

ANADOLU EFES

CONFERENCE CALL TO DISCUSS ANADOLU EFES Q3 2023 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 9M2023 Financial Results Conference Call and Webcast.

Our presenters today, Mr. Can Caka the CEO and Mr. Gokce Yanasmayan the CFO.

All participants will be in 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.

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 Caka, Anadolu Efes CEO. Sir?

Can Çaka:

Thank you Aslı.

Hi everyone.

As usual, a warm welcome to all of you. And, again, as usual, another strong quarter with results beyond our expectations for the third quarter. That is giving us a lot of confidence going forward. And, obviously,

obtaining these remarkable results, it's truly gratifying especially during the year which we celebrate the 100th anniversary of our Turkish republic.

We have witnessed an outstanding performance in our key financial figures during this critical quarter for our business and that's, obviously, indicating our ability to excel even in such challenging times where our consumers are under pressure of high inflationary environment.

Notably our EBITDA before nonrecurring items, the margin has expanded even as we were comparing against a very high record level of high profitability of last year and that is, obviously, linked to our continuous focus on the efficiency and profitability driven by the revenue growth initiatives.

For the beer group, this is the seventh consecutive quarter of margin growth, highlighting our consistent efforts to improve our performance. Our improved EBIT combined with our discipline capital expense management strategy and strong cash generation is the testament of our commitment to the financial discipline while we continue to invest in our brands, in our talent and our infrastructure, that is also a very satisfying created and underlying growth for future.

In light of these impressive results achieved so far, we have decided to elevate our guidance second time this year, reinforcing our strong confidence in meeting the set of objectives or even overachieving the objectives for us.

In the third quarter, our beer volume surged by almost 8%, outpacing the already strong performance we achieved in the second quarter while recording solid growth rates in our key markets notably in Russia and Turkiye. Our international beer volume has seen an impressive, almost 9% increase with Russia holding the reins and also Ukraine being operative through the season as well.

Russian beer volumes exceeded our expectations and the most rated as strong improvement versus previous quarters by growing low to mid-single digits. Ukraine volume has improved compared to the previous year while the volume, obviously, remains below the levels of 2021, we are actively working on optimizing our performance in the market as well.

On the other hand, despite the exceptionally high base from the previous year, Turkiye continued its impressive momentum and has recorded 5% increase in volume through the quarter.

Most specifically in Russia, the beer market remained relatively stable compared to the previous year. The stability around the beer market being flattish and then growing at the end of the quarter, underpinned by overall favorable and affordable price levels versus last year. For our operations in Russia, we achieved an approximate 4% growth in the volume side and the growth is attributable to our well-balanced pricing strategy effective execution of our portfolio and, obviously, our sales strategy as well as also contribute supported by the innovative product launches.

Obviously last year we had a low base especially in September, I would say. We sustained the value basis our market leadership with a significant lead while volume leadership has been under pressure, obviously, affected from low level price levels by our competitors.

Additionally, as a part of our product diversification strategy, expanding into near beer categories, as you might remember, we have launched the energy drink category at the beginning of the year which in this

category also we have recorded a robust growth and our new brand, VOLT, entered the top 10 energy drinks in quarter three, very soon following the launch.

Moreover, on the non-beer segment category is growing as well and we expect continuing gradual growth while also the industry itself outperformed the beer market on the non- alcohol-segment.

Overall CIS; Kazakhstan and Georgia had softer Q3 performances as a result of our focus on value generation and especially high prices putting pressure on overall market, I would say. Moldova was more or less in that mood from the beginning of the year, although the declines or slowing down especially in the season, second half of the quarter. Overall, our CIS volume down mid-single digit, but, again, strong revenue growth management initiatives, we are taking there as supporting the overall financial performance and our revenue growth. And, obviously, we are gaining market share also overall in the region.

Turkiye, speaking of Turkiye, obviously, we are very proud with what we are achieving here. The market performance also is supported for our performance despite we had a very high, strong base from last year and the challenging environment especially driven with the high inflationary environment putting pressure on the consumer side. Again, despite all this and a very high base of last year, Turkiye beer volume increased by another 5%, marking the eighth consecutive quarter on the growth side.

And this, obviously, strong performance will be attributing the performance to our strong portfolio strategies, our effective pricing and revenue growth management strategies and that is also supported by the strong tourism activity throughout the season.

Again, very, very brief touch upon our soft drinks business. CCI's consolidated volume has seen a solid three percentage growth driven by outstanding performance in Turkiye, where the volumes were surging by another 12%. This growth can be attributable to the effective marketing campaigns and favorable weather conditions and also the tourism also positively affecting.

However on the other side, international volume was under pressure, declining 2.5% mainly driven by Pakistan which has faced a significant drop due to the challenging macroeconomic conditions through the period, but the positive side of the token is obviously, Central Asia where our business, soft drinks segment recorded a high single digit growth while Middle East was also reporting another mid-teens growth.

And a few words on the general financials; revenues grew by more than 67% in third quarter to almost TL50 billion and both business segments have substantial contributions to this growth. Apart from the favorable foreign currency conversion impact, strong demand and effective pricing strategies contributed to the growth and we still have very strong growth rates on every other line on a constant currency basis.

For the beer group, effective revenue growth, management strategies and tight cost management led us to reach a strong expansion in gross profitability performance. Similarly, CCI's gross margins improved remarkably thanks to the disciplined cost management and timely pricing actions on there as well. On top of a strong base, our consolidated net income recorded a remarkable increase to TL4.7 million, ranging third quarter which is mainly driven by strong operational profitability and FX gains realized from hard currency cash.

In the third quarter, Anadolu Efes free cash flow generation was almost tripled compared to a year ago. Strong free cash flow was contributed by both segments and it was supported by effective working capital

management, together with the better operational performance. As a result, our consolidated net debt/EBITDA ratio continued to improve this quarter as well and reaching to 0.5 times of EBITDA.

And now Gokce will take us to more details of this very strong performance of financials.

Gökçe Yanaşmayan

Thank you Can.

Good morning, good afternoon. Welcome to our conference call regarding the 2023 third quarter results.

I would as well like to start with celebrating our republic's 100th anniversary. And it's a great pleasure to be able to announce that Anadolu Efes has once again produced an outstanding performance, actually.

Let me discuss beer results a bit in more detail. In the third quarter 2023, beer group sales revenue increased by 44% to reach TL17.7 billion. This translates to an FX national growth rate of an impressive 31%, actually. And revenue from international beer operations was also up by 30% and was at TL12.8 billion, especially the Russian beer operations profited from volume growth in third quarter, together with pricing carrying over from the previous year.

Though the international beer operations revenue increase was relatively slower this period because of the rubles year-on-year depreciation. On the other hand, Turkiye beer sales revenue demonstrated an impressive 97% increase during this quarter thanks to price hikes at the beginning of July and volume growth we see. And overall, beer group's revenue increased significantly to TL41.4 billion in nine months 2023 with an increase of 52%.

Beer group gross profit grew ahead of revenues by 61% to TL9 billion in third quarter. And accordingly, gross profit margin expanded by 536 bps, 50.6%. All operations witnessed an improvement in gross profit margin with the exception of a slight decline in Russia and the improvement was thanks to strict cost control measures efficient uses of commodity and currency hedging, and effective revenue growth strategies.

Beer group gross profits reached to TL19.9 billion in nine months with year-on-year margin improvement of 524 bps.

So let me explain more about EBITDA and free cash flow in the slide that follows. The expansion of gross profit I just described is a result of net sales in the third quarter growing more than cost of goods sold and you can see that on the left top side of the slide. OpEx growth was slightly greater than revenue growth because the third quarter of last year had relatively low selling and marketing expenses, particularly in Russia.

However, beer group EBITDA increased by 60% to TL4.7 billion in the third quarter. Consequently, nine months EBITDA increased by 75% to TL9.4 billion with 308 bps improvement in margin.

Beer groups free cash flow generation in third quarter 2023 was TL3.2 billion which is a considerable increase from the TL740 million generated in last year. The international beer operations which have demonstrated an increase in operational profitability and improved working capital are largely accountable for this growth in free cash flow.

So the following slides talk about cash and debt management. By the end of third quarter we had 42% of our cash in hard currency denominated in beer group and 51% of our cash in consolidated Anadolu Efes which is consistent with our internal policy and practice. And at the end of third quarter, again, we look at exceptionally good leverage ratios, it's 0.5 times for Anadolu Efes and 0.2 times for beer group.

So the following slide again is now on risk management to update and remind key beer group hedge figures. We had already talked about how well we are covered 2023 from both aluminum and FX perspectives. And we began also hedging for exposure to 2024 and as of right now we have about 54% coverage in aluminum exposure of Türkiye and CIS countries and 43% coverage in FX for Türkiye's exposure.

So I'm ending my presentation here and give the word back to Can. Thank you.

Can Çaka

Thank you Gökçe.

As we discussed earlier, results for the nine months have shown significant strength in both business lines with a particular focus on the beer group. And these results are better than what we initially expected and increase our optimism for the rest of the year. As a result, we are revising our guidance again. And accordingly, we have observed an acceleration in volume growth within Türkiye and Russia and we anticipate our volume performance to exceed our expectations for the rest of the year as well.

Based on this, we improve beer volume increase expectation to, low to mid-single digit from a low single digit volume growth level. With that volume growth, we anticipate the consolidated net sales revenue to grow at the upper end of the high thirties range on an FX neutral basis. Likewise, total beer revenues forecasted to grow by mid to high twenties on an FX-neutral basis. It was an upward revision from our previous forecast both low twenties growth, again, on an FX-neutral basis.

More importantly, in such difficult times of volatility and uncertainty, we make another improvement in our profitability to margin expectations despite cycling a very high base of last year, we now expect the consolidated EBITDA margin to remain flattish rather than decline by around a hundred basis points and similarly on the beer group side, EBITDA margin, we expect the margins to be flattish for the beer group instead of, again, a hundred basis points decline thanks to the strong topline growth and modest increase versus the expectation in terms of the cost of goods produced and sold on an hectoliter basis.

Again, thank you very much for joining us for this conference call and for your interest. And as usual, we would be ready to answer any questions if you have, while expecting there would be any questions at all.

Questions And Answers

Aslı Demirel

There are some questions.

Can Çaka

Really.

Aslı Demirel

Let me start with the first one from Antonia Luiz Gomez;

Can you confirm how much cash was held in Russia at the quarter and currently? The second one is, can you provide an update on ABI JV acquisition? And third one, what are you doing to address your rate from Fitch ratings?

Gökçe Yanaşmayan

Let me start with the cash bit.

The cash in Russia is approximately 60% of our beer group's cash, I can say. Regarding the JV deal acquisition, I think we have made a huge progress and we are trying to finalize all the negotiations and documentation to be able to ready going for accrual process, actually.

And for the time being, I think I can say that there's a good progress in that end. And if I come to the third bit of the question which is the credit ratings on negative watch, actually that I think links to question number two, credit agencies are also trying to see the end result of the deal, how it's going to be finalized. That's why in order to correct this negative watch, actually we are working with the deal and finalizing it as quick as possible.

Aslı Demirel

Thank you. The next questions come from Melis Pocar. Can you enlighten us about the current beer market environment in Russia taking into account some international brewers exit. Can you name the exact competitors?

How is the consumer and demand price margin environment, what are the pros and cons of the new era?

The second one, regarding recent news flow from Russia's expected investment ease for friendly countries including Turkiye, what are your opinions about possible concrete developments on your side? How can you benefit from this and what's your medium-term and long-term beer group EBITDA margin guidance?

Can Çaka

Let me start with the markets, overall market condition and demand.

Obviously, you would recall probably last year this time we were talking about changes in the market or changes in the demand, the pressure on consumer, the demand perspective starting especially from September onwards last year. And you would recall again the last quarter was almost double digit declining overall market which continued in the first quarter.

And you would probably recall in our earlier calls we were talking about that was, let's say, at very high base in the first half and the lower base in the second half, especially starting September onwards.

Therefore, the market reacted or the market developed as we were anticipating, and in that perspective we have seen the market declining in the first quarter, less in the second quarter and we see the third quarter, even positive market development, overall demand development and that is mainly driven by the, again, much more stability with respect to prices versus last year, last year due to various reasons, we were all required to increase prices because of ruble devaluation, because of the supply side of the equation, so forth. And with all these, actually, now we see from the consumer perspective better pricing situation and that is supporting the demand side of the equation despite the still ruble devaluating versus the level it had last year.

So overall, the market becoming, let's say, stabilize and we'll see the fourth quarter. But, again, let's remind that last year the fourth quarter is a low base in that perspective. And overall from the competitive point of view, the same businesses are the same competitors in that perspective. I wouldn't say there's total changes as of today. There's not much of a change versus last, the shareholders change.

But I would say the overall competitive environment are very similar. I mean, for the last couple of years you would remember we are constantly talking about a value-oriented approach rather than a volume-oriented approach, a very balanced view in that perspective, therefore we have taken the price leadership. We have been less aggressive, I would say, in terms of promotions, so on, so forth. But we see the market becoming more from, let's say, competitive in that pricing perspective, more discounts, more pricing, competition from the pricing point of view.

But, again, as I tried to mention in the call, maybe I was very quick to pass that, we keep a strong lead on our value leadership which is the key success for us. And I'm very happy we have a very strong team on the ground which deals with all these challenges, very, very positive, very professionally in terms of all perspectives. So it's a very well-balanced position for the time being going forward, so I'm very happy with our competitive position within the market.

And, obviously, very much focused on execution, we are very much focused on our strategy, we are very much focused on balanced portfolio, balanced revenue growth, management initiatives that we have. Again, as I mentioned, we have a very strong team on the ground, they know very well what they are doing out there, executing and reaching to our consumers, a strong portfolio as we discussed many times in the last couple of years.

So in that perspective we have a strong business on the ground, I'm not worried about competition, I'm not that worried about adding more emphasis on any ease for the investments from the friendly countries. We are focused on what we are doing and that's the basis for me.

Aslı Demirel

Two questions come from Nikhil.

With both Russia and Türkiye showing more than growth of 45%, which region is responsible for overall volume growth coming as high as 70?

Gökçe Yanaşmayan

Actually, the answer is Ukraine.

Basically last year's third quarter of Ukraine was very weak, obviously. So anything that is out there is quite incremental to our beer group volumes.

Aslı Demirel

Given the delay in closing the transaction with AB Inbev. Would it not be prudent to upstream Russian '22 dividends?

Gökçe Yanaşmayan

Yeah. I think we've already told that we have prioritized the closing deal and getting the necessary approvals for the deal over the dividend upstream in 2022. And currently it seems like, yes, we may have to skip this stream and to do them next year.

Aslı Demirel

Can you give some color on international market beer prices?

Can Çaka

I think that's relative for across all markets especially internationally where we see a much larger segment of the beer market being value segment.

And you would recall I was mentioning about this many calls, our focus is in our brands, the power of our brands and we are very much focused on the main stream across the board. We are very much focused on revenue growth, management initiatives, especially with strengthening our premium portfolio. And usually we have market share in the value segment and discount segment is significantly below our fair share.

And we've seen every other market, the competition, competing in terms of price, competing in terms of value and discount segment, I would say. And we are responding to that by investing into our brand portfolio, by investing in a power of brand since I'm back into the business for the last five years strengthening our relationship with our consumers and making sure that our main leading brands are the most powerful brands, the mostly the brands that has the highest relevance to our consumers across the board.

So in that perspective, we see more or less similar market environment. Obviously, that has also be in further, let's say, increase in the fact that there was a significant increase in the inflation especially end of last year and earlier of this year. And that inflation impacted also. We have taken in every other market without any hesitation we have taken the price leadership, increased our prices properly in line with our strategies.

And all accross the board we see our competition taking less price increases. So that is the overall market sentiment. But, again, we are very happy in every other market in terms of value share. We are very strong gaining in that perspective.

Aslı Demirel

Thank you Can Bey. Next three questions are for Gokce Bey.

Could you disclose the contribution of Russia and Ukraine to EBITDA of beer division in 3Q? What's the amount of cash in Ukraine? And what's the amount of third term loans of beer Turkiye division and how do you plan to address it?

Gökçe Yanaşmayan

Okay.

The first one, the Russia and Ukraine is I think slightly lower than 60%, I would say 55% to 60% this year, this rate has come down a bit. And the amount of cash in Ukraine is very minimal compared to what we have in beer group actual. And so it's 1-2% maybe, not more than that.

And the short-term loans in Turkiye, basically at the end of third quarter, I think we had around \$170 million of loans. Together, this is net debt properly to give you the numbers because we have loans a bit more but cash also in-hand. And some of them will be rolled, actually we have this year diversified our financing, actually and utilized TL financing based in corporate loans as some of them are rolled over already and some will be rolled and some probably we will be closing not to get the burden of high interest too much.

Aslı Demirel

Thank you.

We don't have any more questions waiting on the line. So if you would like, we can conclude this call.

Can Çaka

All right, thank you.

Again, thanks for the questions, interests and participation. Thank you all. Hope to see you at the end of the year.

Gökçe Yanaşmayan

Thank you.