

# ANADOLU EFES

---

## CONFERENCE CALL TO DISCUSS ANADOLU EFES Q1 2023 RESULTS

**Company:** Anadolu Efes

**Date:** 04.05.2023

### 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' 1Q23 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 see them on our screen.

Just a reminder, 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, Aslı. Hi, everyone, good afternoon. Let me also welcome you to our first quarter results call. As we discussed in our full year call, we weren't expecting 2023 to be any easier than the past few years. As a matter of fact, the first four months of the year proved us to be right in that front, unfortunately. And yet difficulties came from different fronts rather than the higher non-commodity cost pressures we were talking about, which is a little bit relaxing for the time being.

But unfortunately, the unfortunate earthquake that hit the Southeastern part of Türkiye and the ongoing conflict between Russia and Ukraine in the region, to some extent sticking inflationary environment, despite it is getting easier across the Board and uncertainties regarding the elections in Türkiye are all adding their challenges to the operating environment. Therefore, we started the year with many headwinds. Yes, we are very happy that we have achieved very strong results and basically this is the results that we are going to discuss today are better than our earlier expectations. And that demonstrates the agility and resilience of our business and the portfolio I guess to some extent.

Obviously, one of the key factors for this trend, this success was first our timely and effective pricing. And secondly, proactive revenue management initiatives. Therefore, we started the year with a strong topline growth, which significantly outpaced the volume growth to the quarter. The pricing initiatives that we have been implementing since the beginning of last year 2022 have protected our gross profitability, especially on the beer segment side.

While the costs of goods sold per hectoliter increase was also relatively more manageable, especially in our international operations. Therefore, this yielded an expansion in our margins and yet we expect to see some normalization going forward that is partly related to the pass-through impact of the pricing we have taken earlier last year. And secondly, partly similar time impact of the increases on the cost side going forward.

On top of the gross profit margin expansion and gross profitability growth, our EBITDA before non-recurring items grew ahead of our revenues as well, thanks to the gross profitability performance and also that is further supported with the prudent expense management through the quarter. And we kept our leverage ratio there very strong level of a very low level of 0.8x at the end of the period, despite the negative free cash flow generation through the quarter, which is again partly impacted with the timing factors and we expect to see the reversal of the trend in that perspective.

Going into the different pieces of the business, our beer group volume declined slightly below, slightly higher than 6% in the first quarter due to obviously the significant higher prices to consumer. And also we had a high base of last year in the first quarter, having almost a full quarter of Ukrainian operations in the volume, the reported number side. Yet we had a very strong start for our business in Türkiye and Georgia, showing significant volume growth, even limiting the decline in Russia and Moldovan operations through the quarter. Excluding the impact of Ukraine, the volume decline in the beer group was below 5%.

Going into Russia, the Russian beer markets in general declined by mid-to-high single digit levels as we observed volatility in demand and we also see from the consumer perspective see more saving behavior, more let's say preference in the value segment. Our volume performance was slightly below the market, again, due to year-on-year higher pricing on our side versus the industry and also the relatively lower promotion activities again versus last year that is in total overall impacting the price to consumer being higher versus last year. Yet, as we discussed at the full year results, we had a much better momentum compared to fourth quarter of last year. Thanks to again our newly initiated projects and new product launches as well.

When we look at the different parts of the portfolio, we see similar to the overall beer market, some growth in our value and core segments. So, some of our value brands and core brands especially Stary Melnik, Zolotaya Bochka and Lowenbrau were the best performing brands in our portfolio, while we also

kept our performance in the premium segment and our performance was better than the market that is important to know.

In terms of categories, the best performance was registered and the flavored beers and the non-alcoholic beer segments versus last year, although there was a decline in general terms in the non-alcoholic beer category in the market. We also launched our energy drink and we entered into the category almost at the early March at the end of the quarter by launching our brand Volt in the segment and with various flavors, we are focused maybe we have high expectations on this segment as well. And I would say our value share was almost at around 30% year-to-date, which is a strong value share in the market as we have the focus on the share of value in the market.

Going into other CIS countries, Kazakhstan, our volumes in Kazakhstan declined slightly, again similar to Russia, mainly driven by higher pricing to consumers and especially early pricing initiatives against competition. But I would like to say also note that our value and volume shares were slightly higher than last year so that's promising as well in that perspective.

Moldovan beer market was one of the most impacted ones in the region due to higher prices to consumers and also impacted with the supply disruptions throughout the year or so long and high inflation. And basically, our volumes were impacted and we are more or less in line with the market and continue to be under pressure.

And looking into Georgia, we have also benefited in Georgia with a higher number of residents and volumes grew more than almost 40% and that is on both segments, beer and soft drinks categories.

So when we look at the overall CIS volumes, we see the volumes growing by mid-single digits on average.

The domestic beer market, Turkey beer market continued its strong momentum for us with the increased number of residents from Russia and Ukraine, similar to Georgia in that perspective. As you would recall, we started the year strongly in January and then obviously with following the devastating earthquakes, needless to say, we have seen some slowdown in February.

And then the good news is we have seen the volumes getting normalized after the earthquake despite the early start of the Ramadan throughout March. So we continue our strong volume momentum that we have seen starting from the second half of the last year. And as a result, our beer volumes increased significantly around 10% for the first quarter of the year in Türkiye.

As usual, a few words on CCI, especially for who didn't follow CCI yesterday somehow, CCI's consolidated sales volume increased by 6%, mainly driven by double-digit volume growth in Pakistan and Central Asia. The volumes in Turkey was softer mainly impacted with the impact of the earthquakes. Again, on the soft drinks side, we see gradual recovery, especially in the last two weeks of March that's important to know. While we see when we look at the different categories, sparkling and still categories declined by 9% and energy drinks extended the momentum and grew by more than 30% through the quarter.

Internationally, soft drink operations recorded 15% growth and the driver of the growth were CCI through the period. And in Pakistan, one of the most important contributor the growth was around 13% and Uzbekistan continued its solid momentum with registering more than 20% growth for through the first quarter. And also Kazakhstan in the 26% growth driven by double-digit performance in on-premise channel.

A few words before leaving the ground to Gökçe for much more details on the financial side. Revenues on a consolidated basis grew more than 78% to almost TRL25 billion range and the growth was mainly coming from the higher prices as I discussed on the beer side versus a year ago and also our successful revenue growth management initiatives also contribute strongly. We also benefited from the channel mix in soft drink operations together with the higher FX translation impact of the international operations on both business lines. However, even on an FX neutral basis, we see a strong almost 50% growth on an FX-neutral basis.

EBITDA growth was ahead of the topline growth and realized at around 87% with a margin of 17.1%. And we have recorded a margin expansion at 80 basis points, strongly driven by the beer group I would say. And that was also the performance that was supporting the overall margin expansion on the beer side was driven by the international part of the operation. Yet there have been some shifts between the quarters in terms of operational expenses. As I mentioned, we were very very prudent throughout the quarter that helped margin expansion for the beer group through the quarter.

Soft drink margin was impacted by the soft drink margin in Türkiye operations due to the lower volumes, obviously, and our net income turned positive compared to the same quarter last year and we realized an income of more than TRL400 million. The significant rise in the bottom line was driven by the strong operational performance on EBITDA growth, despite the fact that the financial expenses and tax expenses were higher versus last year that has a limiting factor on the bottom line, but still the growth was a strong one.

Due to the seasonality of our business and the first quarter is the smallest quarter for our business and free cash flow was negative. But we expect this tend to be normalizing throughout the year. As we had some of the CapEx programs earlier, we had higher inventories to ensure that we keep the business safe from any supply disruption and benefiting from lower cost base at the beginning of the year. Despite the negative cash flow, our consolidated net EBITDA ratio was 0.8x.

So Gökçe, your turn for further details. Thank you.

### **Gökçe Yanaşmayan**

Thank you, Can. Good morning. Good afternoon, everyone. Welcome to our conference call. So Can presented Anadolu Efes results therefore, let me talk about results of beer group. Actually, we are quite happy to have reported another quarter with very strong results. Beer group sales revenue grow up by 77% to TRL9 billion in first quarter and this represents also a very strong 28% in a FX-neutral basis growth in our revenues. International beer operations sales revenue grew by 69% to TRL7.3 billion. Here also we see a very strong revenue per hectoliter increase, around 83%.

And here we have to note that this is mainly also linked to a very high price increases that we had implemented in the second quarter of last year. So first quarter of this year still enjoys this pricing carryover, while in the following quarters actually this should get normalized.

Türkiye beer sales revenue also grows by 120% to TRL1.7 billion. And the revenue per hectoliter growth in Türkiye also we see a strong result, 100% growth and this is thanks to basically price increases implemented together with effective discount management.

Beer group gross profit also grows very successfully by 102% and it's TRY3.9 billion at the end of first quarter. And the growth we see in gross profit is actually ahead of our revenue growth. This obviously means that we had a margin expansion of 540 basis points in first quarter and that's thanks to international beer operations mainly. As I noted actually while explaining the revenue per hectoliter growth here as well, we have to note the positive carryover impact from pricing, which is supporting this expansion in the first quarter. So we should again expect the spread between margins to get closer in the following quarters in gross profitability.

So in the following slides, let me talk about EBITDA and free cash flow. So you see on the EBITDA graph on the left that gross profit minus the expansions that we talked about, actually revenues are increasing by 28%, while the costs are increasing only by 19% on a constant rate basis. And OpEx is increasing slightly higher than our revenue growth, but consequently still we have a very significant growth actually in our EBITDA to TRY1.3 billion with a margin of 14.5%. And this means actually we keep our expansion here to by 559 bps.

So the cash flow which Can also talked about it a bit due to our nature of our business in the first quarters, we are generally looking at negative cash flows despite very positive contribution from positive. This year the situation is similar actually and typically again as you see on the graph this is linked to increased working capital needs and accelerated CapEx expanding before the season and this is the case for 2023 as well. But we can also say here that we expect this to get normalized in the following quarters, again.

So moving to the cash and debt management with regard to our prudent approach and policy we are holding our cash, majority of our cash at least in hard currency denominated currency. So by the end of first quarter, 58% of our cash in beer group and 60% of our cash in Anadolu Efes was in hard currency. And we are actually at a very comfortable zone and very healthy zone when it comes to net debt-to-EBITDA, it's 0.8x for Anadolu Efes and only 1x for beer group. And risk management, basically, from the commodities we can hedge, we are hedging aluminum and we reached to 88% of hedging for our exposure of 2023 in aluminum and we have hedged 100% of our barley exposure.

In FX exposure for 2023, actually we have fixed this before, so no change here. But just an update, in Russia we are fully hedged. In Türkiye, we are hedging more than 90% of our exposure this year, so we feel quite protected in that line too.

So actually, this concludes my part, so I'm giving words back to Can. Thank you.

## **Can Çaka**

Thank you, Gökçe. Thank you. For the full year guidance, well, it's one of these very difficult things to explain. I mean, basically, we are reiterating and keeping our guidance for the year. Obviously, first quarter is one of the smallest quarters and given lots of uncertainties, we keep it for the time being, but let's accept the reality, let's be very straight. The current trend encourages us for going forward for the rest of the year. The current trend is stronger than our plans, first of all.

And as we discussed in our full year call as well, one of the areas where we weren't that sure was about the tourism. As we see the initial hints and initial let's say trends, it could be another strong year for Türkiye especially. So all this encourages for the season as well. So if you ask me right now, I would expect more potential for positive surprises rather than any negative surprise going forward. But again, we keep

our guidance and as we promised we will only update it at the end of first half. So we will be very happy to have your questions if you have any. And otherwise this will be the end.

### **Questions And Answers**

#### **Aslı Demirel**

Yes, this concludes our presentation. If you have any questions, please write down on your screen so that we can have a chance to read and answer. For the time being, we see no questions on our screen.

#### **Can Çaka**

Let's take this positive. Let's excuse that we were...

#### **Aslı Demirel**

One question. Can you provide an update on your Russian JV acquisition? Can you also provide an update on your dividend from Russia? Have you received it?

#### **Can Çaka**

I'll leave the ground to Gökçe on this.

#### **Gökçe Yanaşmayan**

Actually, the answer to the questions are quite similar to our answers in the last year basically we are still in talk with our partners when it comes to JV acquisition. So this is an ongoing and active process, which we are still talking about and trying to finalize. And about the dividends as well, this is a procedure basically that we are already into it and we are trying to also finalize that as quick as possible.

#### **Aslı Demirel**

There are two more questions but the same. So I'm not reading them over.

#### **Can Çaka**

So it's again related to the same question?

#### **Aslı Demirel**

Yes, the same question.

#### **Can Çaka**

Perfect. That's good news that it seems we were able to explain the dynamics very well. Thank you for your interest. Hope to see you in August for the half year results. Thank you, all. Bye bye.

**Gökçe Yanaşmayan**

Thank you.