

Anadolu Efes 3Q2024 Earnings Call

Company Participants

Onur Altürk - Beer Group President and CEO

Gökçe Yanaşmayan - Chief Financial Officer

Aslı Kılıç Demirel - Group Investor Relations and Risk Management Director

Presentation

Aslı Kılıç Demirel

Ladies and gentlemen, welcome to Anadolu Efes' 9M 2024 Financial Results Conference Call and Webcast. Our presenters today, Mr. Onur Alturk, the CEO; and Mr. Gokce Yanasmayan, the CFO. All participants will be in a listen-only mode during the first part of this call. Following this there will be a Q&A session where you can submit your questions using the question box on your web screen. If you have questions, we kindly ask you to write down your questions before the Q&A session begins. This will allow us to review and address them. Thank you. Unless explicitly stated otherwise, all financial information disclosed in this presentation are presented in accordance with TAS 29. 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 Altürk

Thank you, Aslı. Welcome all, I would like to welcome all of you to our third-quarter 2024 conference call. It's been a dynamic quarter for Anadolu Efes, marked with success in certain markets, and of course (inaudible) in others. However, I'm pleased to share our Beer Group has achieved six consecutive quarters of volume growth with a solid mid-single-digit expansion in the third quarter of '24.

In our soft drink operations, challenges continued primarily due to the weakened purchasing power and ongoing geopolitical uncertainties that have significantly impacted overall demand. But as a result, we saw mid-single-digit decline in Anadolu Efes consolidated volumes. Despite these volume contractions, we delivered a solid gross profitability thanks to our effective revenue growth strategies which helped of course offsetting COGS increases.

While we saw a strong improvement in gross profitability, rising operational expenses led to a slight dilution in our EBITDA margin. We are pleased to share that our consolidated net debt to EBITDA ratio remained below one this period, reaching a robust 0.6 times at September 30 '24, within our targeted leverage range actually. Additionally, we have once again achieved a net cash position in the Beer Group this quarter as well.

Finally, in the life of these results recorded so far, we have decided to revise our guidance second time this year, which we will go through in the following slides. And when we look at the details of the beer operations, in third quarter of '24 our beer volumes increased by 5.7%, continuing the strong momentum seen in the first two quarters as well. Growth was supported by strong performance in Russia, Georgia and Moldova, Turkiye beer volume declined by 1.4% while our international beer volume saw an impressive growth of 7.5%. Russia maintained its

strong growth momentum from previous quarters, achieving a high single-digit growth which highlights sustained strength of our business in Russia. In the CIS countries, increases in Georgia and Moldova operations have offset the decline in Kazakhstan resulting in overall flat volumes.

So, when we deep dive into Russia, actually beer industry in Russia maintained its growth momentum with mid-single-digit growth in the third quarter. Building on the positive momentum seen in the first half of the year, we observed a shift from other alcoholic beverages to our category, beer category since the start of the year, supported by new investments of course and innovative product introductions which further boosted market volumes. Despite intensified marketing efforts from competitors, I am once again pleased to report that we outperformed the industry, which means share gain, achieving high single-digit growth in the third quarter. We achieved this by focusing on our high-performing portfolio, staying committed to commercial excellence and executing effectively. As a result, this success allowed us to strengthen our positions in all segments except the value segments. Beyond our volume growth platforms, we maintained our leadership position across both value and volume metrics with additional share gains in each category.

Then we deep dive in CIS and Turkiye, in CIS operations, Moldova and Georgia registered double-digit growth which is good news for us supported by effective brand activations related to Euro 24 and Olympics. In Moldova, one of our main brands, Kozel and Finch continue to drive growth this quarter in their segments while Kozel leading the premium segments, Finch is leading the mainstream segments in Northern markets. In Georgia, Lowenbrau, Karva and Efes have maintained their leading positions within their segments, while Natakhtari successfully increased its market share this quarter.

In contrast, we observed a softer performance in Kazakhstan markets recording at a slower pace than the previous two quarters impacted by weak industry dynamics. And during this period, we witnessed that the Efes brand increased its volume shares, while Kruzha has maintained its leadership position with 13% market share. I'm also so proud to share that Kazakhstan achieved its sized market share in the last four years, diverging from market dynamics, thanks to its strong portfolio, regional focus and effective sales and marketing initiatives. Overall, our CIS volume registered flat in this period.

And then we come to Turkiye, building on a high base from '23 as well as solid performance in first half, Turkiye registered a decline at 1.4% in line with the expectations actually. The decline was primarily driven by price increases implemented in the second half of the year along with the weakening consumer purchasing power as no minimum wage increase was implemented for these periods, all of which impacted the total volume figures in Turkiye.

And let's briefly provide some information about our soft drink operations as well. In the third quarter of the year, CCI's consolidated volumes declined by 9.2% primarily by Turkiye and Pakistan operations. Turkiye volume was down by 12.2% influenced by the persistent high inflation, weakening consumer sentiment and the lack of minimum wage adjustments. International volumes posted a 7.1% decline. Iraq and Azerbaijan continued to deliver strong results whereas Pakistan and Uzbekistan volumes declined by 22.9% and 6.5% respectively. In Pakistan, volumes were negatively affected by macroeconomic headwinds and weak consumer sentiments, while Uzbekistan experienced volume decline mainly due to the high comparison base from the previous year and purchasing power declined after the introduction of the excise tax in the country.

And let's move on to our financial results. We delivered a strong top-line performance growth during the period was driven by our beer business and also supported by effective revenue growth

strategies applied across all operations such as price adjustments, and the favorable mix addressing value generation. Meanwhile, despite profitable mix management initiatives, soft drink business recorded a decline, as mentioned. Despite strong gross profitability recorded in the period, consolidated EBITDA margin was diluted due to the increase in OpEx per net revenue across both operations.

Soft drink operations were negatively impacted by economies of scale, while our beer operations faced challenges in key markets Russia and Turkiye. As I mentioned in the previous call, margins continue to be pressured by the significant increases in raw material costs, transportation expenses in Russia. Meanwhile in Turkiye, higher trade marketing expenditures during the high season have led to an increase in operating expenses.

Our consolidated net income was recorded at TRY5.6 billion. The decrease in the operational profitability along with lower recorded monetary gains compared to the same period last year led to the decline in the bottom line. Free cash flow recorded at TRY5.4 billion at a lower level compared to the same period in '23. The decline was due to high interest payments and increased CapEx in soft drinks following the investments in new production capacities. Consequently, our consolidated net debt to EBITDA ratio remained at a healthy level at 0.6 times. That is highlighting our strong financial position.

Now our CFO, Gokce will give the details on the financial metrics.

Gökçe Yanaşmayan

Thank you, Onur. Good morning, good afternoon to everyone participating in our conference call today. So Onur talked about Anadolu Efes' consolidated results. Let me get into Beer Group results in more depth. So, our top line expanded significantly in the third quarter, the Beer Group's consolidated revenue reached TRY25.1 billion, a 27.4% rise over the same period previous year. Our revenues in international beer operations have grown by 40% primarily driven by increased volumes and price adjustments in Russia. The favorable product mix, however, has been key driver of our revenue growth for our Russian operation as well. Additionally, I have to mention our international year top-line growth was positively impacted by the application of IAS 29 to 2023 figures. The deceleration in the inflation rate in Turkiye from 6 months to 9 months this year lowered the index revenue base for 2023, hence effectively boosting this year's growth rate for sales revenues.

In the third quarter, Turkiye's beer operations generated TRY7.9 billion in sales revenue, a growth of 6.4%. And in nine months '24 Beer Group's revenue increased by 9.6% to TRY69.9 billion. Third quarter Beer Group's gross profit increased by 20.9% to TRY12.2 billion with a 262 bps dilution in gross margin reaching 48.8%. As we previously talked about, the main reason behind this is significant cost increases associated with raw material prices linked to foreign exchange in Russia. Although we have seen a slowdown in the gross margin contraction this quarter, this remains an ongoing challenge for this year. But as the top line increased strongly, so did the absolute gross profits. Consequently, the Beer Group's nine-month gross profit was recorded at TRY31.9 billion with an almost flat margin of 45.7%.

In third quarter Beer Group's EBITDA increased by 1.4% to TRY5.3 billion with a margin of 21%. In Russia, even though the OpEx over sales ratio increased year-over-year, improved commercial performance have moderated decline in EBITDA margin compared to previous quarters. However, in Turkiye this quarter we have seen margin contraction driven by relatively weaker gross profitability along with higher OpEx spending in the trade marketing. As a result, the Beer Group's nine-month EBITDA was reported at TRY11.3 billion with a margin of 16.2%. And the Beer Group's

free cash flow grew from TRY2.1 billion to TRY4.3 billion. Significant growth is supported by working capital management along with disciplined capital expenditure, despite increased interest expense. As of nine months, the Beer Group achieved a net cash position of TRY4.3 billion.

Here let me start with the disclaimer. As Asli mentioned at the beginning Anadolu Efes financial statements are prepared in accordance with TAS29, the standard for financial reporting in hyperinflationary economies. As a result, all financial information disclosed on this call and in our earning release are in full confirmation with TAS29. However, financial information presented on this slide excludes the impact of TAS29 and is presented solely for analysis purposes. Please note that these figures won't be aligned with Anadolu Efes' financials and have not undergone an independent audit. So excluding the impact of TAS29, Beer Group revenue was TRY68.9 billion with a growth of 67% in nine months. Similarly, we have seen an increase of 40% in EBITDA reaching to TRY13.2 billion in nine months, again without the impact of TAS29. And Beer Group net income excluding the impact of TAS29 was reported as TRY6.1 billion for the first nine months.

As of nine months we had 64% of our cash in hard currency denominated in Beer Group and 59% of our cash in consolidated Anadolu Efes, which is pretty in line with our practice. And our net debt ratio is quite low for Anadolu Efes, it's 0.6 time. And we keep having a number below zero for the Beer Group as we are in net cash position.

Just an update about the numbers on hedges. Basically for 2024 we have completely hedged the aluminum exposure of Turkiye and CIS, it's done and for '25 exposures, 38% of our exposure have been already hedged. Regarding FX exposure, actually no big news here. We had almost fully covered it for 2024.

That ends my part of the presentation here. And now I hand over to Onur. Thank you.

Onur Altürk

Let me continue with revised expectations. In light of the first nine months performance, we are making prudent revisions to our year-end projections. While most of our business lines have demonstrated resilient performance, each has been uniquely affected by the external landscape up to certain extent of course. We have revised our year-end outlook for the Beer Group's top line performance upwards driven by strong volume growth in the first nine months, while maintaining a cautious stance on profitability margins. On the other hand, as discussed yesterday, soft drink operations have downgraded their guidance due to macroeconomic headwinds and geopolitical uncertainties. Consequently, considering both the challenges and successes in our markets, we have decided to make revisions on a consolidated basis.

And according to these revisions, we improve our beer volume growth expectation to high single-digits driven by very good momentum achieved in Russia especially. In contrast, our soft drink operations have revised volume expectations to low to mid-single digit decline from flat or low single-digit growth due to the decrease in consumer sentiments in the key markets. Therefore, on a consolidated basis, we now expect our volumes to remain flat which was low single-digits growth previously. And we improved our beer revenue growth expectation upwards from low-30s to mid-30s on FX neutral basis as a result of improved volume guidance. Meanwhile, due to softer volume performance, we now expect the soft drinks operation revenue to grow by high teens to low-20s on FX neutral basis which was low-30s growth previously.

And finally, as initially communicated, there was some risk for EBITDA margin dilution to be higher than initial plans. Following the first nine months' performance, the risk has materialized and necessitated a downward revision in Beer Group's guidance. Consequently, the expected decline

in EBITDA margin has been revised from 200 bps to 300 bps. While profitability expectations for soft drinks operations remain unchanged, consolidated profitability expectations have been adjusted from 100 bps decline to 150 bps decline. And despite this, nominal EBITDA generation is expected to exceed our initial projections significantly.

And actually, that concludes our presentation. Thank you for your interest and patience. We appreciate your attendance. And now, Aslı, we can take questions.,

Questions & Answers

Aslı Kılıç Demirel

The first question comes from Antonio. Can you please provide an update on your M&A transaction in Russia? When do you expect to get a dividend from the entity? We have couple of similar questions, so let me just read this one. And this will be the answer for all of them.

Onur Altürk

I think there are questions about Russia. So let me give a brief overview about our Russian business and the agreements. So let me remind you of the key terms of the agreement. So Anadolu Efes will acquire AB InBev's non-controlling interests in Russian business. And meanwhile, AB InBev will acquire Anadolu Efes' interest in Ukraine business. So, this is the essence of the agreement. And of course, in order to facilitate an easy dividend repatriation process after this transaction, we decided to transfer the ownership of Russia from Netherlands to Türkiye. So, we are restructuring a new entity in Türkiye. And of course, let me remind all of you that this transaction is subject to certain conditions and regulatory approvals in multiple jurisdictions. The exact timeline for completion depends on these regulatory processes. But we have already submitted the necessary applications. And now we are waiting. So, this is the brief overview that we can give about Russia.

Aslı Kılıç Demirel

Thank you. And can you please provide the percent of cash held in Russia and the expectation for full year?

Gökçe Yanaşmayan

Well, I mean, as Onur mentioned, we are in a sensitive process, so we are trying to share information sensibly. But what we can say about Russia and the cash is that we are able to still park almost 60% of our money in Russia in hard currency. So that's still manageable. And I think that's what we want to share today.

Aslı Kılıç Demirel

Thank you. We have seen headlines about Turkish exporters starting to use ruble swap to make cross-currency payments. Does this update apply to your ability to repatriate dividends from Russia?

Gökçe Yanaşmayan

I think Onur answered this, you know, we are first focused on the deal and then we will focus on the dividend repatriation.

Aslı Kılıç Demirel

Thank you. Please discuss potential for share buybacks considering the decline in the valuations of Efes and CCI.

Gökçe Yanaşmayan

There is currently no consideration.

Onur Altürk

And let me add this one as well. We haven't applied it to the Russian Finance Ministry for dividend approval until now. So let me underline this one to avoid any conflicts with the deal process. Therefore, we will postpone any application regarding dividend repatriation until the deal process is finalized. So let me remind this one as well.

Aslı Kılıç Demirel

Could you please provide more color on domestic market in Turkiye? And what's the outlook for sales for '25?

Onur Altürk

Actually, in Turkiye, volume performance exceeded our expectations in year-to-date figures, registering low mid-single-digit growth in '24. We expect to close the year with low single-digit growth. And during the quarter we observed the expected slowdown in consumer sentiment, which is highly affected by the decreasing purchasing power and the inflationary environment. However, the slowdown in this quarter was very mild, thanks to our wide portfolio of our brands together, and our efforts to penetrate new consumption occasions. And on the pricing side, we saw a 35% increase at the beginning of the year. Following the excise adjustment in July, we have taken another 17.7%. So, this was the second increase this year. And we are still working on next year's volume for Turkiye markets, and we are optimistic on this one as well. Let me say this now.

Aslı Kılıç Demirel

What was the reason for positive working capital change in the third quarter?

Gökçe Yanaşmayan

Well, the main reason behind was the extended payable terms in Russia, specifically

Aslı Kılıç Demirel

Can you elaborate on competition in Russian beer markets in detail? How are competitors behaving? Any positive or negative surprises?

Onur Altürk

Well, again, let's try to cover Russian business and the total performance. We said that we outperformed the industry for another quarter. That's the most important or most crucial part. And this happened despite the intensified competitor marketing efforts and high growth comparison from the first half. While the market grew at mid to high single-digit rates, our year-to-date growth reached low double digits, outperforming the total industry. And year-to-date figures show our position as a market leader both in value and volume share. This is our number one priority. And our market share is now exceeding 30% in terms of value, thanks to our wide portfolio. And we expect to continue this volume growth in the last quarter as well. In the third quarter, all segments in our portfolio recorded growth except the value segments which is actually not a big problem for Russia as well. And these mix shifts is contributing positively to overall profitability.

And in terms of financial metrics, Russia delivered strong top-line growth during this period. As previously communicated, we anticipated EBITDA margin dilution in '24. However, improved commercial performance and of course favorable sales mix, especially with the help of premium portfolio and effective transportation cost management helped to moderate this EBITDA margin decline in the third quarter. And we are still observing discounts from our competition. And again, we are still selling our products in more than 100 index, around 105, 106 index, while our competitors are selling their products 92, 94 index. So again, we have a favorable mix. And with the help of the premium portfolio, we are again awaiting good results in the next quarter.

Aslı Kılıç Demirel

Thank you for the presentation. Could you please clarify the proportion of Beer Group EBITDA and cash balance in Ukraine?

Gökçe Yanaşmayan

Well, I think both are around 2% to 3% in terms of Ukraine's share in our Beer Group.

Aslı Kılıç Demirel

And how is the competitive landscape in Türkiye? In tough macro environments, what kind of observations have you made about the demand switch between alcoholic beverages consumption?

Onur Altürk

Again, our Türkiye volume performance exceeded our expectations. And we are now registering a low single-digit volume growth. Our market share is stable and thanks to our wide portfolio, the slowdown in consumer trends, depending on inflation environments, consumer confidence index and other macros, we are not affected that much. So, we are optimistic on this one as well for the last quarter, I mean, we are expecting again low single-digit volume growth in Türkiye operations. And for next year, now we are sharpening our portfolio, our execution, we are optimistic as the beer category is resilient.

Aslı Kılıç Demirel

Thank you. And the last question is about rating agencies. If we have been in touch with the rating agencies and what's their feedback?

Onur Altürk

I think if they have any feedback, they will publish a report where you will be able to read them. Obviously, we have meetings with them, update them constantly. But if they have something to say, they publicly announce that with their reports.

Aslı Kılıç Demirel

For the time being, I don't see any new questions. Let's wait for 30 seconds, and then we can end our session for this quarter. This concludes our presentation. Thank you everyone for joining.