ANADOLU EFES

CONFERENCE CALL TO DISCUSS ANADOLU EFES Q2 2021 RESULTS

Company: Anadolu Efes

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Participants:

- Aslı Demirel, Head of Investor Relations
- Can Çaka, Beer Group President & Anadolu Efes Chief Executive Officer
- Mr. Gökçe Yanaşmayan, Chief Financial Officer

Aslı Demirel:

Welcome to Anadolu Efes Second Quarter 2021 Financial Results Conference Call and Webcast. My name is Aslı Demirel and I'm the Head of Investor Relations of Anadolu Efes. Our presenters today, Mr. Can Çaka, the CEO, and Mr. Gökçe Yanaşmayan, the CFO.

All participants will be in a listen-only mode. Following the first part of this call, there will be a Q&A session and you will be able to write down your questions on the question box of your web screen during the presentation. Just to remind you that 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.

And now leaving the ground to Mr. Can Çaka Anadolu Efes' CEO. Sir?

Can Çaka:

Aslı, thank you. Hello all. It's a pleasure to be with you again for our second quarter conference call. Obviously we are also happy to deliver another strong quarter with remarkable consolidated volume performance throughout the quarter, and also leading the first half volumes, even exceeding the pre-pandemic levels.

The volume growth was supported by both business lines that is also a positive - the domestic operations, Turkish operations, showed superior performance in both business lines, both in beer and soft drinks. In line with our value-driven focus, revenue growth was substantially ahead of our volume growth in second quarter with 47% growth in nominal basis. Obviously such growth was driven by price increases, further mix improvement as well. We also benefited from the better discount management compared to a year ago.

As we mentioned in our year-end 2020 results call, in order to support the topline growth and also enhance the consumer appeal to our brands in 2021, we have deliberately choose to enhance our visibility in the market, especially in Turkey, and to strengthen our communication with respect to our flagship brand. Therefore, the OpEx was higher on year-on-year basis to execute such plans throughout the year. As we have the first year, actually the first season of our +1 relaunch in Turkey.

Free cash flow generation was also quite strong this quarter, predominately due to the international beer operations where we had a quite good performance in managing cash cycles and managing our CapEx as well. Although we still expect strong cash generation in full year, as we mentioned in our guidance, the free cash flow would be below its levels in 2020 therefore, and the core working capital and the CapEx-to-sales ratios are expected to normalize in the second half of the year.

This quarter, we registered another successful transaction by issuing a $500 million seven-year maturity Eurobonds with a coupon rate of 3.375%. We not only set any benchmark for Turkish corporates, but also broken our own record and so we are very pleased with that, and we have definitely taken the advantage of being the only investment grade corporate in Turkey. I'm also very happy with the results of the tender offer, which is almost 65% of the prior bond holders returned back their bonds a year earlier. Therefore, that helped us minimizing our carry costs.

One important remark, intense drought, the wildfires around the world, and especially what we have witnessed throughout the last week or 10 days in Turkey. Extreme weather conditions occurring worldwide are once again showing us the importance of climate change problems, once again, showing us the importance of the environmental consciousness. So as we discussed in various parts of Anadolu Efes, we are aware of our responsibilities on this way where we know we are a part of the environment. We are a part of the solution as well. So in that perspective, we have put sustainability at the core of our focus and we have identified and set our sustainability goals for 2030 for 10 years in order to show our commitment to improve our ESG-related practices, which I'm going to go over in, at the end of our presentation.

Next page, please. So as noted at the beginning, in the second quarter our consolidated volumes grew by 14% reaching to 33.2 million hectoliters, and one-third of our volumes are driven by the Beer Group, actually. Our revenue growth was significantly above our volume increase as noted, price increases, premiumization, SKU prioritization, higher FX rates contributed to this growth.

Revenues expanded by almost 50% and if we exclude the FX impact, the increase was still strong, 31% leading to ending up with our topline exceeding 10 billion TL. Contribution of Beer Group in revenues, was much higher than that of volume, so 44% of the revenues came from beer in the quarter.

Our EBITDA performance was also strong. However, the increase in absolute profitability was lower than the topline growth, which led to a margin contraction in the period. The margin contraction came from Beer Group as a result of year-on-year higher operational expenses. As you would remember throughout last year, we had a very low base due to significant savings as we have taken other precautions because of the COVID, because of the pandemic, because of the unclarity at that time. And, as I noted earlier, we have also decided to increase our marketing and communication efforts throughout this year, as we have the first year of our relaunch of our flagship brand, and another factor that put beer margin under pressure was higher FX rates and commodity prices. And we already started to see the impacts and we have incorporated this into our full year guidance.

On the other hand, soft drink margins expanded in the period, benefiting from a strong topline growth, as well as continued controls in spending in OpEx. And for my final remark, we generated above 2 billion TL free cash flow, which we expect some normalization in the second half of the year, but I would say this is as a result our very strong focus in terms of profitability, in terms of working capital management and also investment management, CapEx management.

Going to the next page, please. Thank you. So our beer operations on our beer side of this equation says volume increased by 4%, slightly more than that 4%, registering another strong performance in the second quarter of the year. International beer operations volume was up by 2% where we have, except Ukraine, in every other operation we have contributed to the growth of the volumes. And despite the tightened restrictions during the quarter, the Russian beer market showed its resilience once again and was able to stay flat and even grew slightly.

And in our own business in Russia, we were able to deliver a low single-digit volume increase, thanks to the solid growth delivered in core and premium segments as we have quite focusing in those segments. In super premium and low premium segments, our growth rates were double digits supporting our premiumization strategy and supporting our value share focus. We are increasing our value share in Russia. Our mainstream and upper mainstream brands gained share in the first half of the year, and we also benefited from the good performance in our non-alcohol category as well.

In Ukraine, our performance was below the market due to the implemented price increase at the beginning of the year. The Ukraine market is much more sensitive to the price increases, I would say, but that is again in line with our value-focused strategy. We are expecting a better performance in volumes, especially in the second half of the year with rising prices from the competitors as well. Our market share in the new beer categories where we are focusing continuously as well continue to grow in the quarter.

In Georgia, Moldova, we had both superior performance with more than 20% volume growth, where our volume growth in Kazakhstan was also up by low teens, so strong volume delivery in every other country. In our CIS operations, we have observed some premiumization in CIS countries, and also that also supported our profitability throughout the quarter.

In Turkey, despite seventeen days of full lockdown with the weekend curfews continued during the quarter where no alcohol sales or alcohol sales was prohibited during the lockdowns. We were able to deliver 22% volume growth in our domestic beer operations. Obviously we have benefited from the very low base of last year, but we observed robust performance in traditional trade volumes as a result of increased tendency for home stocking, especially during curfews. And we also see our upper mainstream brands better performance throughout the quarter.

And, a few statements about our soft drinks performances as usual. CIS consolidated sales volume continued its strong growth momentum and expanded by almost 20% in second quarter with positive contribution from all countries without any exception. Despite the continued restrictions in Turkey, as I noted earlier, Turkey volumes grew by 18% as a result of increased focus on core brands. The business also adapted itself to changing consumer preferences, effective promotion management, successful relaunches, and new product extensions in line with the consumer catching up with consumer preferences also supported the volume growth.

Sparkling beverages grew by almost 13%, 12.6% with Coca-Cola brand itself, even growing further than this; the stills category increased by 32.2% driven by strong iced tea and sports drinks performances. Water segment was up by more than 40%. International operations grew by 21%. Pakistan continued its successful performance in this quarter and growing by 20% with significant as expansion in terms of outlet penetration and increasing its superior execution on the field and then shooting out brand growth in the country. And for the other CIS operations group by 27% in the second quarter, all countries recorded double digit growth rates and Middle East posted somewhere around 12% growth driven by Jordan, where our volumes up more than 57%.

Next page, thank you. So I have already touched base with the operational performance on, let me say only a few words here, with respect to our net income, we delivered a net income of 415 million TL in the second quarter, and 710 million TL by the first half. With these results, bottomline almost tripled compared to a year ago, benefiting from increased operational profitability, and FX gains in CCI as a result of high cash generation, despite year-on-year tax expenses are going higher. And this part covering also the higher losses from Anadolu Etap.

So I'm handing over to Gökçe to have his remarks on the financials. Thank you.

Gökçe Yanaşmayan:

Thank you, Can. Welcome again ladies and gentlemen to our first half results as this is my first call. Let me very briefly introduce myself.

My name is Gökçe Yanaşmayan, working for 17 years in Efes, four different countries, and my first role in Turkey and in the head office. Previously worked as CFO of Efes Kazakhstan and then later in Efes Ukraine before becoming Managing Director of Efes Moldova, which was for the last seven years. And I'm thrilled by the opportunity and looking forward to contribute to our organization. And I also want to thank Orhun as I inherited a very strong team, which supports my transition perfectly so far.

And as this is my first call, I'm very happy to report another successful quarter, and obviously that makes strong first half results both on Beer Group and Anadolu Efes consolidated basis. In Beer Group, we had a solid topline performance in second quarter, as Can mentioned all operating countries except Ukraine achieved successful growth rates in volumes while Turkey and all CIS countries registered double digit growth. Beer Group sales revenue was substantially ahead of volumes and grew by 32% in second quarter versus last year, and on a constant currency basis increased by almost 17%. Price increases across the board and as well as favorable product SKU mix help to increase revenue per hectoliter by 12% on a constant currency basis.

EBITDA grew by 5% year on year, which is less than revenue growth, as a result of gross profit margin pressure in Russia due to FX and commodity price increases and accelerated marketing and sales spent over last year in all our operations in line with our plans to support our brands for topline growth. I'm going to show you the figures in a while in the following EBITDA bridge. Consequently, EBITDA margins shrank in second quarter for Beer Group. The good news though, good performance in gross profit in Turkey was due to a larger volume base and a good pricing, which resulted in an increase EBITDA with a slight margin improvements driven by higher marketing spending related to +1 rested recent relaunch ahead of the season.

Another good news is very strong free cash flow generation in second quarter. The cash was mainly generated in Russia with a significant improvement in core working capital, especially coming from the performance in trade payables and as well as the decline in absolute CapEx. We have the lowest ever core working capital-to-sales ratio this quarter, however, both working capital and the CapEx ratio are going to normalize in second half.

Coca-Cola Icecek has also recently announced very strong second quarter performance with 61% growth in revenue and 73% growth in EBITDA, which obviously contributed significantly to strong topline and bottomline performance of Anadolu Efes. So, consolidated net sales revenue of Anadolu Efes was up by 47% in second quarter, and by 43% in first half. Consolidated EBITDA grew by 42% and by 55% respectively in second quarter and in first half, while free cash flow generation surpassed previous year and reached to 2.2 billion Turkish Liras. As a result of robust cash flow generation, our debt leverage improved compared to first quarter and reported that 0.9x.

Next, please. When it comes to EBITDA and free cash flow in second quarter, first of all, it's important to remember second quarter of 2020, which was the first full quarter of pandemic impacting our business and financials. Naturally, we had seen drop in our volumes, relatively low performance in revenues. However, this part backed by zero-base spending programs and additional cost saving initiatives to mitigate the negative impacts of topline pressure during the first month of the pandemic. Consequently, we had reported a very impressive 21% of EBITDA growth year-on-year in second quarter of 2020.

What you saw in EBITDA bridge last year was almost completely the opposite of what you see now; as you may remember, our strategy for 2021 was to grow our bottomline by driving topline growth supported by investing to the beer markets as well as to our brands. And in line with our plans, major growth component of EBITDA this year is increasing revenues. To remind you again, net revenue increased due to price increases, favorable mix and premium segment development, cost of sales, they had the effect of increasing commodity price and FX. Nevertheless, revenue increases over cost of sales in most of our operations with effective risk management in place, which I'm going to refer in coming slide.

Selling and marketing expenses, we were deliberately above last year, as we were preparing for the high season ahead, and other line you've seen EBITDA bridge mainly refers to currency translation. All in all, we were able to outpace last year's high base in EBITDA in second quarter.

Free cash flow, very similar to EBITDA, despite unprecedented challenges had substantially improved in 2020 as a result of significant improvements in core working capital, as well as prudent CapEx spending. This year though, again, different than last year, but again, in line with our planning, we will spend more CapEx and will normalize our CapEx to net sales ratio to high single digits. In the first half of the year, the CapEx-to-sales ratio was 6.5%. But as I mentioned now, we will close the year with high single CapEx margin.

On working capital management side, improvements continued across all countries. We were able to have lower average turnover days on receivables and inventories in every other country, while turnover on payables either remain the same or decreased, eventually led to a significant improvement of cash cycle dates in all operations, where we expect some normalization as well in second half. On top of working capital changes, incremental EBITDA is also positively impacting free cash flow. Overall, we achieved to outperform last year's very high base and generate almost 1.7 billion Turkish Liras.

Next slide, please. And few more topics to cover linked to financial discipline. As previously mentioned, average turnover days as well as first half period turnover days, are significantly lower than previous year and they are at record low levels. Once again, we expect them to get normalized in second half. After the latest review of Fitch, we have maintained our investment grades and still are the only company in Turkey with double investment grades. Happy to maintain them in these very challenging times.

As Can also mentioned, we have successfully issued new bond of $500 million with a coupon rate of 3.375% and a yield of 3.5% to refinance our existing bond maturing in 2022. Following the issuance almost 65% of existing bond holders participated in tender. And total amount of that we first had a total amount of $320 million approximately, and this was also above our expectation and will help us to decrease negative carry costs. And this result affirms Anadolu Efes' status as one of the strongest credits in Turkey, as well as its excellent reputation among investors.

Last but not least, just to remind you the initiatives we have for effective risk management and to protect our bottomline, no hard currency debt except for Eurobond, and approximately 75% of cash is held in hard currency in Beer Group as of July-end. And the tools that we use are cash designation, commodity and FX hedges. Again, numbers for 2021 would be 78% of FX exposure, 84% of aluminium, 79% of PET and 100% of malting barley are hedged. And you also have, aluminium hedges for 2022, approximately 13% of our exposure below $1900 levels.

So this concludes my presentation. I'm turning back to Can. Thank you.

Can Çaka:

Gokce, thank you very much once again. Let's go into our guidance. Can we go to the next page, please? Thank you.

We are obviously revising our topline guidance for Anadolu Efes that is driven by the upgrade on the soft drinks side - I'm sure you have followed their conference call yesterday as well. So they had very strong and better than planned results in the first half. So in that perspective, they have taken the decision to revise guidance that has been reflected into Anadolu Efes there as well, although our topline performance in the Beer Group side is also very strong - we make no change in our Beer Group expectations, especially considering the uncertainties lying ahead regarding the pandemic and the vaccination rates in various countries - obviously we see nowadays unfortunately again an increasing number of cases in every other country, and yet we haven't seen any of further restrictions coming into mobility of our consumers, but that is the risk ahead - that's why we are not, we keep our guidance and take a prudent approach here. Accordingly, our new consolidated volume, is to grow by mid-single digit and driven is to grow by high teens in FX-neutral basis.

On the other hand, in terms of profitability, FX rates, rising commodity prices are going to pressurize our second half results. Most of the impacts will be mitigated by the hedges, the news Gökçe already mentioned about that. Therefore, again, we make no change at the moment for our profitability expectations. We still expect to get a very strong free cash flow. Yet it will be lower than what we had back in 2020.

Again, next page. Now a few words about our commitments to sustainability. Actually we have recently announced our sustainability goals for the next 10 years for 2030 and our strategic action plan. The targeting is zero for environment, further consolidating and enhancing our social impact and getting stronger to diversity and inclusion. Actually, these are all parts of our DNA, parts of our culture. How Anadolu Efes work and behaved in the past as well. We had various targets in all areas, but now it's more in a consolidated manner, in a more structured manner - we have committees and KPIs set within the organization to follow these.

As I touched before, we see the climate change, the environment issues as the very important issues with phases globally, and we are part of the environment. And we are aware of our responsibilities for combating all these changes to be able to leave next generations a livable planet. Therefore, we are aiming to have a zero environmental impact, reduce our plastic usage, become carbon neutral in all countries we operate and we are also aiming to become a zero waste beer company by 2030.

Social responsibility is again the character of our business and is another crucial part of our company culture since from the very beginning - for more than 30 years, we've been focusing on our cultures, arts, sports, everything in the lives of the societies we were in while we continue to support these areas in cooperation with all our stakeholders, we will step up our community investments for the empowerment of women as well. We continue to work with our farmers to do all their skills, educate them on sustainable agricultural practices, helping them actually experiencing this.

We also look for further opportunities to support entrepreneurs, especially entrepreneurs through our collaborations with startups, we've been discussing this with the others we are supporting, especially social startups and we are supporting them. We are helping them to develop their businesses so they are learning together and developing. And one of the very recent brands that we had, special brands, has cooperating with one of the startups. This startup is dropping plant seeds with drones and every other bottle converting to a seed in the nature, the green for the feature.

So these are parts of the things that we are doing. We are aiming to increase the representation of women in our workforce. It is currently at the 30% level, to a 50 plus 1 by 2030.

We value all our employees equally and provide equal opportunities, regardless of gender. So we are targeting to certified by this and to eliminate any gender pay gap. Actually I have to admit we are pretty much good at many areas. For example, we have the very first, we are doing very first FMCG company in Turkey to be certified to have equal pay for different genders in different roles. So we are there in Turkey, we will make sure that's reflected in every other piece of our operations. Below 30 years of age within the managerial positions, the number of women are higher within our organization versus the men in our organization so I would like to emphasize, yes, we set targets for the next 10 years, but we are delivering them by now as well. That is a part of our culture. And we will continue to deliver that and more focused on environmental impact, our footprint in various areas and making sure that we are a part of the solution to leave a livable planet for our next generations, for our children.

So thank you for your patience. As Aslı stated, that if you have any questions you can write down in the Q&A part and we will be ready to answer your questions together with Gökçe. Thank you all for joining us.

Aslı Demirel:

There are no questions at the moment, so let me remind - you can write down your questions on the question box on your web screen. So if you have any, we are more than welcome.

Can Çaka:

We have two options. We can link this to Gökçe's nice presentation or summertime. I don't know. Probably both.

Can Çaka:

You don't see any questions coming in. So probably we can end the presentation. Thank you all for participation. Thank you all for preparations.

Gökçe Yanaşmayan:

Thank you.

Aslı Demirel:

Thank you.