ANADOLU EFES

CONFERENCE CALL TO DISCUSS ANADOLU EFES Q4 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' last quarter 2022 Financial Results Conference Call and Webcast. My name is Aslı Demirel and I am the Investor Relations 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. Hi everyone, good afternoon to all. Welcome to our Full Year Results Call. Unfortunately, again, I mean, we are going to talk about the beginning these very sad events that happened earlier in February in Türkiye. We had a devastating earthquake at the beginning of the month, centered in the South Eastern provinces of Türkiye affecting more than 10 cities and millions of our citizens. Obviously, I would like to start with expressing my sincere condolences to the ones who lost their families, relatives and I hope to see a rapid recovery for the ones who were injured.

That is a big catastrophic event where we cannot expect unfortunately a rapid recovery. However, I'm sure the solidarity of the country will heal the wounds in time. Without any question, as soon as we heard about the unfortunate news, our priority has been the health and safety of our employees, business partners, team members and their relatives in the region. In this context, I guess, I mean the only thing that reliefs us as of today, we, all of our team members, I would say in the larger context are all safe.

Obviously, we have lost also beloved ones, our relatives to some extent, but since then we've been working in coordination with local municipalities, with NGOs in order to provide social aid for the region and trying to relief in the region in this regard. Again I mean, we are very sorry with what's happening, and what has happened. And I'm sure, we will as a country, we will overcome this very tough period of time.

Coming back to our results. Let me take you through our presentation. We will try to be as short as possible and to leave spare time for the Q&A session. As usual, we would like to start with a wider scope, I mean, let's say our compounded average growth rates for the last five years. As you see, our volume growth was in the range of 4%, we have significantly higher revenue growth 44% and EBITDA growth even overachieving the revenue growth supporting our value generation emphasis, and obviously, we have also a very strong free cash flow generation that grew more than 35% annually in the last five years.

Next page, please. Okay. For specifically for the 2022, as we discussed in our prior calls, where we had a very strong set of results and that has been also complete, let's say, further centered in the fourth quarter. With the exception of Ukraine, we were able to either sustain our market shares or even strengthen, increase our market shares, while we continue to hold leadership in every other market. More importantly, in a year where we were constantly talking about inflation, one of the most problem, let's say most concerns for every other business, every other macro economy, and obviously that inflation was translating into a strong COGS increase as well.

And the emphasis on our side was to be able to price our beers and without impacting the demand. And we were able to expand our revenue per hectoliter that is obviously driven by our emphasis on pricing initiatives, but also the revenue growth initiatives that we have taken with respect to the discount management, channel management, and also product profitability management as well. So we were I believe, we have further ensured our success here. And together with our focus on the COGS side, on the OpEx side, we have been able to achieve the highest level of EBITDA margin of the last decade in 2022 and that's again strongly supported with the strong topline growth and also the various risk management mechanisms, including the hedges and everything and also our dedication to stick to our financial policy, including very smart spending approach.

As a result of our high record high profitability, our free cash flow generation reached a level of TRY6 billion, obviously there is kind of a, let's say, certain payables that has been planned in the year but not realized, so there's a, let's say switch from '23 to '22 year, that's why we should look at this on a nominal basis, Gökçe will take you on that one, but still it was a very very strong free cash flow generation, which led to our leverage ratio going at around 0.7 times.

I'm also very happy to announce that in line with our commitment to maximize shareholder value, our Board of Directors also proposed a dividend in the amount of TRY1.3 billion taken into consideration the cash flow generation and the low indebtedness level.

Going into the top level growth lines. On a consolidated basis, our sales volumes declined by 2% in the last quarter as guided, but on a full year basis, the volumes were up by a strong 6%. Excluding the impact of Ukraine, looking at the numbers, organic growth basis also where we you exclude the Uzbekistan, let's say volumes, the volume performance was very strong at 5% level.

And when we look at the beer volumes on the next slide actually specifically, beer volumes were 10% below last year and however it was total due to Ukraine, if we exclude the impact of Ukraine, the volumes were flattish throughout the year.

Next page. Okay. As you may remember from our previous calls, Russian beer market had a very strong start to the year registering a growth in the first half, while we were also of course talking about the high base and consumer confidence and expectations with respect to the decline in the second quarter that in the second half, that we have seen that trend realizing to the year. But again on a full year basis, we are talking about a flattish volume for the market. And obviously, we have also observed a demand polarization. I mean that's happening everywhere across the board actually and basically we see in the economy segments and also the premium segments growing rather than the mainstreams that's very usual under the current circumstances.

And when we look at our volume performance, it's below the market, but that's due to our conscious decision in terms of having a volume and value balanced strategy that we've been focusing for the last couple of years and also the falling purchasing power of our consumers, falling consumer confidence and inflation and that's also linked to the inflation in the country, affecting our volumes, especially in the second half. And also we were covering a higher base for the second half.

Some of our brands and especially, we are very happy with our largest local brands Stary Melnik iz Bochonka growing strongly with a couple of other brands in our current portfolio. And more importantly, when we look at on full-year basis, we were able to keep inline all the market share and that's also driven by the gains in the premium segment and that's value share around 30% in the country.

Looking at to Kazakhstan and Moldova. Moldovan economy was severely affected with the situation in the region and Moldova has one of the highest inflationary environment in the region, also it has further impacts on the consumer. Let's say affordability for consumers and that's why, we have volumes were in a declining pace, especially in the second half. However, we are gaining market share and leading the market, so that is positive point. Again, we are seeing our premium and super premium brands growing that's important. When we look at our market share is at the top, when we compare again look at the historical high level. And Kazakhstan, as, our volumes grew by low to mid-single digits and we also increased our market share and we are also improving and are positioning non-alcoholic and beyond beer segments as well and our largest, let's say brands mainstream brand in the market has increased its market share on the positive side.

Looking in to Georgia and Türkiye, starting with Georgia, beer market grew mid-single digit, along with the market macroeconomic recovery and increased number of visitors to the country from the region. We continue to have increasing our market share in the country. Again, our market share reached to record high level and also on the soft drink side in the country, we have achieved growth and double-digit growth compared to last year.

Looking at Türkiye, we had a very good, very strong start to the year, recorded a very high growth rate in the first half as we discuss, partly due to the low base of last year and we continue with this superior performance in the second and third quarter of the year.

Thanks to, obviously good tourism season in the country, but also our new launch in the country, our Bremen brand. At the same time, export volumes grew and contributed as well. Thus Türkiye beer operations had one of the most successful years and reached to a sales volume growth of around 5.7 million hectoliters with a growth of almost 16%.

Sales volumes exceeded pre-pandemic levels despite the decline in the consumer confidence index in the country and the inflationary environment. So the strong performance achieved in Bremen brand together with the strong growth in the Efes Malt and Efes Özel Seri brands played an important role for this extraordinary success of Anadolu Efes Türkiye beer operations.

A few words on the Soft Drink side. CCI's consolidated sales volume increased by also around 15%. Well that was predominantly driven by the international growth on the international operations, where the growth was more than 23% on a reported basis. Sales volumes in Türkiye grew by around slightly less than 3% despite the high inflationary environment and pressuring disposable incomes. Sparkling category showed a flattish performance while Stills registered a growth in the range of almost 13%-14%.

International operation's growth came from all regions except in Jordan and in specifically in Pakistan, the growth rate was around 13% and also Uzbekistan was contributing to the growth inorganically but with also the strong growth the company achieved in the country.

And finally, before leaving the ground to Gökçe for further details, a couple of words on topline figures. Revenue growth was around 130%, reaching to TRY90.5 billion with higher volumes and pricing initiatives and revenue growth management initiatives. I need to underline that excluding the impact of the FX translation, the growth was still at a very high level of 57% on a constant currency basis.

And EBITDA growth was ahead of the topline growth that makes us very proud and realized at around 148% with a margin of 19.2% and with a margin expansion of 137 basis points, and this was primarily due to the superior performance by our international beer operations. We delivered TRY3.4 billion net income compared to TRY1.1 billion a year ago, so a significant increase, despite the fact that the financial expenses were up year- on-year basis, so with the profitability, with the improvement, we were able to overcome that and increase our bottom line.

And we recorded all-time high level of free cash flow generation at around TRY6.1 billion, thanks to strong operational profitability as well as the deferred payments in international beer operations. As a result, we closed the year with a consolidated net debt to EBITDA ratio of 0.7 times.

So I leave the ground to Gökçe for further details.

Gökçe Yanaşmayan

Thank you, Can. Good morning, good afternoon, everyone. Before I start, I would also like to express my deepest condolences to everyone who lost loved ones in the earthquake.

Very difficult to describe our feelings. But I have no doubt that we will recover from this devastating earthquake, working altogether in collaboration and in solidarity.

Can has already provided a full-year perspective for Anadolu Efes consolidated financials together with Beer Group results. So I intend to focus more on fourth quarter results of Beer Group.

Beer Group sales revenue grew by 80% to TRY9.7 billion in fourth quarter. The increase in FX-neutral basis was also strong 16%. International beer operations sales revenue reached TRY7.8 billion and taking into account the declining sales volume of international beer in fourth quarter, actually, this represents 126% increase in our revenues per hectoliter and in constant currency terms, it's 27% increase. This was thanks to strong pricing, premiumization and higher Turkish Lira conversion impact. Türkiye Beer sales volume as well outperformed the expectations and grew successful by 10% in fourth quarter. Benefiting from this increase, as well as pricing, sales revenue performance was very strong and increased by 101%, while revenue per hectoliter growth was also very good at 84%.

Going down to gross profit level, Beer Group gross profits also successfully extended and ahead of the revenues growing by 99% despite high escalations in cost of goods sold and volatility we faced. This means actually a margin expansion of almost 400 basis points in fourth quarter. As Can also mentioned earlier in the meeting, effective use of FX and commodity hedges supported our margins.

Let me give you more details on EBITDA and free cash flow in the following slides. The numbers you see on EBITDA graph, are on a constant currency basis, so that we can clearly demonstrate commercial impact on our financials. In fourth quarter, we talked about revenues growing ahead of cost of goods sold, like actually the rest of the year. However, the increase in operational expenses are above revenue growth this quarter, which is unlike the rest of the year actually. But this is mainly due to postponed commercial spending to the last quarter, and in any case, EBITDA grew by 100% to TRY1.9 billion with a margin expansion of 200 basis points. EBITDA margin in fourth quarter was 20.1%.

Despite positive contribution from profits, we see a negative swing on cash generation in the fourth quarter. This was already expected due to calendarization of some capital expenditures, and payables into the last quarter together with early procurement of certain raw materials. Another major factor or impact here was the negative conversion of working capital, as TL remained pretty stable in the last quarter and ruble weakened. Nevertheless, we reached a record high level of TRY3.7 billion in full-year 2022. But again, as Can earlier mentioned, I have to note here that we are significantly above our guidance as we have postponed some payments in Russia. And if we had paid this in 2022, we would be looking at a free cash flow generation in line with our guidance somewhere in the range of last year's numbers.

So moving to the cash and debt management on the next slide. And here, I would like to underline that by the end of the year, more than 40% of cash we hold was hard currency denominated in Beer Group and 64% in Anadolu Efes consolidated. These are lower than our historical averages, as we had a successful cash generation in Russia this year and we were yet to convert rubles in hard currencies by the year end.

So as of today, I can update the numbers and that we have reached more than 60% in Group already and close to 70% in Anadolu Efes. And net debt to EBITDA is the indicator, we are looking at when it comes to debt management and this was 0.7 times for Anadolu Efes and 1 time for the Beer Group, so even lower than our long-term guidance that we use. And we have seen actually a very significant improvement versus last year, as 2022 was a successful year in terms of cash generation.

And about risk management, well, there are certain commodities that we can hedge and aluminum is one of them and so far we have hedged 80% of our exposure for 2023. And we can also have a price visibility for Barley procurement and there also, we have reached 70%. And FX hedges is another tool that we use to protect our bottom line and there 27% of our cost of goods sold and OpEx are FX denominated and these are mainly coming from Russia and Türkiye. In Russia, we are fully hedged, and in Türkiye, we have hedged more than 90% of our exposure.

So actually, this concludes my presentation, I am giving word back to Can.

Can Çaka

Thank you. Thank you. Gökçe. Okay, we have slightly slower pace of change of slides which I still see the risk management page on the screen. Okay. It seems it is problem with us, not with you see the Strategic Core Priorities page, which is good. I'm not going to go into details, I mean, obviously our strategic priorities didn't change, obviously, I mean, sustainability is one of the key additions and that's a very important area that we focus on and that's an accelerating and supporting factor for our future success. But when we are talking about the future of the business, we talking about people, we are talking about our winning portfolio, our brands we are talking about the operational excellence. And so we are talking about the growth for our business. So those, that is the meaning of this strategic core priorities. Obviously, our financial discipline, digitalization which we can also mention among the operational excellence as part of the accelerators and key priorities as well together with the sustainability as I mentioned at the very beginning.

So let's move into the '23 expectations guidance, obviously, we mentioned, '22 has been a great achievement although the year started with a lot of challenges and obviously this year also is now beginning, starting with challenges. So we got used to this, and we are confident enough to have another year of success for our operations, obviously macroeconomic developments, geopolitical tensions, currency volatilities, the impact of earthquake would be the primary concerns that for we have a cautious stance and our expectations, probably would be, hopefully revised upwards to the year, as we see the progress.

But at the same time, we need to also note that '22 has been extraordinary in terms of profitability and especially we are noting that given the current competitive environment, current pricing environment, are let's say margins in our position was a little bit overshooting, when we look at '22. So we expect to see some sorts of normalization in that perspective as well. So overall, beer volume is expected to decline by low single-digit to our '23, as I tried to explain in different context and given the high inflation rate, consumer confidence levels, we expect a certain pressure in terms of the total beer market, let's say position.

So in that perspective, obviously, we will continue to strive to gain market share in every other market. But again, given the expectation with respect to the overall markets, we expect our volume should decline on a low single-digit level. And when we look at the soft drinks side of the equation, we see mid-to-high single digit volume growth on the soft drink side. Obviously, it will continue in terms of revenue growth management initiatives in both business lines and our consolidated net sales revenue is expected to grow by low 30s on an FX-neutral basis and that our beer revenues are expected to grow by high teens on an FX-neutral basis and the expected growth from soft drinks is high 40s to low 50s again on an FX-neutral basis.

Our consolidated EBITDA margin is expected to decline around 100 to 200 basis points impacted by the increased cost pressure and lower topline volumes, I would say and expected it to be ahead of pricing. Our CapEx to sales ratio would be stable at the normalized levels of high single-digits. We can expect a lower level of free cash flow generation in '23 versus '22 due to the postponed payments, as I mentioned.

So there is, especially in international beer operations so that would have higher cash outflows in 2023, so thank you again for joining us and for your patience and we are ready and we'll be happy to answer your questions.

Questions and Answers

Aslı Demirel

At the moment, there are no questions at the queue. So we just wait for a few minutes. We will give some chance for people to write down their questions.

Can Çaka

Yeah, certainly.

Aslı Demirel

There is a question from Daniel from Barclays.

Thank you for the presentation on Russia. Could I please ask, how much cash is in Russia, do you have visibility on your ability to upstream cash? Has there been any progress on AB InBev divestment transaction? Could you give an indication of what percent of Russian revenues are attributable to international AB InBev brand such as Stella Artois compared to domestic Russian brands.

Can Çaka

Right. I mean, let me give a little bit color on the negotiations with maybe I and Gökçe can help me for the rest, obviously. First of all, it's on continuing, I mean, we are operating in a very complex environments and so given the current necessities, this has been triggered by the events happening in the region, therefore it is a progress with a lot of complexities. That's why it has taken longer than expected. But there is a good level of progress. So we continue on the negotiations and working around the, let's say, the details of potential deal that's what we can say as of today.

With respect to the cash flow generation and our capability to let's say distribute, take it as distributing dividends from Russia with last year that has been the legislation came into force. When you need to distribute dividends, you require, your businesses are required to have an approval from the Committee.

We made our application to the Committee with respect to the distributing dividends for the profit that we have generated for 2022, that's an ongoing discussion. So, we have provided the necessary documentation so on and so forth. So I'm positive that would be a positive response from that request, as of today, we believe that there shouldn't be any limitations with respect to doing distribution from Russia and I think that should be continuing going forward.

Gökçe Yanaşmayan

And I think, with regarding the cash, we have in Russia and in the second question, we have also together with Ukraine it has been asked end of the year. So we can say that you know between 35% to 40% of our cash in the Beer Group is in these two countries actually. And international brands such as Stella Artois, actually low single-to-mid single digits share in our revenue share I can say.

Aslı Demirel

Maybe for the last part or the second question, what was Russia and Ukraine contribution to Group's EBITDA?

Gökçe Yanaşmayan

EBITDA wise also, we can say that 65% to 70% together as a contribution.

Aslı Demirel

Can you please update us on conversion of rubles to US dollars? Again, another question from repatriation, but we already

Gökçe Yanaşmayan

There is no problem of converting rubles into the dollars. As I told, I mean, we have already converted them for the year to say.

Aslı Demirel

Thank you. Can you please provide more color on phasing of payables in International Beer? But this has already been answered. Can you also discuss pricing environment in Russia, Türkiye, Kazakhstan for beer business in 2023 to date and expectations for the year?

Can Çaka

Well, I mean, let's go Türkiye and Kazakhstan, first, obviously as discussed, the COGS or the inflationary environment is continuing and there is a reflection of course of that inflationary environment to the cost basis. Basically last year, the cost increases were driven by the commodity increases although this year commodities are below the historical high levels of last year. We are still seeing higher cost base coming from the energy that is linked to also the secondary packaging and also the inflation of all linked into the cost base.

So with still cost environment going higher, that's why we have plan to have higher than inflation cost price increases in every other country and for Türkiye and Kazakhstan, specifically, Georgia, and although are not that different as well. We have already taken the very first steps and increased prices early December or early January.

So we have increased our prices in line with our plan. So I don't see much of an issue in any of the operating countries with respect to pricing. And I would say, actually the year started very well. And we have seen a reasonable continuation of the trends in the fourth quarter of last year at the first month of the year, obviously February, let's say, as we discussed at the beginning is impacted the earthquake in Türkiye. And Russia is a little bit different, I would say, obviously last year was totally different environment. We have increased our pricing, given all these volatilities, all this based on the happenings. In the second half of the year, actually, we've seen that let's say, a lot of discounting and promotional activities from the competition. And that is and especially ruble strengthening against dollar also creating an opportunity for that reason.

That's why pricing environments today is a little bit tougher compared to the rest of the portfolio. That is one of the reason why we are guiding for the margin dilution. We expect a lower pricing environment in Russia, specifically, this year. And that's mainly driven by the competition although we follow the competitive reaction and would be able to, I think, we would need to follow we would need to align our pricing to the competition because already, we are over indexed. That is good for the value. But again, you cannot continue to deliver, continue to have the same sort of progress in a very short period of time. So I would say, this year is a little bit more digestion in that perspective, that is the reason of the margin dilution. And let's say, a tougher pricing environment in Russia.

Aslı Demirel

There are two questions. But I think, Can bey, you already answered, one of them was margin decline, why there is a margin decline?

Can Çaka

I did.

Aslı Demirel

Yeah. And why there is a volume decline in the guidance? So you already answered. So there is a question for Gökçe bey. Can you please confirm that FX cost under cost of goods sold have been mostly hedged. Would this mean no major cost pressure in case of TL depreciation throughout the year or is currency hedging level higher than the current TL/USD?

Gökçe Yanaşmayan

No. I can confirm. Yes, I can confirm that we are protected not in the COGS but also we take into account when we calculate our exposure operational expenses too, so 91% almost fully we are covered. And our average hedge rate is lower than current levels of TL/USD.

Aslı Demirel

Thank you. Last one at the moment. What are your expectation regarding a significant increase in taxes on alcohol to finance government's expenditure on earthquake rebuilding?

Can Çaka

I think, that's a very difficult question. As of today, it's very difficult to answer on our side. One thing, known as the government would be in need of more tax revenues and tax revenues how they are going to relocate this is unknown today. So it is very very difficult for me to make any comment on that.

Aslı Demirel

And last question is, what is the EBITDA contribution of just Russia?

Gökçe Yanaşmayan

This year, it was practically the same as Ukraine was not an EBITDA contributor, so we can say for Russia as well the range of 65 to 70 would be a number yes.

Aslı Demirel

Okay. Those are the questions. So we don't have anymore. So thank you for everyone for joining.

Can Çaka

Thank you.

Gökçe Yanaşmayan

Thank you.