

FY 2023 Earnings Call

Company Participants

- Asli Kilic Demirel, Investor Relations Director
- Gokce Yanasmayan, Group Chief Financial Officer
- Onur Alturk, Chief Executive Officer

Presentation

Asli Kilic Demirel

Ladies and gentlemen, welcome to Anadolu Efes Full Year '23 Financial Results Conference Call and Webcast. My name is Asli Kilic Demirel. I'm the Investor Relations & Risk Management Director of Anadolu Efes.

Our presenters today, Mr.Onur Alturk, the CEO; and Mr.Gokce Yanasmayan, the CFO.

All participants will be in a listen-only mode during the first part of this call. Following this, there will be a Q&A session where you can submit your questions using the question box on your web screen. If you have questions, we kindly ask you to write them down before the Q&A session begins. This will allow us to review and address them.

I would also like to underline that, as stipulated by the decree of the Capital Markets Board, the financial statements for the full year '23 have been presented in accordance with the Turkish Accounting Standard 29. The financial reporting in hyperinflationary economies and retrospective adjustments have been made for the prior periods in alignment with the same standard.

In this presentation, certain financial items and metrics may be presented without inflation adjustments in order to ensure comparability with previous quarters and to facilitate analysis of our performance relative to our '23 guidance. It's important to note that the financials presented without the impact of 29 are unaudited. Unless explicitly stated otherwise, all financial information disclosed in this presentation are presented in accordance with TAS29.

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.Onur Alturk, Anadolu Efes CEO. Sir?

Onur Alturk

Asli, thank you. Good morning and good afternoon everyone. I would like to welcome you to Anadolu Efes Full Year 2023 operational and financial results conference call.

I'm delighted to be here for this is my first results call. It's been only 20 days since my appointment. However, it's been an intense period of catching up with the operations, of course. While this might be the start of my journey as a CEO, I am certainly not new to Efes operations. This marks my sixth year within the Efes family and I couldn't be more excited to lead such a strong organization that our team has built so far.

I'm truly dedicated to building upon this success and working hard to ensure that we emerge even stronger. Together, I'm sure with my great team, we will capitalize on the opportunities, navigate the challenges ahead and continue to drive Anadolu Efes towards greater success.

And moving on to results of 2023. It has been another successful year, of course, for Anadolu Efes with its solid results operationally and financially. As a result of our dedication to our winning portfolio and operational excellence and strategic focus, we have been strengthened our positions across the board despite facing so many challenges, obviously. We have recorded a robust revenue performance as a result of our effective portfolio play and strategic profitable revenue growth initiatives. This, combined with our big focus on managing costs, has resulted in an impressive gross profitability.

Despite the challenges faced last year, we have managed our operating expenses prudently. Although previous year's expense base was low, this disciplined approach has led to an outstanding cash generation, reinforced by strong operational profitability and effective working capital management. I am also very pleased to announce our dividend proposal of TRY2.35 per share. This is a testament of our commitment to delivering value to our shareholders, as always, of course.

In 2023, Anadolu Efes consolidated sales volume reached to 123 million hectoliters, remaining flattish compared to the prior year. Our beer volumes reached 35.7 million hectoliters, meeting our high-end full year expectations and achieved a significant 5% growth, supported by the impressive results in both Turkiye and International Beer operations. On the other hand, soft drinks performance was relatively softer, attributed to mainly to difficulties faced in both Turkiye and Pakistan.

Now, if you dive into details, the growth in Beer Group mainly came from Turkiye and Russia, while Georgia also contributed in small scales. The International Beer operations saw 4.3% increase in sales volume and reaching 29.5 million hectoliters in 2023.

Russian beer operations experienced a low-single-digit percentage growth despite the competitive pricing landscape. It is worth mentioning that Ukraine production

continues in two breweries while headwinds are still being faced for obvious reasons, of course. In CIS countries, volumes declined on average. Yet Turkiye's beer operations had a phenomenal year, achieving a 9.1% growth to total 6.2 million hectoliters in total. When we come to Russia, the momentum in Russian beer markets has been stabilized and industry recorded a slight increase in 2023 and showed stronger performance, particularly in the second half of the year.

I am happy to say that despite a challenging competitive landscape, our operations have achieved an approximate 2% increase in volume. As a result, we have affirmed our market leadership in both value and volume share by strengthening our position in the premium segment in line with our premiumization strategy. Also, we have launched 40 new SKUs. This is a huge number. This is in all segments throughout the year. In 2023, our company had the biggest innovation pipeline in the last five years. For example, Essa Cocolada has become the most successful launch among all in the markets.

As a part of our product diversification strategy, which we have enriched our portfolio to the near beer categories, our non-alcoholic volumes increased by a low-single-digit percentage and our cider volumes impressively grew by double-digits. So these two helped a lot.

When we look at Kazakhstan, in 2023, the Kazakh beer market experienced a mid-single-digit decline influenced by challenging economic and political conditions. Despite that, our volumes performed better than the markets and that allowed us to sustain our market leadership and even gain market share.

Our flagship brands Kruzha Svezhego and Karagandinskoye had a successful momentum during this year. Pressure on hopes and pressure on consumptions continued, they are still in place, but we keep on gaining market share in the first two months of the first year.

And when we look at Georgia and Moldova, in Georgia, the beer market showed a relatively flat trend compared to the previous year. Despite this, we are happy to report that our volume saw a growth in the low to mid-single-digits and our market leadership position was further solidified with a gain in market share. Notably, our brands Karva & Natakhtari gained significant share within the market. A highlight of the year was the successful launch of our premium craft beers brands, Taati, further enriching our portfolio.

And shifting to Moldovan beer markets, we observed a decline in the markets performance in 2023. While our volume performance lagged behind the markets, we are proud to have maintained our market leadership position despite the challenges faced. So despite these challenges, our new brand Finch quickly became the second most popular brands in the market.

So when we come to Turkiye, Turkish beer markets, we observed a strong growth of high-single-digits in 2023 despite cycling a high base. This is especially important

given the environment of high inflation and lower consumer confidence and also lower disposable incomes. Despite this, I'm happy to share that Efes Turkiye has delivered an exceptional performance with our volumes up by 9.1%. The positive impact of the tourism has been a boost for both the markets and our volumes.

It is important that the primary channel of purchase remained the traditional trade, while we did observe relatively less growth in the on-trade channel, which is a trend expected in high inflationary times and also the effect of the earthquakes.

Throughout the year, we had successful product launches, including Belfast and Efes Reserve, and these additions to our portfolio have been welcomed by our consumers. Our brands Efes Malt and Bremen also saw strong growth. Despite the competitive landscape, Anadolu Efes maintained its leadership position in Turkiye as of the other markets.

Let's quickly cover our soft drinks business as well. In 2023, CCI's consolidated volumes decreased by 2.6% with softer performances in Turkiye and Pakistan, especially due to the natural disasters and macroeconomic challenges. On the other hand, strong contributions came from Central Asia and Iraq. Uzbekistan emerged as CCI's fastest-growing operation, registering a significant increase of 25.8%.

And when we look at the financial performances total in 2023, we delivered a very strong financial in almost every metric. And net sales revenues marked at 3.1% year-on-year increase, mainly supported by volume growth and of course price adjustments made during the year.

Our EBITDA margin realized at 17.9% with 45 bps expansion. This was primarily due to the effective cost management and prudent OpEx spending. On top of our strong base, our consolidated net income was recorded at TRY22 billion in 2023, which is mainly driven by strong operational profitability and monetary gains recorded as a result of TAS29. In '23, Anadolu Efes' free cash flow almost tripled compared to a year ago. Strong free cash flow was contributed by both Beer Group and CCI, which was supported by effective working capital management and of course Efes' EBITDA performance. This strong level of free cash flow led our leverage ratio to stay at the very low levels and that helped us a lot actually.

Now, I will leave the ground to Gokce, and Gokce will provide a closer look at the financial metrics.

Gokce Yanasmayan

Thank you, Onur. Good morning, good afternoon and welcome to our conference call regarding the full year 2023 results.

Onur has touched on the consolidated results for Anadolu Efes. I therefore want to go into further detail about Beer Group results. At the end of 2023, Beer Group's consolidated revenue was TRY58 billion, 6.3% decline from previous year. The revenue from International Beer operations decreased by 14.7% to TRY41.9 billion since the reporting currency's appreciation was less than Turkiye's inflation rate. But I have to say here that comparable to the decline in revenue and even

more, cost of goods sold in International Beer operations declined as well by 20%. Therefore, Beer Group's gross profit increased by 3.7% to TRY26 billion with a margin of 44.9%. This represents a 429 basis points improvement in margin contributed both by Turkiye and International operations.

In the next slide, please, I will tell about EBITDA. The Beer Group's EBITDA decreased slightly to TRY10.7 billion, but we've seen a margin increase of 50 basis points to 18.4% EBITDA margin. The free cash flow generation though grew by 71%, reaching roughly TRY5 billion, thanks to improvement in working capital.

So in the next slide, before starting the slide, I have to say that Anadolu Efes' financial statements are prepared in accordance with TAS29, the standards for financial reporting in hyperinflationary economies, and as a result, all financial information disclosed on this call and in our earning release are in full conformity with TAS29. However, financial information presented on this slide excludes the impact of TAS29 and is presented solely for analysis purposes. Please note that these figures won't be aligned with Anadolu Efes' financials and have not undergone an independent audit.

So just to give you, again, idea about exclusion of the impact coming from TAS29, Beer Group revenue was TRY55.5 billion with a growth of 50%. And excluding the impact of TAS29, EBITDA increased by 60% almost to TRY11.7 billion with a margin expansion of 126 bps, which by the way, beats our guidance of flat margin for last year. And excluding the impact of TAS29, Beer Group net income would be reported as TRY3.7 billion.

So briefly to talk about the impact of TAS29 on balance sheet items, as monetary items are not indexed, we see no impact on trade receivables and payables. However, non-monetary items like inventories, fixed assets, OpEx are indexed and therefore we've seen their impact on our balance sheet and cash flow and these details are provided to you in this slide.

So on the next slide, please, about cash and debt management, at the end of the year, we had 69% of our cash in hard currency denominators in Beer Group and 72% in consolidated Anadolu Efes which is again in line with our prior practices. And our net debt ratio is quite low, it's 0.7x for Anadolu Efes and 0.3x for Beer Group.

Next slide, please. And this one is on the risk management. Just to present key Beer Group hedge figures to you, we have around 66% coverage for aluminum exposure of Turkiye and CIS countries. And regarding FX exposure, we have hedge coverage of coverage of 89% in Turkiye and 100% in Russia.

So that ends my part of the presentation here and I hand over back to Onur. Thank you.

Onur Alturk

Thank you.

I'm sure we have just emphasized before our priorities, but let me underline our strategic core priorities and what it's going to be for 2024. Actually, our strategic priorities will not change in 2024. Our corporate strategic focus on reaching millions of consumers across different cultures, geographies, continents, and profiles through our rich product range.

We aim to respond to changing consumer preferences with our innovative approach and diversified portfolio. Our journey is guided by four strategic focus areas supported by the three accelerators to achieve our goals. Our growth will be driven by a consumer-focused, consumer-centric brand portfolio, strengthened by innovative launches. We are very committed to our operational excellence, enhancing both the quality and efficiency of the production process.

And geographical expansion remains a key goal for Anadolu Efes, with growth pursued through acquisitions and mergers in new markets. Yet, our primary focus is to continue our deal process in Russia and Ukraine. We prioritize our maintaining and developing our talents, of course. Financial discipline is indeed core focus to our strategy, ensuring a profit-driven growth while enhancing value to our shareholders. We will continue embracing digitalization and data-driven analytics in order to improve our way of doing business.

And our sustainability efforts will continue to be focused on achieving net-zero emissions, enhancing social impact and promoting equality and diversity in the workplace.

As we look towards the year 2024, I want to provide an update on our guidance. In January, we shared our initial '24 guidance, which did not include the impact of TAS29. We are now working on providing an updated guidance that incorporates TAS29. But apart from that, I am pleased to share that the year has begun strongly, and our early results indicate that we are on track to meet our objectives in 2024. We are conscious of similar challenges that persist from the previous year, macroeconomic, geopolitical tensions, high inflation, and currency volatilities. However, I want to confidently say that we are well-prepared, as we have implemented the necessary measures to mitigate risks and seize the opportunities as they arise.

I think that's it for the summary. Thank you for listening to us and thank you for your interest. I think now, we are ready to take questions if there are any.

Questions And Answers

A - Asli Kilic Demirel

Thank you. There are a couple of questions. Let me start with the first one. Could you give an update in regards to the current status of the acquisition of JV stake of ABI Efes in Russia? What percentage of Beer Group's cash is in Ukraine and Russia?

A - Onur Alturk

Let me take the first part of the question then I will give the ground to Gokce. The deal is working. It's work-in-progress. We are very optimistic about it. No bad news done this one and now we are still waiting for the approval of the subcommittee of the Russian officials. And the percentage of the Beer Group's case, Gokce?

A - Gokce Yanasmayan

I think, again, we can give a percentage around 60% or so. 60% to 65% of our cash is in Russia and Ukraine of Beer Group.

A - Asli Kilic Demirel

There is another question from Evgenia. Thank you for the presentation. Could you please elaborate your expansion plans or M&A plans?

A - Onur Alturk

Thank you for the question. Actually we are looking for other countries that our partner CCI has footprint on. But yet again, our priority remains the same. So first of all, we want to close the deal in Russia and Ukraine, and then afterwards, we will be looking for opportunities, especially in the countries that CCI has footsteps.

A - Asli Kilic Demirel

The next question comes from Hanzade. Could you please provide an update on the trading environment in Russia and Turkiye and how it compares with your guidance so far? The second one is already answered, I'm not reading it. And the third one, do you see any cash flow pressure or upside from working capital?

A - Onur Alturk

So let me take the Russia and Turkiye environment then I will again leave the grounds to you, Gokce. For Russia, the year started with a strong growth in industry and we have been outperforming the markets up until now. So we have noticed that competitors are making some changes in their product portfolios, including rebranding, redesigns. But our main challenge remains the same as pricing. We implemented a price increase at the beginning of the year which was partially accepted by our outlets, sales outlets with the main retailers, and our prices are relatively higher than those of our competitors.

And while we have had a promising start to the year, the key factor which will affect our profitability in '24 will be how retailers will respond to our pricing and their acceptance percentage, of course. Additionally, a fluctuating commodity prices could also impact our profitability. Overall, the year has exceeded our initial expectations in '23, and with these strong starts, I think we are very optimistic in

Russian markets. But challenges are there. Pricing will be our number one priority will be closing deal and the next one in the field will be pricing.

When we look at Turkiye, the beer operations in Turkiye have shown impressive growth over the past two years. So we have a strong base. As mentioned in the previous statements, we want to be cautious for '24 due to high base of the last two years, of course. And also as we all know, the significant inflationary environments affecting our consumers' purchasing power, pocket money, disposable income and everything. However, there are potential catalysts such as anticipated increase in domestic and foreign tourism numbers. We are expecting a good tourism season this year. And the year began largely in line with our expectations and we are well ready for the year with a slight slowdown in January following the priority adjustments. But when we look at year-to-date numbers in January and February, we see mid-single-digit growth in Turkish business.

So after the effect of Ramadan with the beginning of Bayram, we are very optimistic in Turkish operations as always. And also as we all know, as you all know, we have a very diversified portfolio in Turkiye markets. So we are still investing in our brands, brand equity and our portfolio. I think it's going to be a successful year for Turkiye again. And, Gokce?

A - Gokce Yanasmayan

Working capital wise, I can comment on the numbers with no inflation for the time being. In our initial guidance, we were seeing a small improvement in our working capital number without TAS29. With TAS29, we still have to work because there are many, many different factors impacting that number by the era.

A - Asli Kilic Demirel

The next question is regarding Russian dividends. Can you please provide an update on the Russian dividend?

A - Gokce Yanasmayan

Well, I mean, as we've been communicating so far, we are very focused on closing the deal first. This was our priority, strategic priority. Once we close the deal, dividend distribution will be in our focus.

A - Asli Kilic Demirel

Could you please elaborate the net loss in the fourth quarter without TAS29?

A - Gokce Yanasmayan

Yes. The reason of that is the hard currency denominated cash we've been holding in our Russian operation. In the fourth quarter, ruble appreciated, so that created FX losses more than we assumed for. So that's the reason.

A - Asli Kilic Demirel

Company strategy on volumes and pricing in high inflation environment. Will you continue to increase prices in Turkiye like you have in the past? We're seeing some volume decline. How will you balance profitability and scale?

A - Onur Alturk

Let me take this one. Actually, in the first two months of the year, we are growing in terms of volume, as I said, mid-single-digits volume growth. So in January, as you can remember, we have a good pricing in Turkiye. So in an inflationary environment like this, we will be, of course, looking for our consumers' confidence and purchasing power. But yet still, we have to be pricing up.

But again, we have a very diversified portfolio with so many segments in Turkiye. I think we have very good products, very cool products in each segment, in each price segment. So in Turkiye, we don't want to dilute our margins. We will work on this one again. Yet again, it's going to be a balanced approach, of course. Looking out that our consumers' purchasing power will be a priority for Turkish business sure.

A - Asli Kilic Demirel

Thank you. What's your CapEx guidance for '24? How are you planning to finance the AB InBev acquisition?

A - Gokce Yanasmayan

The CapEx guidance for '24 and adjusted for TAS29 is high-single-digits actually, we can say. And the finance of the acquisition, as we had announced, there will be no immediate payment. So we are not going to be talking about the finance plan.

A - Asli Kilic Demirel

Currently, we don't have any more questions. Let me remind once again, if you are planning to ask a question, please write down your questions. Otherwise, we can conclude the presentation. Maybe let's wait four or five seconds. That seems no. Thank you for participating.

A - Gokce Yanasmayan

Thank you.

A - Onur Alturk

Thank you. Thank you for listening us.

A - Gokce Yanasmayan

Thank you.

A - Asli Kilic Demirel

This concludes our presentation.