

Company Name: Anadolu Efes
Company Ticker: AEFES TI
Date: 2018-08-10
Event Description: Q2 2018 Earnings Call

Market Cap: 13,251.32
Current PX: 22.38
YTD Change(\$): -1.82
YTD Change(%): -7.521

Bloomberg Estimates - EPS
Current Quarter: 0.860
Current Year: 0.675
Bloomberg Estimates - Sales
Current Quarter: 4780.000
Current Year: 15589.167

Q2 2018 Earnings Call

Company Participants

- Asli Demirel, Investor Relations Manager
- Gavin Hudson, Chief Executive Officer & Beer Group President
- Onur Cevikel, Chief Financial Officer

Other Participants

- Tarek Al, Analyst
- Cemal Demirtas, Analyst

Presentation

Operator

Ladies and gentlemen, Welcome to Anadolu Efes Beer Operations Second Quarter 2018 Financial Results Conference Call and Webcast. I now hand over to your Investor Relations Manager, Mrs. Asli Demirel. Madame, please go ahead.

Asli Demirel, Investor Relations Manager

Hi, everyone. Welcome to Anadolu Efes Beer Operations' 2018 First Half Results Conference Call and Webcast. Before we start, I would kindly request you to refer to our notes in our presentation regarding forward-looking statements.

Now I am leaving the ground to Mr. Gavin Hudson, Anadolu Efes CEO.

Gavin Hudson, Chief Executive Officer & Beer Group President

Thanks Chessa. Well good afternoon from Turkey and welcome to all. We are certainly happy to report a solid second quarter with 7% consolidated volume and 22% consolidated revenue growth in a pro forma basis. Revenue growth is well ahead of volume driven by all operations through positive brand techniques and pricing. Similarly, we see expanded profitability predominantly from our soft drinks and our International Beer businesses. Despite seasonality and an intensive integration period, we are happy to report positive free cash flow generation in the first six months, plus maintaining our net leverage to EBITDA at around 1.8 times. And this, despite 20% devaluation of the Turkish lira in the first six months.

When we look at our Turkey beer business, quarter two saw significantly better volume and share performance. This driven by ongoing improvements in our market execution, improved tourism, our relentless focus for the expansion in our existing premium portfolio and exciting addition of two new brands to our portfolio. We launched the King of beer, Budweiser at the end of June, which coincided nicely with the Football World Cup. This brand being exceptionally well received in the market and beating our initial expectations.

Additionally, we have added new homegrown brand called Varim in a 450 milliliter can, which is the low-alcohol, easy drinking and well-priced addition to our current portfolio, appealing to the new generation. This is equally performed well ahead of our expectations. We remain very optimistic that are growing and fit for purpose brand portfolio

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continues catering to all our consumers' choices and needs in their respective consumption occasions.

Turning to our International Beer operation, this continued performing ahead of expectations with special mentions for our businesses in Turkey [ph] and Kazakhstan that delivered strong performance in the first six months and has maintained its market leadership position.

In addition, our newly formed business in Russia following the merger of our existing Efes and ABI businesses performed ahead of the Russian market. The local team are capitalizing on our expanded portfolio, the Football World Cup, excellent weather, and of course, greater market execution. The consolidation of these businesses continues despite the focus on World Cup and summer, and we are very pleased with the progress the team has made to date.

Given the turbulence of the Turkish lira, we are receiving many questions on our FX exposure and whilst we will provide more detail shortly, let me iterate, our active hedging initiatives have provided for significant coverage for our operational FX needs in Turkey for 2018. Our liquidity position is strong. We do, however, continue focusing on and monitoring the financial markets to continue mitigating the ongoing risks that we face.

Our focus areas for Anadolu Efes remain largely unchanged. We continue focusing on renovating our core brands, as I'll speak about often, plus expanding our portfolio for ongoing revenue and share growth. We continue driving quality as a non-negotiable across all our geographies and we continue enabling the four pillars of our digital strategy, which is extremely important for us and focusing on our people and the improved capabilities.

Let me hand over to Onur for more details on our financials. Onur?

Onur Cevikel, Chief Financial Officer

Thank you. Thank you for everyone, who has joined our conference call. Good morning and good afternoon, ladies and gentlemen. As usual, I will first start with Anadolu Efes consolidated results. Let me remind you that all the numbers in this presentation, all the numbers include merged ABI Russia businesses second quarter numbers. For comparability purposes, pro forma 2017 numbers are also presented likewise.

As of first half of 2018, our volumes have reached 52 million hectoliters with a growth of 7.3% compared with the same period of previous year. As mentioned by Gavin, this growth is attributable mostly due to soft drinks segment and international beer. Our revenues have reached up to TL8,213.7 million with a strong growth of 19.3%. This increase is mostly due to higher volumes, price increases as well as positive currency translation impact.

Our EBITDA BNRI on a consolidated level was recorded as TL1,313.9 million with a strong growth of 27.2% compared with the same period of previous year pro forma basis. Our consolidated EBITDA margin was 16% with almost 100 basis points improvement. Finally, on a consolidated level, our net loss recorded a TL15 million, limited despite significant devaluation of TL, thanks to net investment hedge accounting implemented.

Talking about our beer growth performance starting with our Turkey beer operations, our volumes were recorded as 2.5 million hectoliters in the first half of 2018, with a decline of 7.4% compared with the same period of 2017. Despite the volume decline, we were able to increase our net revenues by 10.3% reaching up to TL734.9 million, thanks to price increases and positive sales mix.

Our EBITDA BNRI was recorded as TL121.8 million, with a decline of 8.7% and likewise our EBITDA margin was at 16.6% with a decline of 345 basis points, mostly due to higher raw material costs, higher fixed costs due to volumes being under pressure, as well as high OpEx due to new launches.

Talking about our international business, let me first remind once again that these numbers include the merged AB InBev Russian business starting from 1st of April. Our volumes were recorded as 11.5 million hectoliters with a slight increase of 0.7% compared with pro forma numbers of previous year.

Net sales were recorded as TL2,438.9 million with an increase of 16.7% due to price increases as well as positive translation impact. EBITDA BNRI for the international business were recorded as TL289.8 million with a 25.5%

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increase, while EBITDA BNRI margin was at 11.9% with an improvement of 83 basis points.

Finally, our consolidated Beer Group results. Our volumes were at 13.9 million hectoliters with a slight decline of 0.8% compared with the same period of prior year. Our net sales has reached TL3,190.1 million with a growth of 15.2%. Our EBITDA BNRI has reached TL389.6 million with a growth of 13.8%, whereas our EBITDA BNRI margin was at 12.2%, almost flattish compared with the prior year. Finally, our net income was 70 million for our Beer Group results, despite the strong devaluation of TL.

As you all well know, free cash flow generation has been our major priority for our Beer Group as well as Anadolu Efes for the recent years. Our free cash loan generation for the Beer Group was at TL164.4 million (sic) for the first half of 2018, including AB InBev Russia numbers from 1st of April.

In the light of the current market environment, we are also taking continuous steps proactively managing the headwinds, we are mostly hedge for our operational FX exposure for second half of 2018 and have some hedges of around 30% of exposure for 2019 for our Turkey business, also some commodity hedges all in place for 2018.

As you all know, we had started implementing net investment hedge at the beginning of 2018. It is important to again mention that as of January 1, 2018, another FX-designated US denominated bond of USD500 million and as of April 1st, that's euro loans in the amount of EUR100 million, as an hedging instrument in order to hedge its foreign currency risk arising from the translation of net asset of its subsidiary in Netherlands EBI.

Therefore, the gains and losses on the hedging instrument arising from change in foreign currency evaluation relating to the effective portion of the hedge are, and will be accounted on their equity in gains or loss on hedge and other comprehensive income or loss related with the hedges of net investment in foreign operations in other comprehensive income statement. CCI also started implementing net investment hedge starting from second quarter of 2018.

And talking about balance sheet flexibility, on a consolidated Anadolu Efes level, net debt to EBITDA BNRI was at 1.8 times, whereas on the Beer Group level, we had comfortable 1.6 times, despite the significant devaluation of TL. Also, important to say that most of the cash is held as hard currency and above 80% of the debt is fixed interest rate.

On the liquidity side and maturity size, we have easily manageable debt repayment schedule with around four years of average maturity on a consolidated level, which is very important during this volatile times. Continuing with the free cash flow at a consolidated level, we were able to generate a positive free cash flow of TL46.7 million, despite the increased CapEx in the first half of 2018.

Going forward, free cash flow management and balance sheet management will continue to be a significant priority for the company. And finally, talking about the financial priorities, which hasn't changed much and which has been included throughout the presentation, improving the efficiency, managing the headwinds and the volatility, grow consolidated cash flow and deleveraging with commitment to credit rating.

So, this concludes my presentation. I will hand over to Gavin for his final conclusion remarks.

Gavin Hudson, Chief Executive Officer & Beer Group President

Thank you. Thank you, Onur. Our long-term priorities also remain unchanged. We continue to generate value by margin improvement and our free cash flow generation through our ongoing priorities, and I won't take you through the details.

When we look at 2018 guidance, before the completion of our emerging Russian, we provided guidance on the standalone basis. This is subsequently revised to reflect the new operating structure and you will find the 2018 guidance details in the presentation. Our expectations are low to mid-single-digit volume growth on a consolidated basis, with beer volumes expected to be slightly lower by low single-digits on a pro forma basis. We expect net revenue to outperform volumes in all our business lines, and our consolidated EBITDA will grow in absolute terms, on a pro forma basis with a slight decline in margin.

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I'd like to thank you. I'll now refer back to our host to facilitate any questions you may have for Onur and myself.

Questions And Answers

Operator

Thank you. We will now start our question-and-answer session. (Operator Instructions) We have a question from Tarek Al [ph] from Goldman Sachs. Please go ahead.

Tarek Al, Analyst

Good afternoon and congratulation on the set of results. I had a quick question around the net investment hedging, would be really helpful if you could just provide some color around how that works?

Onur Cevikel, Chief Financial Officer

I'm sure that is not a financial or bank hedge as we had mentioned. The way it works is, we are having a liability on our balance sheet, which the fixed translation gain and loss is going to be recorded under the equity of our balance sheet due to the fact that the cash flows that are going to be generated through our subsidiary in ABI is going to be used as a hedging instrument for that. That's why it's not going to be applying into the income statement, whereas it's going to be followed under the equity. So, that's the way it works.

Tarek Al, Analyst

Thank you.

Operator

(Operator Instructions) We have a question from Cemal Demirtas from Ata Invest. Please go ahead.

Cemal Demirtas, Analyst

Thank you for the presentation. I recently joined the meeting, maybe I missed this, I might be missing the answer. But I would like to understand how you -- how do you see the outlook for third quarter both in Turkey and domestic market, Turkey and international markets, especially in Russia? Thank you.

Gavin Hudson, Chief Executive Officer & Beer Group President

Obviously, we currently dealing with quite a bit of volatility on the exchange rates in the markets. You know, our guidance remains unchanged and we are optimistic. Our trading is up. We are optimistic in terms of our trading in both Turkey and Russia. As you know, we've just put the two businesses together in Russia and we are busy with the consolidation. And whilst, our synergies are relatively small for this year, you know, we are focusing on underlining those businesses and obviously, ensuring that we trade as strongly as we possibly can. So, our outlook remains unchanged for the third quarter and the balance of the year.

Cemal Demirtas, Analyst

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Thank you.

Operator

(Operator Instructions) We have no further questions. Dear speakers, back to you for the conclusion.

Gavin Hudson, Chief Executive Officer & Beer Group President

First of all, thank you once again for everyone for joining. Not too many questions today, that's a good sign for us. As always, we, you know, the team are available, if you want to engage further down the line. Thank you for your time and we appreciate the Friday afternoon with us or morning, wherever you maybe. Thanks team. Thanks very much.

Onur Cevikel, Chief Financial Officer

Thank you, all. Thank you very much.

Operator

Ladies and gentlemen, this concludes our conference call. You may now disconnect.

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