Anadolu Efes 9M2025 Financial Results Conference Call

Asli Kilic Demirel

Ladies and gentlemen, welcome to Anadolu Efes' Third Quarter 2025 Finacial Results Conference Call and Webcast. Our presenters today are CEO, Mr. Onur Alturk and our CFO, Mr. Gokce Yanasmayan.

The first part of this call will be in 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 we have adequate time to review and address them.

Unless explicitly stated otherwise, all financial information disclosed in this presentation are presented in accordance with TAS29. 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' CEO.

Onur Alturk

Good morning and good afternoon, everyone, and welcome to Anadolu Efes third quarter 2025 conference call. Thank you for joining us today.

As you may recall, due to the continued uncertainties around our operations in Russia, we have classified these operations as “Financial Investments” on our Balance Sheet at the beginning of the year. Accordingly, they are no longer consolidated in our income statement until there is more clarity.

However, we separately disclosed the financial results of these operations in our earnings releases for the last two quarters just for analytical purposes as it was not obligatory to provide them separately. Starting from 3Q, we decided to stop providing separate disclosure for Russia. This is because the information flow has not been as stable and consistent as before. We will reassess this approach as the situation evolves.

And looking at the third quarter, it was mixed set of results where the profitability was solid. However, the volume momentum came with its own set of challenges. Even so, our broad market presence and agile execution helped us to preserve overall stability as growth in several markets balanced softer demands in others. So, we maintained our growth trajectory from the second quarter with consolidated volumes reaching to 31 million hectolitres, up by 7% on a pro forma basis compared to the same quarter last year. The volume growth was driven by our soft drinks operations, particularly supported by robust performance in international operations, while beer group volume performance was softer, mainly impacted by domestic markets.

Strong volumes supported top line growth, but the revenue per hectoliter was pressurized due to the ongoing focus on affordability and increased discount rates. On top of strong top-line results, through gross profit improvement and strict management of operational expenses, we are able to record an expansion in EBITDA margin. Additionally, we successfully generated positive cash flow amounting at TRY9.4 billion, which was mainly driven by strong operational profitability. As of September 30, 2025, our consolidated net debt to EBITDA ratio stood at a level of 1.5 times. As we shared before, as part of our Vision 2035, one of the key pillars of our growth strategy was geographical and categorical expansion. In this regard, I'm truly pleased to share two important milestones today we achieved during the quarter. Firstly, we have recently started the distribution of Mercan Raki spirit in the final days of October, while the discussions regarding the acquisition of 60% of the company are still ongoing and secondly, we have signed a licensing agreement with Salyan Food Products, which will enable us to produce, sell, distribute, and marketing Efes and Efes Draft brands in Azerbaijan.

Turning to beer group performance, during the third quarter, our consolidated beer volumes declined by around 5% year-on-year on a pro forma basis. This was mainly driven by a slowdown in Turkiye, where volumes were down by 8.4%. In our international beer operations, volumes were down low single digits on average. As expected, Moldova reflected a slowdown following last year's high base, while Georgia was temporarily affected by export-related business restructuring. On the positive side, other international beer operations delivered solid growth, supported by strong portfolio execution.

Let me discuss Turkiye in more detail. Beer volumes declined by 8.4% in the third quarter and as mentioned earlier, this was mainly driven by affordability pressures stemming from persistent inflation and weakening of consumer purchasing power. In the second half of the year, the absence of mid year minimum wage adjustments further deepened the pressure on consumer purchasing power and making its impact increasingly evident in the markets.

In addition, the price adjustments we implemented in early July had a temporary impact on demand, while the slowdown in tourism also weighed on overall volumes, particularly on trade and Horeca channels and this quarter marked a period of strengthening our portfolio, ensuring it remains well aligned with the customer expectations and market trends. We launched Jupiler 0.0 non-alcoholic beer in Turkish markets, which marks an important step in expanding our product range, although it's very early and it's very small, we expect these launches to be a new strategic pillar for growth for future.

About our CIS operations, starting with Kazakhstan, we delivered low single-digit volume growth supported by strong brand activations and robust export performance. Our premium segment continued to perform well, driven by effective brand activations like strategic pricing and new can designs that further enhanced brand visibility in the markets. During the quarter inline with our KEG focus, we also launched succesfully the PEGAS brand SKU; Khmelnoy Los. In Georgia, volumes declined by low to mid single digits in line with expectations actually, mainly due to the restructuring of our export business, which had no impact on profitability right now. Additionally, the introduction of Lowenbrau Oktoberfest Limited Edition helped us to maintain our market presence and customer engagements. In Moldova, volumes contracted in low single digits as expected, reflecting last year's high base and moreover, year-on-year volume decline was affected from calendarization impact.

Let's briefly review our soft drinks operations too. In the second quarter of the year, CCI's consolidated volumes increased by 8.9%, driven by positive contribution of all international markets. Turkiye volume declined by 1.7%, mainly impacted by weakening consumer purchasing power and deteriorating weather conditions during September whereas international volumes demonstrated a remarkable growth, posting a 16.1% increase, mainly supported by Central Asia and Iraq and in Pakistan, volumes increased by 0.7% year-over-year, despite severe floods and ongoing political sensitivities. Kazakhstan and Uzbekistan delivered robust growth with 24.2% and 36.5% growth respectively and lastly, Iraq volumes upped by 7.8%, marking the tenth consecutive quarter of growth.

Let me move on to our operational results. In the third quarter, we continued our solid volume generation on a consolidation basis, although effective portfolio management and price adjustments made in certain markets helped to ease the impact of the discounting and affordability focus, and revenue per hectoliter decreased by 3%. With improved gross profitability margin and limited increase in operating expenses, EBITDA increased around 8%. As a result, margin also expanded, which was supported with contribution from international operations in both beer and soft drinks businesses. Our consolidated net income was recorded around TRY 5 billion, although operational profitability remained solid. Higher financial expense and lower monetary gains weighed on earnings in the third quarter. Beer group delivered a year-on-year decline in earnings as a result of higher financial expense and a softer operational profitability and a challenging environment. Following a softer quarter two performance, we delivered strong free cash flow generation at the consolidated level, driven by our soft drink business. On top of strong operational profitability, we benefited from improving working capital, lower CapEx spendings, and tax expenses compared to the same period of last year.

In the current environment, as I emphasized in our previous conference calls as well, there is no doubt that strengthening free cash flow remains a top business priority, of course, in beer group. Gokce will share more details about this. Consequently, our consolidated net debt to EBITDA ratio stood at a level of 1.5 times as of September 30, 2025.

Now, Gokce will give details on financial metrics.

Gokce Yanasmayan

Good morning, good afternoon to everyone. Onur covered, as usual, Anadolu Efes' consolidated results, so I will provide an update on the beer group's performance for the third quarter. But before I start, again, I want to remind once more that disclosed figures in my presentation are on a proforma basis, meaning that they exclude the financial results of Russian operations as of January 1, 2024, to ensure comparability. So, in the third quarter, beer group sales revenue declined by 6.9% on a proforma basis to TRY15.7 billion. Even if volume performance and revenue in local currencies were high, international beer operations sales revenue was recorded at TRY5.9 billion, with a 4.5% decline.

Like previous quarters, the decline in sales revenue was driven by TAS29 implementation, as inflation in Turkey exceeded the depreciation of Turkish lira against local currencies of international beer operations. So excluding TAS29, international beer operations revenue was up 24% on a proforma basis, again reaching TRY6.7 billion. Turkey beer operations generated a revenue of TRY9.6 billion in the third quarter, representing an 8.7% decline. Despite price adjustments during the quarter, revenue per hectoliter decreased due to lower volumes alongside more controlled yet still elevated discount level, in line with the market dynamics we have in the country. Thus, on a pro forma basis, beer group revenue decreased 5.3% to TRY41.4 billion in nine months of 2025. Beer group gross profit declined 11.1% on a pro forma basis again to TRY7.8 billion in the third quarter, and that came with a margin contraction of 236 basis points though gross profit margin remains at a remarkably good level of close to 50% still. The decline in the gross margin stemmed from softer volume performance and higher COGS per hectoliter, driven by increased material cost across our operations and higher hedge levels in packaging cost, especially in this period of the year for Turkiye.

So, with an EBITDA of TRY3.4 billion, beer group had a 22% margin in the third quarter, indicating only a 57 basis points decrease. The decline in the top-line performance and gross profit in the beer group was actually partially limited through disciplined operating expense management this quarter, particularly in Turkiye operations.

On the international front, CIS region, on average, continues to deliver above 30% margin performance. However, profitability was moderated in this period due to high base of last year. Consequently, beer group EBITDA in nine months was TRY6.4 billion, with a 15.4% margin. Again, in the third quarter, beer group generated, unfortunately, a negative free cash flow of TRY1.3 billion, softer profitability that we mentioned, together with a temporary deterioration in working capital and lower monetary gain collectively weighted on cash generation, despite an absolute reduction in capital expenditures year-on-year.

So, for again information purpose, I'm going to show you the financial statements without excluding the impact of TAS29. However, I have to, again, say that Anadolu Efes financial statements are prepared in accordance with TAS. The standard for financial reporting in hyperinflationary economies. The numbers that you are seeing here are just presented for analysis purposes and excluding the impact of TAS29, beer group revenue was TRY40.5 billion, with a growth of 27% and excluding the impact of TAS29, beer group EBITDA would increase by 21% to TRY8.8 billion and net income was reported as TRY 1.8 billion, excluding the CTA impact coming from the scope change in consolidation of Russian operation. About cash and debt management, so, as of September 30, 2025, we had 63% of our cash in hard currency denominated in the beer group and 61% in the consolidated Anadolu Efes level, which is pretty much in line with our previous practices and the net debt ratio for the period was 1.7 times for Anadolu Efes and 3.9 times for beer group.

About the risk management, the key figures to update them, actually no new news for 2025. We are almost done with the year. As for 2026, we have already started hedging aluminum, and 14% of our exposure of next year for Turkiye and CIS countries have already been hedged. For the FX of next year, actually, as usual practice, we are going to start hedging towards the end of the year for next year.

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

Onur Alturk

Let's check the Q&A. Do we have any questions?

Asli Kilic Demirel

There are a couple of questions and let me start with the first one. Thank you for the presentation. Could you please provide more color on Azerbaijan? When will you start production sales in the country? What are the potential sales volumes and EBITDA contribution? And also, CapEx, let me address this to Onur Bey, and then there are a few questions more, then I'll address them to Gokce Bey.

Onur Alturk

Let's briefly discuss Azerbaijan. Azerbaijan is a promising market, actually, and CCI already has a strong footprint in the markets. Population is around 10 million, with per capita beer consumption is around, again, 7 liters. In Q3 2025, a license agreement was signed with Salyan Food Products in Azerbaijan for the production, sales, distribution, and marketing of Efes and Efes Draft brands.

So, we already started production of Efes in Azerbaijan. We see it as a strategic step, expanding our regional operational footprint and of course, we want to strengthen our local presence in the market. No CapEx is used for that because it is a toll-filled third-party manufacturing. If we see more potential in the markets, there will be an M&A, so we are evaluating this. And also, let me mention a little bit about Uzbekistan, just like because these are the two potential markets for us and Uzbekistan is an even more promising market, where, again, CCI already has a strong footprint. The population is around 36 million, and adding up 1 million every year and the per capita beer consumption is around 12 liters. So, that is a more favorable tax environment that is expected in 2026. It used to be 3 times compared to the local ones, now it is 2.5 and at the end of 2026, we are expecting to the equalization of local and import tax. So, if the gap is fully closed, there will be a huge potential and imports from Kazakhstan have already started in July. Our legal entity and on-site team have been established in Uzbekistan and our business development team is closely analyzing the market dynamics and potential opportunities, like toll-filling. We are so close to start toll-filling in Uzbekistan as well. And, again, we are chasing M&A opportunities with very small investments in this country as well, but the reward seems to be, I mean, very promising in these two geographies.

Asli Kilic Demirel

Could you please also provide more color on the working capital move at the beer group level and what are the initiatives you undertake to improve it?

Gokce Yanasmayan

I mean, overall, as Onur I think mentioned in his presentation, one of the key focus for us is the cash flow generation on the beer group side and to turn our free cash flow generation into positive in the coming year and a very important component of that, working capital, one of the important components of that. On the group level, we can say that our working capital, on average, is mid-single digit. However, there are certain countries hitting double-digit numbers, some countries close to zero. So, on the average, we end up with mid-single digit. For those who have double-digit or higher working capital, we have started a clear focus project this year and very clearly working on targets for next year to improve the numbers. At the same time, where we want to focus in every other country that we have these high numbers. Therefore, that's especially critical for Turkiye because this working capital financing requirement is being financed with high interest rates. So, all the efforts are focused now, especially in Turkiye to decrease this number and the interest payment of next year.

Asli Kilic Demirel

Thank you very much. Another question is regarding 2026, about the beer group outlook for volumes and profitability. It's a bit early to comment on this.

Gokce Yanasmayan

Yes, we are at the beginning of our budgeting cycle now, I mean, and, and we are changing the numbers very frequently as the assumptions are changing. So, we would prefer to give better color towards the end of the year or next year, beginning of next year.

Asli Kilic Demirel

Do you expect cost pressure in Turkiye after rising food inflation, which may impact wheat and barley prices due to weather conditions? Or have you hedged this cost?

Gokce Yanasmayan

I can give a very, very general color here, maybe just to help you think about it. Recently, our cost base was, you know, acting very in line with the inflation in the country. Therefore, for next year to come, initial expectations, again, I mean, we have to work on them towards the end of the year more precisely, initial indications show currently a slow decline as inflation will decline in the country. So, that gets reflected into COGS per hectoliter as well for the next year.

Asli Kilic Demirel

Can you give more information about Turkiye gross margin and EBITDA margin in the third quarter?

Gokce Yanasmayan

I mean, very roughly, we can say that the numbers are in the gross profit in the range of 50s, let's say. EBITDA margins in the third quarter are 20s, we can say so. And those numbers in gross profit margin level, we've seen more contraction as we have discussed in the presentations. But that had been compensated to a great extent with OpEx management. Therefore, the contraction in EBITDA is less than 100 basis points overall.

Asli Kilic Demirel

Thank you very much. There seems to be no more questions. Thank you everyone for joining.