ANADOLU EFES

CONFERENCE CALL TO DISCUSS ANADOLU EFES Q2 2022 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:

Ladies and gentlemen, welcome to Anadolu Efes' second quarter 2022 Financial Results Conference Call and Webcast. My name is Aslı Demirel and I am the Investor Relations of Director 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 where you will be able to write-down your questions on the question box of your web screen during the presentation. For those who would like to ask questions, please write your questions before the Q&A session, because it takes some time for us to seem them on our screen.

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. Can Çaka, Anadolu Efes CEO. Sir?

Can Çaka:

Thank you, Asli. And good afternoon to all and good morning to those who may join in from U.S. Welcome to our call for the second quarter results. Beforehand, I would like to warn you there would be a lot of references to strong and exceptional risk results throughout the presentation, so it might be a little bit

emphasize on this, but again let's start with that. I'm quite pleased to report that we had one of the best performances in the quarter with the exceptional results in all metrics. So let's start with that.
Obviously these results are despite all happening all the global headwinds, volatile operating environment needless to say, the political and macroeconomic challenges. And I would say all what happened, we were able to beat our expectations in the quarter following a very strong performance in the first quarter as well as a total of two quarters. Our first half results are as strong as you see. Obviously benefited from similar to the first quarter, throughout this quarter as well from the low base because last year the first two quarters were highly impacted with the pandemic. And basically we are cycling a low base in that perspective. We've benefitted from the recovery of on-trade especially and mobility of the people to some extent. Thus the strong volume performance was also supported by the promising tourism numbers in that perspective, especially in Türkiye as well as our solid momentum behind our innovation pipeline and recent launches.

On top of the solid volume performance, we had a strong topline growth as well. The topline growth is supported by foreign currency translations obviously because of our, let's say, international parts of our business. Our diverse geographical footprint is helping. The topline momentum was primarily driven by adequate prior pricing adjustments as we discussed in the prior quarter and before the year-end. It was obvious that we would have been, let's say, the inflationary environment, the commodity prices were going up when we were planning for the (technical difficulty) in every other operation, we have taken strong pricing decisions and that was the development in terms of the timely management disbursed throughout the first quarter and early second quarter, that's also followed by the efficient revenue growth management initiatives and the two also supported on top of the volume, the topline growth.

We were also deliberately managing the cost and expenses, being very cautious with all what's happening in our region. So in that perspective, we were strictly ready for the inflationary ways and although the events that we were witnessing throughout the quarter. So those were helped. And one more credit to our finance team in terms of very effective use of hedging, both in terms of currency hedging and also material and commodity hedging and those also helped us in that perspective, improving our profitability despite the very volatile cost environment.

We were very well prepared for any volatility in that perspective and supply chain issues. In that perspective, we also had deliberate decisions in terms of increasing our inventories to benefits from lower prices at the end of last year. So, we benefited from the first quarter in first half through the usage of existing increased inventories. So better operational profitability, working capital improvement despite these inventories were high at the beginning. Again we had further savings in Capex and favorable currency. We have led to our free cash flow generation to reach all-time high level once again.

While we expected to be normalized to some extent in the second half of the year, partly because of this beginning inventory pay effect partly now we are seeing, let's say, the real impact of the, let's say, current prices. Therefore, we are cautiously optimistic for this year due to continuing inflation pressures. And to some extend the pricing we have taken throughout the first half was by in step, so now we are seeing the full price impact. And that is why we are expecting the demand then as little bit of softening on the demand side as well. However, we are committed to our strong execution in that perspective. So I'm very, let's say, confident that we will continue to deliver strongly in the second half as well. And with this help of the first half results, we are improving our expectation for the Beer Group, improving our guidance. And at the end of the presentation, I'll go into details of that improvement.

As noted earlier, our consolidated sales volume exceeded pre-COVID levels for the first time. Thanks to again I mean, here we have to give credit to the soft drink division, CCI, very strong results in terms of volume and that has helped us in terms of to improve volumes on a consolidated basis. Yet on the beer side as well, I mean as really, you know we stopped the operations in Ukraine since February 24th unfortunately. Excluding Ukraine, still the Beer segment volumes were flattish. So and the 13% growth achieved in the quarter was above our expectations and bring our first half volume growth to 13%. And organic growth, excluding, I would say, Uzbekistan, on the soft drink side, the volume growth would have been 6% in the second quarter.

Türkiye reported another strong performance. You remember we discussed the pandemic affected Türkiye most as we had the highest on-trade proportion in Türkiye. And you would need to remember also that we had certain days off what in off-trade and on-trade last year due to the pandemic. So this helped both business segments with the volume recovery in Türkiye. On top of this low base effect, I would say our innovation pipeline helps further with our new launches and expansions. And excluding the JV, the rest of CIS had a very strong performance through the quarter as well coupled with Türkiye performance despite volumes were behind last year in Russia. Beer group volumes, excluding Ukraine, was flat, so we were able to cover the volume lagging behind in Russia. Soft drinks both domestic Türkiye and international operations were resilient and continue to get strong momentum with reported growth of 25%. In the second quarter, CIS region Uzbekistan and Pakistan had the highest contribution to the growth in the quarter.

Coming back to the Beer Group. As discussed, our reported volume decline was low teens in the quarter where excluding Ukraine that was flat over the past year and was actually better than our expectations in that perspective. Specificly in Russia, following a strong quarter, we were expecting some softening with higher prices, let's say, moving to or reflecting to the consumer, especially in the second quarter. Yet, we have seen the general market dynamics turning to slight decline starting from May and posting a low single-digit decline in the quarter.

The market was impacted also the availability issues of some brands and beers and lower discounts and that's lower discounts to some extent, they're linked to the availability, linked to the supply chain issues overall. I'm talking about the market conditions. So and that's also linked to let's say the price adjustments taken by all players through the first quarter and early second quarter. So when you look at our own volumes, our volumes were more or less in line with the market and that's in line with our expectations. Mainly our local brands Stariy Melnik, Zhigulevskoe, Essa, Gold Mine Beer show the highest contribution in the period. We have seen some softening in the performance of our non-alcoholic brands, however, the extensions that we have discussed in prior calls, the cider category also increased and added to our volumes.

We continued on our efforts to pursue our portfolio diversification strategy in that perspective. We launch extensions, especially Löwenbrau Unfiltered in the unfiltered segment, we launch a new line extension for Essa brands and different flavors to continue to provide the leadership on the flavored beer segment. So those were the parts of the innovation pipelines. And those helped to our performance in Russia. For Ukraine, we have decided to resume operations. So in that perspective, we are looking into details. We have three breweries. We expect to have one, the Chernihiv brewery being operational in the coming periods. And before the brewery becomes operational, we will be starting the sales and distribution that will be supported by imports business until the production starts.

For the rest of the CIS, we continued our solid momentum grew by mid-single digits in the second quarter. Obviously, you will remember, we were discussing in various calls and then various inquiries, our focus was to strengthen our mainstream brands, national champion brands. Premiumization was on our agenda, together with the extension. So both, in all countries in Kazakhstan, Moldova, Georgia that was mainly the primary focus and it worked well. And in Kazakhstan, we continue to grow, thanks to again here the premiumization helped us together with the extension on to different segments. And similarly Moldova showed a high single-digit growth again driven by premiumization and crafting into some extent and backed by non-alcoholic beverage growth, non-alcoholic beer growth. And low teens in Georgia growth level that is also supported by the soft drinks. Soft drinks segment of Georgia had impacted more from the pandemic. So the recovery is also more positive, but again the premiumization helps in Georgia.
And again few words on the domestic Türkiye performance, we recorded a solid growth after the first quarter. Again, as I mentioned, supported by the recovery from the pandemic on the low base, recovery of the tourism or strong start to the tourism season also supporting together with the recovery on the on-trade and the more of it and let's say dining out trends that we are seeing in Türkiye. But I'm also proud to share that our latest launch, we have launched new beer, an affordable beer in Türkiye, Bremen 1827 showed a strong performance despite it was just a month of right only June was included in the first half results. So I hope to see a better result of this new brand in the market.

As usual, a few words on our soft drinks division performance as well as CCI's consolidated sales volume registered another strong performance with the reported growth of 25%. Excluding Uzbekistan, organic growth was also strong at 15% and the solid volume performance was across the board, including Türkiye and international operations.

From the category perspective, sparkling category maintained its momentum and increased by 25% while the growth of Coca-Cola brand was even higher, 26%. The still category recorded a similar growth rates in line with the overall growth with strong ice tea and energy drink performance as well. Water category growth was led by backed by solid mineral water category performance in that perspective.

Again, domestic operations, a solid growth similar to beer that's also soft drinks had the advantage of cycling low base due to the pandemic again. Volumes were supported by that the good momentum achieved during the month of Ramadan with also the better tourism also supporting the category together with the recovery in on-trade in Türkiye. Cycling a strong 20% growth a year ago, international operations again continued to deliver an outstanding performance, reporting a 29% growth and 13% organic growth in the second quarter. Pakistan, Kazakhstan, Uzbekistan were the main contributors to the growth of international operations. The highest growth was registered in Uzbekistan. So we are happy with the immediate reflection of the proper very good geographic expansion on CCI side, especially with strong momentum in the sparkling category.

Coming back to beer again, I'd like to mention once again that we had extraordinary successful quarter with strong results both in terms of revenue and profitability management. In the second quarter our revenues grew by more than 135% with and on an FX-neutral basis, the growth was around 6%. Again the growth was partly discussed, on top of the volume growth pricing, proactive revenue growth, management initiatives, which also included very efficient discount management out the growth in that perspective. As I noted at the beginning, we had very, let's say, total planning for the year. We have decided to ensure that we will deliver the cost increases into the pricing. So we have throughout the first quarter especially and early second quarter pricing initiatives across the board and that's reflected into the strong profitability. So in that perspective, we were able to expand our gross profit margin and soon benefited also from the FX in that perspective and commodity hedges and impact of inflationary or the cost increases or cost pressures coming from the commodity prices were properly reflected and offset in that perspective. On top of that, we were very, very careful, strict on our expense management as usual and kept our discipline in that perspective. Therefore, in the Beer group, we expanded our EBITDA BNRI margin by 460 basis points with 29 basis points expansion at Anadolu Efes on a consolidated basis.

Net profitability increased more than 3 times compared to a year ago and reached toTL1.4 billion in the quarter. Obviously significantly higher EBIT was the primary reason on the back of increased bottomline while we also benefitted from FX translation in that perspective, the contribution of the international operations I would say. Financial expenses were significantly higher versus last year with increased cost of borrowing throughout the period and higher TL equivalent of hard currency into a currency interest expenses due to TL appreciation in the period. Yet we were able to improve our bottom line. And together with that bottomline also our free cash flow generation also was significantly ahead of last year reaching all-time high level of TL5.4 billion lowering our leverage despite the increased, let's say, indebtedness in terms of TL, we were able to lower our leverage to 1.1 times only.

There was an outstanding performance in the first quarter in terms of cash generation. And again to some extent, this is attributable to extended payables despite we increase our inventories, FX conversion, impact from the working capital also helped. But again we're cautiously reminding that we expect some normalization in the second quarter. Also we may do some pre-buys also for the years to come in order to ensure the supply chain and overcome the potential bottlenecks and again to improve the visibility in terms of supply. Therefore, the first quarter performance is not fully expected to be reflected to the full year. But again, we have improved our guidance for the year. And I will mention, let's say, outlook improvement in the coming minutes, but before then I would like to leave the ground to Gökçe to go into further details of the financials.

Gökçe Yanaşmayan:

Thank you, Can. Good morning, good afternoon, everyone. Welcome to our conference call for the first half results of 2022. Actually you just listened to Can speaking about Anadolu Efes' exceptional results for second quarter of first half. So I would like to give a bit more flavor for the Beer Group.

You have heard already many times, but let me repeat in second quarter volume declined by 12%, but here important to underline that Ukraine has not been operational since February 24th. So if you were to exclude Ukraine, we will be seeing as such flattish performance for the quarter in an environment where we've been pushing aggressive pricing actions deliberately in order to mitigate our cost pressure. So that's important to underline. And Beer Group sales though has significantly outperformed volume performance and reached TL9.8 billion in second quarter. Again, here I would like to remind my notes from previous call, in all P&L lines we have so far seen and we might like to see for the rest of the year commercial impact coming from international operations results as TL continues to have a weak performance.

This currently reflects positively to our results thanks to our diverse geography footprint. Having said so, FX-neutral basis growth in sales revenue was also very strong at 32%. This was thanks to price increases, effective discount management and favorable product mix. In the first half of the year, Beer Group sales revenue increased by 114% year-on-year and reached almost TL15 billion. On the cost side nothing new were at least no positive news yet unfortunately. Mostly linked to global context, we still face strong headwinds and volatility. There have been significant inflationary pressures in the packaging materials as well as energy prices. Nevertheless, timely price adjustments coupled with effective use of commodity and currency hedging, helped us offset the impact of cost inflation and even improved the margins. I'll give you an update about hedges in the coming slides.

Beer group gross profit increased by 128% to TL4.2 billion in second quarter and this resulted for a growth of 143% for the first half with a margin improvement of 475 bps in gross profit. Strong and positive numbers continue with EBITDA as well. In second quarter, EBITDA was up by 179% to TL2 billion. And as a result, first half EBITDA increased by 267% to TL2.4 billion again with a margin improvement of 681 bps. Reminder again here we are talking about EBITDA before non-recurring items for 2022 and it means that it does not include impairment losses in our Ukraine operation or any other one-offs.

And speaking of impairment losses, we have booked an impairment of TL980 million in first quarter related to Ukraine operation. And this impairment is being constantly reviewed and the final amount for first half is slightly less than first quarter number atTL963 million. And net income impact is TL390 million again. As a result of strong EBITDA, despite increasing financial expenses and impairment losses, our net income almost doubled in first half of the year. Another good news is the record levels of free cash flow in the second quarter and it reached to TL5.1 billion. And in first half, Beer Group generated a free cash flow of TL5 billion versus TL1.1 billion of last year.

So let me show you EBITDA and free cash flow bridges and give a bit more details in the following slide. So similar to first quarter, actually we have repeated strong operational results and a very good growth algorithm, meaning that revenue is growing more than the cost of goods sold and operating expenses. And this is exactly what we see in the EBITDA bridge for second quarter and first half. Besides timely price adjustments, our disciplined cost and expense management and zero-based budgeting approach enabled us to keep our lower cost base and support bottom line. And we can also see in the bridge the positive conversion impact that I have mentioned earlier, especially in the second quarter with strengthened Ruble and weakening Turkish lira versus last year.

Overall, a very strong EBITDA performance for second quarter and first half despite all challenges. In third and fourth quarter though, we may expect that the increase in cost base will be similar to increase in revenues. Therefore, the gross margin momentum achieved in the first half may soften in the second half of the year. When it comes to free cash flow, free cash flow driven both by better profitability and working capital. Record level of free cash flow as I noted earlier, however, I also have to note that appreciation of Ruble also led to a currency translation impact, supporting very strongly positive working capital results we have. So we may expect this impact to normalize in the rest of the year depending on currency movements.

Moreover, in order to overcome possible supply constraints, we may increase our stock levels above usual which may also have a potential negative impact on our free cash flow. Consequently, free cash flow generation might be comparable to its level last year, however, it will be stronger than our initial expectations.

On the balance sheet side in the following slide, we continue our prudent approach and hold the majority of our cash in hard currencies. By the end of first half, more than 60% of cash we hold was hard currencies denominated in both Beer Group and Anadolu Efes consolidated. As we have seen a significant EBITDA growth, our net debt to EBITDA has also seen a significant improvement. As of first half of 2022, net debt to EBITDA declined versus last year-end from 2.5 times to 1.2 times in Beer Group and from 1.6 times to 1.1 times for Anadolu Efes consolidated.

So to remind and update on some key figures on Beer Group hedges. From the commodities we can hedge, we hedged already 87% of aluminum, 100% of PET, and 89% of our Barley exposure for 2022. And in the meantime, additionally we have also hedged around 40% of 2023 aluminum exposure of Türkiye and CIS countries. And on the FX sites, actually no important update. We are pretty well covered for 2022 P&L exposure.

So this will conclude my presentation. I'm giving the word back to Can. Thank you.

Can Çaka:

Thank you, Gökçe. So as discussed throughout the call, we had a strong first half performance above our expectations that was mainly driven by the pricing timely and adequate pricing and actions and revenue growth initiatives and effective use of hedging tools together with the very cautious expense and opex control in that perspective.

So with that in light, we are improving our outlook. But again for the second half, our expectations are cautious, that's obviously given the current environment, I mean, it's still the rest of the year as we see it today as challenging as before, if not more. And yes, I mean we see at least the increase on commodity cost slower or in certain commodities, we are seeing price levels below the top levels that we have seen through the first half. But still the current levels need to be addressed. As discussed, we have taken the pricing actions in steps and to the first quarter and early second quarter. So the consumers faced the final current pricing recently. So that one would normally would expect the impact on the consumer demand and potential impact on the strong consumer demand that we have seen till now.

That's right. We are bearing in mind all these challenges we may face through the second half. We're improving our Beer Group outlook as a result of the first half performance with all these challenges in mind and with cautiousness. The improvement in the Beer Group outlook was also reflected at on a consolidated basis on the latest outlook while the soft drink guidance was reiterated as announced in January. Accordingly, we improved our Beer revenue growth expectation from mid-teens to high-teens on an FX-neutral basis. On consolidated basis, we now expect our revenue to grow by mid 30s on FX-neutral basis, which was low 30s previously at beginning of the year.

We no longer expect to have our Beer Group EBITDA margin to decline. With strong profitability achieved and the margin expansion achieved through the first half, our new outlook for the margins is to be flattish in that perspective versus last year. Finally, our EBITDA margin is expected to stay flat on a consolidated basis as well, which was at the beginning of the year was small decline around a 100 basis points.

So, one final reminder, as you may remember, as again regarding Ukraine are on February 24th, we have halted the operations in Ukraine unfortunately with all these happenings. And recently we have conducted the risk analysis. Our teams are on the ground and sort of lot of businesses are resuming operations in Ukraine. And in that perspective, we are making evaluations in terms of opening our Chernihiv brewery which is 60 kilometers to the north of Kyiv as a result of our analysis. And basically upon than that we expect the brewing operations to be assumed by the early fourth quarter. And in that perspective till then, we will support the operations with importation to the country. So, that's overall. Now we are ready for your questions. Thank you for listening to us.

Questions and Answers

Aslı Demirel:

Thank you, Can Bey. Thank you, Gökçe Bey. There are few questions that I see on screen. Let me start with the first one from Ece Unlu Securities. Congratulations on the strong results. Could you please comment on the competitive environment in Russia on a segment basis? Have you observed stronger growth in premium category than other players? And was this the main reason for the favorable mix effect in second quarter? Additionally, in your Beer segment guidance, what level of USD/Ruble do you take into account? In a scenario of Ruble depreciation, how would your EBITDA margin be affected? Could there be additional price increases? Thank you.

Can Çaka:

Ece, thank you. Thank you for your statements. Basically I mentioned about the growing brands in Russia, mainly our Stariy Melnik, Löwenbrau. So to some extent, upper mainstream and lower premium brands were growing that helps in that perspective. But obviously it was the improvement in the margins and improvement in the profitability was mainly driven by the pricing initiatives that we have taken in that perspective.

Today, I'm not going to go into details of the, let's say, FX rate assumptions, I would say. Gökçe if you like to, you can. But again, I mean if we are very straightforward in that perspective from the very beginning. If we see pressures on the cost base, will pricing to cover that cost and make sure that the profitability is maintained. Currently, I don't see a major reason for any pricing decision. But again if necessary, we will all be able to take the necessary decision in that perspective. This's all I can say. Gökçe?

Gökçe Yanaşmayan:

One addition maybe I have for this year specifically from FX point of view, we have covered with hedges. So there won't be any impact on EBITDA margin even if the FX would.

Aslı Demirel:

Thank you. Let's skip to the second question. Thank you for the call and congratulations on a strong Q2 results. Two questions. Can you give more color on the raw material cost development since second half? Can you walk through each raw material item? How much is hedged? What is the cap price? And how does that compare in the first half of2022? How much is hedged into 2023? And can you discuss what mechanisms are in place to repitriate cash from Russia? I understand at the moment, this is not a concern, because of the low cash generation, right, but for the future, it would be helpful to know what option is there.

Can Çaka:

Thank you again. I mean, Gökçe would be able to give much more color than me, but again I mean when you look at the raw material commodity cost base started to increase in the second half of last year. By the end of first quarter, we have seen the highest peak levels I would say. But again, I mean we were hedged and basically, I mean, we were hedged more than 70% at the beginning of the year and even higher right now. So in that perspective, our cost base wasn't fully reflecting this historical levels per say. And we have started to hedge for next year as well 2023 for various different commodities, but they are mainly for aluminum it's 40%, Gökçe is reminding me. But again this hedging level is more or less in line with what we have last year levels despite the volatility in the prices. But today when we look at the price levels, we see most of the commodities you know as we are following as we do below their peak levels, but still higher than the averages what we had to do the last year in that perspective. So we will have certain cost pressures going through the second half because we had lower opening inventories at the beginning of the year. And also the current levels would have higher or similar cost levels for going forward in for 2023.

Gökçe Yanaşmayan:

Actually, there is not much to add. I can only maybe add a bit of flavor of the hedge cost of the aluminum. As you said, we have covered 40% of next year exposures with a currently slightly lower than this year's average cost. So that's all I can add.

One more question. Can you provide an update on discussion for acquiring ABI's share in the JV in Russia? I believe certain brands are under discussions. Can you give some color?

Can Çaka:

Well, I mean, the discussions are continuing in that perspective. We couldn't come to a conclusion. And it's I mean, so it would be premature to say anything in that perspective. And as in our initial announcements, yes, there were certain brands ABI as a brand owner, request that to terminate the production, that's a part of the discussion.

So only after we come to a solid position, I would be able to mention give more details. As of today, we unfortunately cannot provide any color on this, but it's an ongoing process for the time being.

Aslı Demirel:

And a question from Lütfü Gazioğlu. Congratulations on the great results. I have a question on raw materials prices outlook for 2023 and how much you hedged?

Actually, we already answered the question, but let me read the rest of it. In the last couple of meetings, you had mentioned about the uncertainty on raw materials for 2023 as prices were soared due to war. Any more comments? No. Okay.

The next question is could you please share the contribution of each Russia and Ukraine to the Beer Group EBITDA in first half. Can you please give us more color on the status with negotiations? Again the same question. And what's your cash position at the holding level EBI?

Gökçe Yanaşmayan:

I can go ahead here maybe because the second question I think Can has already answered. The first question about the share of Russia and Ukraine, EBITDA wise it's around 60% quarter-to-EBITDA in the first half. And about the cash we're holding Efes Breweries International, it's around $300 million in the

first half and it's supposed to decrease to $150 million levels as we are going to be servicing our debt on Eurobond.
Aslı Demirel:

What is the current market and consumer environment in Russia in recent months? What kind of positive and negative surprises you are facing in the New Era, changes in consumer trends? Question from Melis.

Can Çaka:

Thank you, Melis. I mean, not much of a surprise, I would say, I think our evaluation at the beginning of the year, both in terms of the inflationary environment reflection into pricing and everything it worked very well. So in that perspective, from the consumer point of view, what we are seeing following in the market is in line with our expectations. We are not that much surprise. And our execution is working in that perspective. And the older process we have taken the necessary pricing to cover the cost increase and to improve the profitability as that was out. Let's say, we had a value ambition to balance the volume and value growth in the country and that's also achieved to some extent through this period of time. And yes, the current price levels, we were expecting to put certain pressure on to the consumer across the board globally and specifically in Russia. We are seeing that now the prices fully passed to consumer, we are seeing softening consumer demand and for the quarter a decline in terms of volume in the market. But again, the good news is we are gaining both volume and value share and that's all I can say at the moment.

Aslı Demirel:

Can you manage to maintain second quarter beer margins for the upcoming quarters and next year? Or is there any chance to further build up beer margins on top of Q2 levels in the upcoming quarters and 2023?

Gökçe Yanaşmayan:

For the second half of the year, as we have mentioned, we are expecting a softening in the margins as the cost escalation will be catching up the price increases that we have done earlier than the cost escalation. However, you also heard about our guidance change actually. We were expecting our EBITDA margin to be flat to minus 100 bps, but we have revised it positively on the positive side to flat to 100 bps positive this time around. So we are adding a better expectation for the remaining part of the year, though it's going to be challenging. For the next year to come, I can say that obviously, as Can, also mentioned, our first intention is to be able to reflect the prices as we faced cost pressure.

Aslı Demirel:

Thank you. Another question from Melis when you resume production in Ukraine? Is there a possibility that impairment might be partially reverse?

Can Çaka:

For Ukraine, as I've tried to explain, we need a couple of months to restart ramp up the operations brewing operations, so that would be end of third quarter, early fourth quarter. And in that perspective, yes, I guess some part of the write-off s would be impairments would be reversed back.

Gökçe Yanaşmayan:

Obviously, we are, as I said, I mean, constantly reviewing depending on the commercial landscape of the country at what we can resume, what will be the forecasted sales and volume in free cash flow, we are looking into that.

Aslı Demirel:

Okay. What is the medium to long-term beer segment EBITDA margin guidance?

Can Çaka:

Well, I mean, our ambition is to improve margins going forward. So grow revenues, grow profitability or the revenue, so that's the algorithm that we would like to stick to. So in that perspective, we have the year, we are sure obviously excluding the extraordinarily happenings, our ambition is to improve margins together with the volume and revenue development.

Aslı Demirel:

A question from Cemal Demirtaş, how we see the outlook in third quarter so far, both in Türkiye and international operations?

Can Çaka:

Well I guess that's included in our guidance. So that we can color in. Again we have benefited such low base of last year in the first half flow. We have benefited beginning with the low cost based beginning inventories. So there would be further headwinds in the second half, but all of these are reflected into the guidance. And we are confident to deliver what we are revising as a guidance for the time being.

Aslı Demirel:

And I mean, another question about the transaction? I am skipping it.

Can Çaka:

Sorry for not being able to talk about it. But again, it's an ongoing process, so we don't want to mislead anyone. But that's ongoing and we'll see how it go. Once there is a solid development, we will let everyone know about it.

Aslı Demirel:

Can you comment on extracting cash from Russian operations? Also, how is your hard currency cash generation in light of increased capital controls from the Turkish government?

Gökçe Yanaşmayan:

Well, when it comes to Russia, let me start with the first part that I think I understood by the question. So in Russia for the time being, we don't see any issues or we didn't face any issues when it came to international payments. We could execute them whenever we needed to. So that would be my answer. And going forward, obviously day by day, the context is changing, so we have to follow closely, which we are doing already. And I don't understand very well hard currency cash generation in Türkiye.

Can Çaka:

That is not a problem. In any of our operations, there is no capital controls. There is no issue with respect to bridge to hard currencies. Yes, we're facing difficult macroeconomic environment to some extent, but fortunately we don't have an issue with respect to having and paying our obligations, legal obligations in hard currency, expecting cash to outside of the country in any of our operations.

Aslı Demirel:

Another question from Mustafa again about the deal. But a follow-up, I mean, do you have any plan to do ABI have any plans to divest their stake at Anadolu Efes due to the indirect exposure to Russia? And lastly, any non-cash deal is an option, swap of their shares in the Russian operations with higher share at Anadolu Efes?

Can Çaka:

Well, again it's very hard to comment on that, but it's, I would say the discussions is around having a specific deal with respect to the 50% non-controlling stake that highlight the JV.

Aslı Demirel:

Thank you. Cost inflation, again Ukraine, I am skipping that. And can you provide more color, tight opex management and sustainability in light of higher inflation in Türkiye as well as minimum wage increases?

Can Çaka:

Okay. Let me, I mean, for the last couple of years, we are also implementing zero spending principal, zero based spending principles in our operations, which started also in Türkiye and much larger categories as well. And yes, wages are increasing. There is the inflation. We are increasing wages and salaries in that perspective. We have to make sure that our team members, colleagues are, let's say, remunerated adequately and their purchasing power is not deteriorated with respect to the inflation. But again for the rest of and for the other expenses, other opex items, I would say our teams are operational teams are showing a great performance there. For us, yes, we are making the budgets at the beginning of the year, but we are going through extraordinary period of time. I would say many major items are all frozen at the beginning of the year. They are category owners. They are budget owners and they are very quiet responsible in terms of reevaluating every other expense, reevaluating every other action in that perspective and making sure that is in line with our, let's say, on a rolling estimate basis in line with our expectations. So as we deliver, we are releasing and we are spending. So that's very well established discipline. So I have to give a lot of credit to the finance team who led this, but also the operational teams who had been working very, very, let's say, coherently very good working practice between the working groups.

Aslı Demirel:

And are there any changes to Capex outlook for 2022 and any indications for 2023?

Gökçe Yanaşmayan:

Actually, yes we have already given the context that we're facing in Russia, we had already decided to have some optimization of our Capex this year. So we might be seeing certain percentages of decline from our usual rate of spending in 2022. But going forward, in 2023, at least current assumption is to be around high single digits, 7%, 8% if I remember.

Aslı Demirel:

Do you have any short-term debt with local banks in Türkiye in the Turkish lira? If so, how do you assess interest risk increase and the impact on Turkey beer cash flow?

Gökçe Yanaşmayan:

Well, we have Turkish lira debts. And yes, that's the fact that interest rates are increasing in the market currently. But from our end, we don't see any issues at least for the time being to roll over our debt. So it's okay.

Aslı Demirel:

In Russia, have you seen the effect of your competitors withdrawing from the country? Has this contributed to the ability for you to take market share?

Can Çaka:

Well, I mean, for the time being I would say there is not much of a change in terms of any shareholding, any brand presence in the country. So in that perspective, the competitive landscape at least from the brand perspectives and operational perspectives weren't that much different. Obviously various challenges were ahead of every operator there and globally has well supply chain interruptions so on, so forth. So we have seen certain cases, limitations on those and in certain cases that may have led also sometimes lower discounting and promotion practices. But again, more or less, the same old market conditions.

Aslı Demirel:

Okay. And a follow-up about repatriation of cash from Russia. Can you discuss what mechanisms are in place to repatriate cash from Russia. I understand at the moment this is not a concern because of the low cash generation there, but for the future, it would be helpful to know what the options are. I think we skip that part.

How do we expect the Russian beer market to evolve? The same question, so I'm skipping it.

The update about the transaction and the departure of main global beer runs. We already discussed that.

And the upstreaming of cash from Russian operations, we already discussed that.

And so the next one from Parth, could you share upcoming maturities in FY22 and FY23 for Beer Group level and plans to repay these? Cash increase at EBI from 1Q22 levels is in Russia or at offshore entities?

Gökçe Yanaşmayan:

Well, the biggest maturity that we have this year actually we have mentioned we're going to serving our Eurobond in November, $180 million. That's the biggest chunk of money that's coming in the short term. And actually the other Eurobond that we have as you already remember, we have to refinance it. So its maturity is still in 2028. So therefore that's the only loan that we have to pay.

Aslı Demirel:

Can you please give some color about new beer brands you have launched in Türkiye? What consumer groups are you targeting? What's the price point? What market share are you targeting?

Can Çaka:

It's a very recent launch. It's an affordable brand given the macroeconomic conditions and everything. So we'll see. Hopefully we can give you more color in the coming quarters. I wouldn't like to make any comment at the beginning rather, let's talk when as we realize.

Aslı Demirel:

Thank you. Gökçe Bey, there is a follow-up question about the cost inflation for 2023, but it's a bit early to comment.

Gökçe Yanaşmayan:

It's a bit early, the items that we know is aluminium as we are currently at a lower cost base with our current hedges compared to 2022, $100 to $150 lower than which we had, we currently hold. So it depends on how it's going to obviously evolve in the future. And maybe idea that we can give you around barley, currently we have started procuring about that locally in Türkiye. We see a great increase obviously there. That's why we are trying to buy as much as we can and as we actually talked in presentation, stock as much as we can, so that we benefit from the cost in the coming year.

Aslı Demirel:

Last question, is Beer Group net leverage has improved notably? Is 1 times to 1.5 times the target level going forward?

Gökçe Yanaşmayan:

Well, actually in our guidance we say 1 to 2 times. So these are that levels that you want to state.

Aslı Demirel:

Thank you. These are all the questions that I have on the screen. There has been over 30 questions for, I mean, thank you for listening to our presentation and I mean writing down the questions. I have one more, but last questions are the same questions that we already answered. So thank you for your participation. And any words?

Can Çaka:

No. Thank you, Asli. Thank you for your interest. I mean, this is the first time we have seen more than five questions in an August call. So obvious there are still a lot of interest, especially the suspect to Russia. So if we couldn't provide sufficient color, but probably in the coming periods, you will see much more details.

Thank you all.

Gökçe Yanaşmayan:

Thank you.

Aslı Demirel:

Thank you.