the year for aluminum and for FX, we are almost fully hedged with 95% of coverage.

So that ends my part of the presentation, and I hand over to Onur.

Onur Alturk

Gokce, actually, before moving on to the Q&A session, again, there have been some questions about Russia operations. Let's clarify then for everyone. There has not been any material change regarding the Russia issue since our last discussion during the past conference call. Therefore, we have not included a separate page on Russia as it's not incorporated into our financial results. Unfortunately, we will not be providing any additional details beyond what we have shared in first quarter results conference call if there are any questions on the floor.

Now, we are more than happy to take the other questions.

Q&A Session

Asli Kilic Demirel

There are a few questions on the floor. Let me start with actually reading some of them. Some of them are recurring. Therefore, I'm mixing some parts of the questions with some other parts of other questions. What's the reason for poor tourism season? And how far off are you in terms of your targets in Turkiye?

Onur Alturk

Actually, we have been observing a decline in the number of tourists that is coming to Turkiye. And there has been a few reasons for this one, especially strong Turkish lira, the FX rates probably affecting the number of tourists coming to Turkiye. But we are still observing, as we all know that we have a very good market share in tourism regions and in the hotels. So, we are still observing the August performance. But I mean, since what we have been observing so far, we can expect a softer tourism season in Turkiye for September. It seems that the number we cannot compensate the declining number of the tourists.

Asli Kilic Demirel

Can you provide guidance for Beer Group in 2025? What's the expected revenue and EBITDA for the business this year? Let me clarify one thing. We have not provided any official guidance for this year. So, what Onur Bey is going to comment is going to be an unofficial guidance where we usually share with our analysts as well as our investors during our meetings.

Onur Alturk

I mean, from a broader perspective, we expect our beer business to have flat to modest market growth across our operating regions. However, our focus remains again on outperforming the market in every geography.

In nearly all our operations, we aim to grow revenue above inflation. That's why we are very much focused on the effective pricing. And this pricing advantage and favorable mix will be the key for our growth. We are also committed to growing EBITDA in absolute terms. So we anticipate some margin pressure. At the same time, strong free cash flow generation and delivering, will remain top priority. As I mentioned in my presentation, free cash flow will be number one priority.

Asli Kilic Demirel

What's the CapEx currently as a percentage of sales in the Beer segment? And what free cash flow do you target in the Beer business ex-Russian on an annual basis?

Gokce Yanasmayan

For the CapEx, I can take it. So, for the Beer Group, the CapEx spending ratio is approximately 7% to 8% of sales revenue. Of course, this is excluding Russia. In CIS region, the CapEx spending ratio is within the high single-digits. In Turkiye, it slightly exceeds 10% because of our capacity investments and due to euro-based market investments such as coolers. So, this is the picture excluding Russia.

I mean, with the free cash flow, we've seen the improvement versus first quarter. First quarter numbers were much lower than what we currently have. So, we improved our cash flow. And I think towards the year-end, we will keep improving our cash flow. However, I do believe that we will still remain on the negative zone by year-end in terms of cash flow.

Onur Alturk

Let's underline this part. So, that we said that our number one priority will be our cash flow. So, maybe, I mean, mentioning what proactive steps that we have taken might be helpful for all of us.

So first, we continue to focus on long-term growth by investing in high-potential categories, such as the spirit business in Turkiye. Now, we are trying to expand it. And also, we want to expand our footprint in markets like China, Belarus, and Azerbaijan. So, this is for the top-line. And also, we have enforced a euro-based budgeting and spending approach applying freeze and release mechanism for both OpEx and CapEx in all our operations.

We have launched a core working capital project to enhance cash conversion across all our operations again. And contingency and scenario planning efforts are underway in all geographies with the goal of enhancing cash generation through a combination of top-line growth and a tighter expenditure management. That is that we are now on it.

And of course, pricing for 2025 PRG initiatives, including pricing optimization, will be playing a critical role, especially in Turkiye and Kazakhstan. So maybe these are the justification that why we are saying free cash will be our number one priority.

Asli Kilic Demirel

Can you please provide some idea about free cash level of Beer business, excluding Russia? In 2024, whether it was positive or negative? And how could it change in 2025?

Gokce Yanasmayan

Well, I mean, for the last year's number, we can say that it was very flattish, close to zero, I would say even. This year, as I said, we will go to zero and the aim, as Onur explained, very detailed projects going on to be on the positive side by the end of next year.

Asli Kilic Demirel

And well, your cash balance, excluding CCI, increased significantly in the quarter. Can you explain why? Have you considered reducing your outstanding debt balance?

Gokce Yanasmayan

Yes, I think that's been corrected later on. That's very specific to the situation in Türkiye. We were foreseeing volatility in the market end of June. Therefore, we have intentionally borrowed in advance. That's why you are seeing a bit increased cash balance at the end of June, which is covering our needs for June, July, and August, actually. That will be normalized in the coming quarters.

Asli Kilic Demirel

And do you see room for optimizing CapEx in order to support free cash flow?

Gokce Yanasmayan

But additional maybe numbers there is that Türkiye's CapEx to net revenue ratio is declining. So, I think, it was single digit. And this year with our forecast, we have to end with high single-digits with slightly below double-digit. Therefore, I think it's also on the right direction. We can add that.

Asli Kilic Demirel

And net leverage is 3.7x for the Beer Group, where do you expect net leverage to be by the end of 2025?

Gokce Yanasmayan

I tried to cover this in my presentation, but let me repeat that. I mean, under current circumstances, we expect to finish the year with the current levels of leverage. However, we have to also maybe explain a bit more here that depending on the dollar movement or increases, our leverage may increase a bit further as dollar increases, accelerates. But our current assumption is current levels should be up year-end terms.

Asli Kilic Demirel

What's the reason for capacity expansion in Türkiye? What was capacity utilization rate before? Should we also expect CapEx in other countries as well?

Onur Alturk

I think we have mentioned about our CapEx. So, so far, we have a very optimized CapEx actually in all our operations. Türkiye CapEx ratio might be a little bit seems to be a little bit higher than the average. That's because of our capacity increase projects. We are still optimistic for the upcoming years for Turkish beer markets.

When thinking average beer consumption per person is still a huge room to grow. And also, the alcohol drinking population is just 25% of the total population in Türkiye. So, we have to invest for future. And of course, our utilization rates are high. And we need to make some pre-stockings in the summer season. And also, that we don't want to cause any health and safety issue. And of course, there will be a maintenance schedule for our operations, for the machinery, and for the lines. So, that's why we have to invest in our capacity in Türkiye.

Asli Kilic Demirel

And could you please disclose the contribution of Türkiye beer EBITDA, non-inflationary accounting to Beer Group? Maybe it's better to disclose this for the year, because there is functionality.

Gokce Yanasmayan

For the full-year or overall, we can give a range of maybe 45% to 50% of contribution we expect in the environment that we don't have Russia in our financials.

Asli Kilic Demirel

This seems to be the end of the questions if I have not missed any, but there are some recurring questions. Therefore, there's no point to re-read them. Thank you for listening and participating in our conference call.