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Q1 2020 Earnings Call

Company Participants

- Asli Kilic Demirel, Investor Relations Manager
- Can Caka, Chief Executive Officer & Beer Group President
- N. Orhun Kostem, Chief Financial Officer

Presentation

Asli Kilic Demirel {BIO 19904189 <GO>}

Ladies and gentlemen, welcome to Anadolu Efes First Quarter 2020 Financial Results Conference Call and Webcast. My name is Asli Demirel, and I'm the Head of Investor Relations of Anadolu Efes. Our presenters today, Mr. Can Caka, Anadolu Efes' CEO; and Mr. Orhun Kostem, Anadolu Efes' CFO. All participants will be in listen-only mode. Following the press part of this presentation, there will be a Q&A session and you will be able to write down your questions around the question box over a reps 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 the forward-looking statements.

Now I'm leaving the ground to Mr. Can Caka, Anadolu Efes' CEO. Sir?

Can Caka {BIO 16475025 <GO>}

Thank you, Asli. Hi, everybody. Good afternoon to all, and good morning to those in the US. Welcome again to Anadolu Efes first quarter 2020 results conference call. Hope all of you and your families are all safe and well. As we are going through some unprecedented and challenging times, I would like to take this opportunity to thank my colleagues who work to ensure business continuity and for their dedication and hard work throughout this very difficult period of time. I hope soon, we can all get some normality as soon as we can.

Through the presentation, I would touch base on how the year started for us to be able to give you a highlight of the immediate impact and discuss how we manage the impact of the outbreak and what measures we have taken so far, and then, as usual, give some more highlights regarding the first quarter results.

We have started the year with a strong volume growth, where we have seen our volumes increasing by 13% year-on-year in the first two months of the year. We follow our sales performance in two dimension, one of them is selling, which is our primary sales to our

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dealers and distributors directly by Anadolu Efes; and the second dimension is the sell-out numbers, which are -- which is the secondary sales from our dealers and distributors to our sales points. Right before the break of the pandemic in our region, which I would say, as of -- by mid-March, as it reached to Turkey, we had very strong sell-out growth in every other country. Our sell-out performance was stronger than the sell-in performance with no exceptions at all. This was helping us optimizing the stock levels for our dealers and distributors especially for Turkey before the start of the Ramadan -- the holy month of Ramadan.

We have maintained or gained market share in our markets. And we have continued to increase our touch with our consumers despite the first quarter being a low season where we have already -- where we were already observing the benefits as indicated by the volume generated until mid-March. From mid-March onwards, obviously, we started to see the impact of the outbreak. There were quarantines, lockdowns across all our operating regions, among which Russia has been impacted the least and the latest as well. Governments imposed several restrictions such as on-trade ban, social distancing, no social gatherings, which inevitably had impacted our business starting from the second half of the month. Unfortunately, Turkey beer has been the most impacted operation, where the share of on-trade was the highest and is the highest as well.

Next slide, please. We have commenced the preparations before the outbreak reached to our region. As it grew in China and moved to Europe, we set up crisis management teams. We had also cooperated with our partners, Anheuser-Busch InBev and the Coca-Cola Company, getting their learnings and experience in China and Europe to prepare ourselves for the crisis in advance. And yet at the very beginning, we have set our priorities in three areas. The first one is certainly our people. Protecting our people, ensuring the health and well-being of our employees was and is still our first priority. The second one is to sustain our business, making sure business continuity across all geographies that we operate and making sure the liquidity is -- our liquidity covers the period as we expect. And the third one is supporting the communities that we live in as we go through these difficult times.

Let me give more details on how we managed our priorities in the following slides. First, in a nutshell, I can proudly state that Anadolu Efes has adopted itself very quickly to this new reality and ensured all priorities are achieved. As you see, we have switched to remote working across all our operations where feasible. And I'm very happy to report that our infrastructure supports this new operating model without any interruptions. We have taken all measures in line with the government's instructions, and yet we have taken further steps as part of our pandemic plan as well. Our salespeople have decreased their frequency of field visits, and they have also switched to remote working from time to time, assisted by technology with no interruptions in the order taking and delivery.

In terms of production and supply chain, I'm very happy to say that we had no interruption in our production in none of our operations and we have put in place cross brewing plans to ensure continuity, if necessary. We had no trouble or shortage in terms of our raw material supply, and we made coverage plans for our raw materials as well as for packaging and auxiliary materials for the period as we have anticipated.

We have taken enormous measures to protect our sales and delivery teams on the field. As a result, we have not seen any cases within our team. In certain cases, we have lowered frequency of our visits and provided certain days off to the sales team as well. We have also implemented alternative order taking methods through online and telesales. In the absence of on-trade, we have increased our visibility in off-trade and modern trade in order to support the consumer too. On the consumer side, in line with our commitment to digitalization, we have also increased our touch with our consumers digitally in the period. We had organized online live concerts, which have taken a lot of attention. All efforts were converted to digital platforms, ensuring providing joy to our consumers online and continue to be a part of their lives.

We were quite successful until now, and yet we are aware that there are challenges that we need to tackle with. As a part of the measures that governments have taken, on-trade sales have been -- has been banned since mid-March in all of the regions. This has obviously impacted all of our operations at varying degrees. Turkey beer has been the most impacted one as a result of the fact that on-trade sales make in a quarter of our volumes in Turkey. In international operations, the share of on-trade is relatively limited compared to Turkey, low single digits in Russia and Ukraine and high single digits in other ABI countries. We also expect off-trade to compensate on-trade sales losses up to a certain extent, especially in international markets. We have reserved some pressure related to this on-trade sales than in first quarter, yet we expect second quarter to be more impacted as we go to. And moreover, since Ramadan is in the second quarter as well, we were already planning for lower volumes in Turkey and Kazakhstan during the Ramadan period.

In order to mitigate the impact on our profitability, we have suspended all uncommitted and discretionary OpEx immediately. We have also canceled or postponed capital expenditure items that are not immediately necessary for the continuity of the business. We already had a zero-based spending program in Turkey and already launched a number of initiatives to address the cost of production and cost of sales at the start of the year, all of which were quite helpful for us throughout the period as well. We have extended these programs as a part of our crisis management. As we are approaching to the summer period, we are keen on continuing our production with know-how during the high season as well.

As mentioned before, supporting the communities that we live in was one of our top priorities. In order to contribute to the communities, we have collaborated with the associations and local authorities in order to support people who are in need. We have supported government initiatives. We have supported employees who lost their jobs and heavily impacted as a result of the closure of on-trade sales points in Turkey, Georgia and Kazakhstan. In Russia, we have manufactured sanitizers at our production sites for free distribution among medical and social institutions. We have also donated disinfection liquids and medical ventilators in Moldova and Ukraine. We have provided hygiene equipments and sanitizers to communities, to the health sector workers in every other country. We have provided, again, refreshments, hot meals, grocery support to seniors again and, again, health sector workers in many of the countries.

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Looking at first quarter results, Anadolu Efes' consolidated sales volume increased by 3.7%, benefiting from the strong growth delivered in international beer operations as well as the support from soft drink operations. Turkey beer was under pressure, especially after mid-March, due to the impact of on-trade sales ban as a result of the outbreak. As I mentioned previously, the share of on-trade is -- in Turkey is the highest among -- of all our beer operations. Therefore, Turkey beer has been the most impacted. Consolidated revenues outperformed volumes as a result of higher prices per hectoliter, although pricing has been under pressure in the period.

Revenue growth also benefited from the positive translation impact as a result of devaluation of TRY against hard currencies. We reported a 3% decline in our EBITDA during the quarter. The decline is a result of the negative EBITDA in the Beer Group during this smallest quarter of the year, which has been impacted by the volume decline, pricing pressure as well as higher OpEx spend. Soft drink operations contributed positively, and its margin has improved in the period compared to the last year. We have recorded a net loss of TRY84 million, but the bottom line was better than last year. The improvement in the bottom line, compared to the last year, is attributable to lower financial expenses as well as FX gains, which was recorded as a result of repatriation of cash from our international operations to Anadolu Efes.

Free cash flow was negative in the period where our business in both segments tend to generate negative free cash flow in the first quarter of the year because of the seasonality. In Turkey, we actually delivered a much better free cash flow than our preliminary expectations through the quarter. In international beer, we delivered negative free cash flow as well, but again, this was in line with our plans. Orhun is going to go over the details in the coming slides. As a result, our net debt-to-EBITDA during -- as of the end of the quarter was 1.5 times.

Regarding our beer business, the volume growth was almost 4% in the first quarter, reaching to 7 million hectoliters. The growth was driven by our international operations, where all of our beer operations have brought deliberate significant growth except for Kazakhstan. You can also see the breakdown of our low beer volumes on country basis where almost -- now almost 90% of our beer sales volumes was generated outside of Turkey and international markets.

In Turkey, we started the year strong, where our sales -- sell-out volume performance was much better than the sell-in figures. The performance in first half of March was even above our expectations. However, our volume showed significant decline following the measures taken regarding the outbreak on which this -- the on-trade sales ban was the most impactful.

In terms of the competition front, I can happily say that our market share has been stable in the last nine months. International beer operations had a strong performance this quarter as well, where the volumes increased by almost 8%. We have delivered volume growth and outperformed the market in both Russia and Ukraine, which resulted in further market share gains. Market share gains were mainly on premium and mainstream segments. Furthermore, Moldova and Georgia performed better than our expectations despite the impact of the outbreak in March.

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Before I leave the floor to Orhun, a couple of words on soft drinks as well. Consolidated sales volume increased by almost 4% in the first quarter, similarly, benefiting from strong performance of international volumes that there was -- the volume growth was again similarly 7% range in the period. Turkey volumes were flat in the period. On the other hand, sparkling category showed more than 4% growth. The share of immediate consumption packages has declined as a result of shutdown on-trade sales points for soft drinks operations as well. Central Asia showed double-digit growth in the first quarter of the year. Pakistan volumes increased by 6.5% despite deteriorating macroeconomic environment in the country, where the first two months volume growth was even above 30% range. Middle East volumes declined as a result of lower oil prices as well as measures imposed by the governments because of the COVID despite a strong volume momentum at the beginning of the year.

Now I hand over to Orhun for his financial review.

N. Orhun Kostem

Thank you, Can. Good morning, and good afternoon, everyone. First of all, obviously, I'm hoping you and your loved ones are well and in good health. We are going through some very interesting times as the Chinese proverb say. So this time, before going into the results of the first quarter, we just want to tell you a little bit about our balance sheet and what to expect from that perspective.

Now, we ended 2019 with a record high free cash flow and net debt-to-EBITDA of about 0.9 times on the beer side, about 1 time on Anadolu Efes. So we started the year quite well. As Can was explaining, and even though we didn't have any price increases in Turkey, the volumes, especially on the sell-out was building up quite nicely, which suggests that our receivable management, our working capital management in Turkey was also following the same momentum that we had seen in the second half of 2019, probably see the good -- better-than-expected cash flow results for us.

Now what we have done, starting from March, and obviously, we have simulated and made scenarios of what to expect across all operations in second quarter and beyond to make sure that from a liquidity point of view, we were safe and we actually taken all precautions to ensure that we didn't have any issues in the second quarter. And mind you, obviously, in the second quarter, when we were making our plans, we are also looking to distribute dividends.

So the net debt-to-EBITDA numbers that you see here at the end of the first quarter, which is 2 times for Beer Group and 1.5 times for Anadolu Efes, it's pretty much in line with our long-term funding principles. But it's a bit inflated because in the month of March, we have made sure that we front-loaded our funding structure to ensure that we covered all our funding requirements for the second quarter. So it's more like the first quarter EBITDA, some on the second quarter borrowing. Having said that, obviously, we currently have cash balances that cover our short-term financial debts for at least next 12 months, so we were quite comfortable in that sense. And a significant majority of the cash is held in hard currency. We have -- again, you may remember in the last quarter of 2019, we have refinanced two tranches of long-term debt. At the start of 2020, we have closed down 1

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outstanding long-term debt. So in 2020, we don't have any maturing long-term refinancing needs. Currently, the maturity in the Beer Group is 1.9 years and 2.6 years for Anadolu Efes. Now we see the largest pieces that mature is in 2022 for the Beer Group, that's Eurobond and for Coca-Cola Icecek as well, they're maturing Eurobond the year after. As I said, we have secured our liquidity under the worst possible scenario that we have imagined. But we continue to obviously adjust ourselves given how the actuals are coming versus how the plan was. So if need be, we're adjusting our requirements. And that, obviously, we have a serious amount of uncommitted credit lines as far as I remember should be over $700 million, which we have not yet tapped into in addition to other funding resources.

I'm sure also at -- on the other hand, the -- following that the Turkish lira is moving very swiftly against the dollar and likewise, ruble is -- has moved quite aggressively as well. In Turkey and Russia, these are the two, of course, largest markets of operations for us. For the short-term FX exposure, which means our cost of goods sold and operating expenses, we're more than 90% covered in Turkey. I think the real number is actually over 95%. And in Russia and Ukraine, we're covered to 100%. So we don't see any serious volatility in our P&L coming from there this year.

We also are hedging our commodities. Aluminum, we were hedged 60% in Turkey, 40% in Kazakhstan. And we're fully hedged in Russia and Ukraine for that metric. And we -- as you know, our route to market suggests the majority of our sales volume goes through distributors and dealers. And our receivables through our distributor dealers are secured and the bank debtors of guarantees and other forms of security, except in those places where there is no reasonable credit term, which means you're mostly working on cash basis. So our collection risk, hopefully, will -- would be at a minimum going forward.

Now if we come to the first quarter and start talking about debt. For Anadolu Efes in general -- obviously, you're seeing yesterday, Coca-Cola Icecek has announced a robust set of results for the first quarter. And as Can was underlining, so over -- and the volume growth in net sales have been growing by 15%. And this assumes -- obviously, this accounts for the impact of the nonready-to-drink sales, lower than sales volume that goes into Anadolu Efes was comparable. The gross profit was up by about 11%, but the EBITDA was down, and that's mostly attributable to Beer Group performance.

In the Beer Group, it's fair to say that if you look across our markets of operation, we need to talk a bit more about Turkey and Russia because in all other markets the EBITDA was growing faster than the revenue, which was growing faster than the volume. That's true for Kazakhstan, Moldova, Georgia, Ukraine as well. In Turkey, again, as there was no excise tax increase at the start of the year, we didn't also have any price increase, which was helping us building quite nicely on our volume momentum as we were preparing ourselves for the season. But having said that, obviously, given that we have a serious impact in the month of March, the volumes came down quite significantly over 20%. So you see the net sales coming down by about 17%.

Our gross profit was down -- I'm going to tell a bit about cost of goods sold in the next page. We continued, actually, in the first quarter to invest behind our brands. You will remember from last year we are increasing our touch points with our consumers with

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events with digital access. The whole communication case has increased. So that was also part of the marketing expenses in the first quarter, but led to Turkey turning from a positive to a negative EBITDA. Similarly, in the international -- on EBI side, you see a 16% net sales growth over 7.7% volume growth. The majority of that is currency translation because in Russia, it's important to note that there is an excise tax increase at the start of this year. Price increase has kicked in somewhere in February, but not to cover in the first quarter. And obviously, in an environment where price increase is not that easy to put forth, given the competitive environment, but we're growing our volumes quite nicely versus the market. And then obviously, seeing a quite good market share momentum. But that top line pressure, obviously, is -- it also -- it has impacted the smallest quarter of the year, and therefore, the EBITDA also has turned slightly negative outside of Turkey. Again, something that Can was saying, this was not necessarily very concerning because that was more or less how the plan was building up for us, given how some of the expenses were building up or some of the volumes were building up throughout the year. So first quarter until mid-March was going quite nicely. Obviously, that's until the impact of the COVID weakness and have us changed much of the plans going forward.

So on the next page, if we dive a little bit deeper into the EBITDA, we talked about volume decline and no price increase in Turkey and the excise tax and pricing in Russia that's impacting the revenue piece. Under the cost of sales, actually, this is the normal increase of the cost of sales. Obviously, if you look at Turkey, key raw material prices have been increasing by about 15%. Thus, our cost base devaluation because almost everything is hedged, was about 9% in the first quarter. So not necessarily anything quite high, but nevertheless, obviously making a difference. And outside of Turkey, again, coming from Russia and Ukraine, we're looking at some volume growth, therefore, obviously, flowing into the cost of goods sold line.

If you look at the selling, distribution and marketing expenses, on one hand, we have higher selling and distribution expenses in Russia. That's pretty much in line with how the volumes have been developing, so nothing beyond that. In Turkey, as I was saying, our marketing spend for the past few years have been higher versus the previous periods, and that's behind all the investment and communication we are making to our brands, which is an essential step to ensure sustainability of our business.

And on the G&A, I think what's important to outline as well is as you get -- you will also remember that a big initiative that we had started last year that was our IT and digital infrastructure. And some of the licenses and those expenses are flowing into the G&A, which makes the difference. And through these times, actually, our intention, obviously, is to continue with this change in our digital infrastructure. Again, we feel something quite important to ensure the sustainability of the business going forward.

And if we get to the free cash flow, obviously, there's quite a big swing between the first quarter of last year and first quarter of this year. In addition to EBITDA, I think the major item was the change in the working capital. The CapEx is pretty much in line. There's only about $2 million difference between the two quarters. So there's not much to say. But if you look at the working capital change, first of all, obviously, one-third of that is due to translation. That's how the top line devaluation was moving (inaudible). And the rest mainly is driven by the payable structure for our joint venture business. As you will remember, a joint venture yields a negative working capital, which is very nice. However, obviously, their payment terms are quite different to our other operations. And that comes quite disproportionately into the smallest quarter of the year. So most of the payments coming from 2019, which suggests, obviously, they're going to normalize, and that's how it's going to look like in the coming quarters of the year. So that's in transition, even though the swing in the first quarter, obviously, in the free cash -- the swing it generates in the free cash flow is very, very high. And that comes despite the fact that I was saying, especially in Turkey, we're running a very good working capital momentum, especially driven by very good receivable management, which I believe would be quite helpful for us in the second quarter as well, when obviously we're going to feel the impact of the COVID even much higher.

So with that, I will turn back to Can.

Can Caka {BIO 16475025 <GO>}

Thank you, Orhun.

Until now, we've been going through the challenges that we are facing and as well as the measures that we are taking in order to overcome with these challenges. And obviously, needless to say, there are so many uncertainties ahead of us. Considering these uncertainties, like the duration of the outbreak from now on, its further impact on the economies as -- and as well as the impact on the consumer behavior, we withdraw our guidance for 2020, which we shared at the beginning of the year. And however, at the same time, we prepared various scenarios. And based on the scenarios that we have worked in order to ensure the proactive management for any possible outcome, we would like to share a few details which will provide you some color for the rest of the year.

In terms of beer volumes, we are expecting volumes to decline as of today with -- as of our current understanding, to decline by low double digits on an annual basis. The measures taken like savings and decreases in OpEx and CapEx, obviously will support our P&L and free cash flow to a great extent, where we expect the full-year EBITDA margin contraction without any question to be less than -- significantly less than the first quarter contraction. And in terms of capital expenditures, we expect capital expenditures to be lower than that of last year on a nominal basis. And however, because of the lower revenues as well, we do not anticipate our CapEx to sales ratio to exceed or to be more or less in the same level like what we had last year.

As noted, there are so many ambiguities and risks ahead. Obviously, the duration of pandemic is not clear yet, the extension of -- there are some easiness in terms of the measures taken by the government. But still, we don't -- we are not -- we don't have the certainty with respect to the duration of the pandemic extension of primetimes and curfews as well as -- or the on-trade ban, which will be very crucial for the performance of our businesses for the rest of the year.

Furthermore, the economic conditions, the unemployment levels, which can directly affect consumer confidence and household spend would also be crucial going forward.

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Working capital management as well as the liquidity continue to be in the core of our focus. We would obviously continue to follow all the developments, try to reflect necessary measures for our business going forward, and we would be able to provide more highlights and more granular guidance as we sail through these uncertainties.

As our business adapts to the new normal, we have taken all the necessary measures immediately as we discussed during this call, and we are managing the crisis by adjusting our business to these new dynamics. We are building our strategy to the new normal by leveraging our learnings from the crisis. We are now assessing our value chain from brands to procurements, supply chain without sacrificing from our commitment to the financial discipline. And trying to -- speaking as of today, it's -- the priority is to have more clarity, to more understanding with respect to the new normal update, which we return back to offices, we return back to the some normality. And I'm confident that together with my team, we will be able to cope with the challenges that we are facing, and we can leverage the impact of the crisis to emerge out of this period even stronger.

Now we are ready to take your questions. Thank you very much for your listening.

Questions And Answers

A - Asli Kilic Demirel {BIO 19904189 <GO>}

Thank you very much. (Operator Instructions) There is a question, an analyst question. Let me read it. What beer volume correction you see in April and May, internationally and in Turkey?

A - Can Caka {BIO 16475025 <GO>}

Well, obviously -- I mean, first quarter, we have seen the impact only starting by mid-March. So in that perspective, basically, April volumes were worse than March volumes. And frankly speaking, I mean, with the impact of the measures for the -- reflecting for the full month. And obviously, in every other country, regardless of made this on -- made on-trade sales of almost zero. We had certain, let's say, channels open, but we can say significantly below last year. And off-trades, obviously, as I tried to mention, the proportion of on-trade sales in every other country has different levels. In Turkey, it's a quarter. In Russia and Ukraine, more or less than 5% for our sales volume. So the impact is different. And also the consumer -- let's say, reflecting the consumer dynamics behavior and the per capita consumption, the channel split again with respect to the traditional off-trade and modern trade makes a lot of difference, especially in countries like Russia where modern trades has much higher proportion within the offtake. With the consumers moving to modern trade, trying to file this -- a little bit or so for home consumption, we have seen modern trade increases covering the losses from the on-trade so with different varieties. But overall, I can say, obviously, the second quarter volumes would be, with respect to the comparison (inaudible) versus the last year, would be worse than the first quarter because of the -- we will see the impacts full for the quarter, I would say.

A - Asli Kilic Demirel {BIO 19904189 <GO>}

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Another question regarding Russia. What downside risk do you see in Russia after the ban of beer sales in residential houses from early May? And do you see other regulatory risks in Russia?

A - Can Caka {BIO 16475025 <GO>}

Well, obviously, the governments are trying to have -- implementing lots of measures in order to reduce the mobility so that they reduce the contamination of the virus. So we have seen different measures taken based on the developments of the rate of transmission of the viruses continue. And for those countries, like many countries in Europe and Turkey as well, we are seeing that the governments are now taking a little bit more easiness and smoothening the measures taken, so on and so forth.

So it's the balance with respect to the rate of transmission and ensuring that the public health is protected. So in that perspective, it is very difficult to make any forecast, what could be the next measure, what would be the next measure. But the good news, the good -- the experiences that we see, let's say, in six, seven -- six to eight weeks, you see with the measures taken, the on-trade ban with the limitations of mobility, closure of -- social distancing rules and closure of schools, they're all helping. And we have seen -- like in Turkey, we are reaching to the peak. And then we are starting to talk about the smoothening -- easing of the measures taken.

So probably for the rest of the -- our international operations, we haven't seen the peak yet. But again, the governments in many countries, like in Kazakhstan and Georgia, in Moldova, where we are already discussing, they are already planning and implementing the eases. As I mentioned, Russia was the latest -- had the latest -- was the country that has been impacted latest, so the measures are continuing. So again, frankly speaking, it's very difficult today to make any estimates what could be the next limitation, so on and so forth. But we are pretty sure that like the other governments, once they feel and they have the understanding that they've reached the peak, there will be easiness, there will be softening. So we will be able to see, again, a kind of normalization. I think that's what we need to talk about today regardless of the sale -- the impact on sales and so forth.

A - Asli Kilic Demirel {BIO 19904189 <GO>}

Another question, Can you please repeat the amount of credit lines available? Is this fully undrawn? How much is in Turkey versus local to international markets? Are there any maturities on these facilities?

A - N. Orhun Kostem

The available facilities are in excess of $700 million. I believe, including all the businesses outside of Turkey as well, we should be close to $1 billion. But obviously as you know, these are uncommitted facilities. But in any case, I wouldn't expect us to use this much or maybe a little fraction of that. So the maturity on these depends because it depends on our appetite, on our risk perception as to how we would like to proceed.

Currently for 2020, as I said, we don't have any long-term refinancing needs. So we have, let's say, front-loaded our funding for the year through, let's say, 3-, 6-, 9-, 12-month installments. So basically, nothing for the long-term yet. Going forward, either where we need to see things are moving relatively well, then we wouldn't be in need of incurring incremental debt or if we feel that things are not moving well and getting worse, we may actually package some of them and make them longer-term debt, but that we will need to see how the business does.

A - Asli Kilic Demirel {BIO 19904189 <GO>}

Another question regarding Russia again. Could you please elaborate on the competitive environment in Russia? Do you expect the price competition to continue in the coming quarters? And how much synergies do you expect to extract this year, if any?

A - Can Caka {BIO 16475025 <GO>}

Well, I mean, competitive environment is quite similar like the second half of last year. I mean obviously, there's some competition. And as we'd taken the lead in Russia, obviously, our competitors trying to rebalance their proposition, their business, so on and so forth. So there's -- obviously, there's competitive pressure in Russia. And together with the impact of the modern trade, I think -- let's say, covering a very significant part of total beer market volumes, it's also contributing to that. And so it is quite competitive, and it will continue to be competitive in the coming quarters as well. You would remember once we had the merger of our business with the ABI -- former ABI business and created the AB InBev Efes business. I mean we have announced that. And synergies, we were expecting somewhere in the range to $80 million to $100 million range to be delivered 100% by Year Three. So in that perspective, we have -- in the third year, we are expecting to deliver 100% of the initial synergy target. And as we initially earlier guided as well, we are more or less on the higher end of this range and even achieve -- overachieving that. So in that perspective, the synergy traction was in the, let's say, a proper track, and we are confident that we continue on that track.

A - Asli Kilic Demirel {BIO 19904189 <GO>}

Any other question? Can you please remind us the undrawn facilities in Beer Group only? Can you remind us when the next annual rating review is due? And how long will it take to revert to high receivables in Russia?

A - N. Orhun Kostem

Thank you. Actually, the numbers I was referring to were exclusively to the Beer Group. I mean, I'm sure CCI must have at least -- by definite, I can't tell the exact number. But these are the numbers I'm talking about that are exclusive to the Beer Group. Our normal rating reviews are falls in rest of the year. However, I can say that we had touch based with the rating agencies. Obviously, at the start of this, we have shared what we are now sharing obviously with you, the precautions that we've taken, how balance sheet look like, how we'll expect to do under certain, let's say, worst-case scenarios and et cetera.

So we've had that initial contact. I believe that was probably a month, a month-and-a-half ago. I'm pretty sure we're going to continue reviewing based on how the situation across the markets will be evolving. But our normal rating processes would be, I think, in the third quarter and fourth quarter.

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A - Asli Kilic Demirel {BIO 19904189 <GO>}

Many thanks for the presentation. You have provided information on volume contribution to on-trade --from on-trade. Is the contribution from revenues and EBITDA similar or higher than volumes?

A - Can Caka {BIO 16475025 <GO>}

Again, I mean, probably there would be differences from country to country. But again, I don't have the exact numbers right now. I would expect the -- both in terms of -- I mean for the revenues, it would be more like the contribution from on-trade sales would be very, very much similar to the average numbers. I wouldn't expect much of a difference but maybe slightly below. But when it comes to the EBITDA, like in on-trade, profitability is obviously lower than the average profitability because of the investments to do on-trade because of the arrangements with the on-trade accounts.

A - Asli Kilic Demirel {BIO 19904189 <GO>}

What was the market share in Russia in first Q? And how it changed from -- for Carlsberg?

A - Can Caka {BIO 16475025 <GO>}

Well, I mean, we gained some market share, so -- compared to the end of last year. And not only -- I mean our understanding, obviously, not only Carlsberg, our all other competitors lost some market share as well. So that is our reading for the first couple of -- for the first quarter for the year.

A - N. Orhun Kostem

Asli, sorry, I missed the question. That was actually a question in a question, and it was asked about how -- when the normalization of receivables in Russia was expected, I think the question was something like this, apologies. It's actually not receivables. These are the payables -- trade payables for the business. And then they're going to normally phase throughout the year, obviously, quarter-by-quarter. So that's why it's just a normal ongoing phase of the business. It's not a buildup of payables specifically.

A - Asli Kilic Demirel {BIO 19904189 <GO>}

We have a last question, it's a long one. Hello and thank you for the (Multiple Speakers) hello and thank you for the presentation. First of all, could you please give us some color around competition and pricing strategy in Russia in first Q and second Q to date? With on-premise sales comprising only 5% in Russia, how would you describe demand for beer in Russia since mid-March? Assuming that demand is fairly high and pricing is relatively healthy, I would imagine that EBITDA margin should expand in second Q. Does this logic sound fair to you? If not, what are the factors that could potentially offset the positive margin expansion dynamic? Perhaps you experienced high sanitation costs and/or potentially lower output in factories due to COVID-19 and the need for social distancing. Thanks.

A - Can Caka {BIO 16475025 <GO>}

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Thank you. Obviously, very long question, I hope I'm not going to forget to answer all components. Yes, I mean as you rightly referred to, on-trade is much smaller. I mean that has the smallest proportion within our sales in Russia, specifically. Therefore, up until now since the beginning of the COVID issue, we have seen the offtake -- the off-trade together with modern trade, especially the growth of the modern trade was that we were able to cover the losses on the on-trade. So in that perspective, we were -- we are seeing positive demand dynamics basically in the region. So in that perspective, that's -- that was on -- obviously, at a lower rate, but still on the positive territory, I would say, positively again.

Pricing environments, our plans for this year was going -- we didn't have a price increase at the beginning of the quarter. We had the pricing more or less in the second half of the quarter. So that would be reflected more in the second quarter. And obviously, given the -- our current dynamics, we are -- we will see the impact of this pricing in the second quarter. So basically, I would say, your logic fairly covers -- and that's exactly as Orhun was referring to our plan was every other quarter, building on the revenue, building on the profitability, and building on the cash flow as well. So that's as of today. Again, don't take this as a clear guidance. And -- but there are lots of other certainties like new regulations, new limitations, so on and so forth. And that could be -- the track of the pandemic can change. But as of today, what we have seen up until now is in the right track as we expected.

A - Asli Kilic Demirel {BIO 19904189 <GO>}

There's a follow-up question, but I think you already answered it. Have you observed any trading down since the start of the quarantine in Russia?

A - Can Caka {BIO 16475025 <GO>}

Specifically in Russia?

A - Asli Kilic Demirel {BIO 19904189 <GO>}

Yes.

A - Can Caka {BIO 16475025 <GO>}

I mean let me don't go into the details and it won't be fair, but overall -- I mean for -- it's valid for all countries, for all operations and that's valid for consumers in this period of time when they have certainty, when they have certain concerns and so forth, they tend to rely on the brands they trust more. They tend to rely on the mainstream, strong mainstream brands, so that is the general trend we see while stocking at home for home consumption. Obviously, that is why -- what they are picking up mainly. So in that perspective, again, there are variances in performances of our different brands, but we see stronger demand and strong performance with our large and mainstream brands in every other country.

A - Asli Kilic Demirel {BIO 19904189 <GO>}

We have no other questions at the moment. So --

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A - Can Caka {BIO 16475025 <GO>}

Thank you. So time to close then?

A - Asli Kilic Demirel {BIO 19904189 <GO>}

Yes.

A - Can Caka {BIO 16475025 <GO>}

Thank you, Asli. Thank you all for joining us today, and thank you for your questions and interest and hope to talk to you soon as well. Thank you.

A - N. Orhun Kostem

Thank you very much.

A - Asli Kilic Demirel {BIO 19904189 <GO>}

Thank you. Bye.

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