

Company Name: Anadolu Efes
Company Ticker: AEFES TI
Date: 2019-11-06
Event Description: Q3 2019 Earnings Call

Market Cap: 11682.2365679
Current PX: 19.7299995422
YTD Change(\$): -0.870000457764
YTD Change(%): -4.223

Bloomberg Estimates - EPS
Current Quarter:
Current Year: 1.527
Bloomberg Estimates - Sales
Current Quarter:
Current Year: 23306.714

Q3 2019 Earnings Call

Company Participants

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

Other Participants

- Selim Kunter, Analyst
- Nikolay Kovalev, Analyst
- Hanzade Kilickiran, Analyst
- Ece Mandaci, Analyst
- Edward Mundy, Analyst

Presentation

Operator

Ladies and gentlemen, welcome to Anadolu Efes Third Quarter 2019 Financial Results Conference Call and Webcast.

I now hand over to Investor Relations Manager, Mrs. Asli Demirel. Please go ahead.

Asli Kilic Demirel, Investor Relations Manager

Hi, everyone. Welcome to Anadolu Efes Beer Operations 2019 third quarter results conference call and webcast. Before I 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.

Can Caka, Chief Executive Officer and Beer Group President

Thank you, Asli. Good afternoon, and good morning, everyone. And again, once again, thanks for joining our third quarter earnings call. We are glad to report a strong quarter as we continue to make consistent progress on our strategy to build competitive advantage through leaner and more efficient processes within our organization. Notwithstanding the challenges in the quarter, our geographical and product diversification once again resulted in a balanced results.

Softness in Turkey beer and international soft drinks were offset by very strong performance of our international beer operations and solid soft drinks performance in Turkey. Our sales volume growth in the third quarter of the year was 0.7% for Anadolu Efes on a consolidated basis. While we were able to continue our strong growth on the Beer segment and reported more than 4% growth on a year-on-year basis.

However contributions were quite mixed during the period. In Turkey, sales volume for beer was down, while for soft drinks, it was up. In the international operations, just the opposite was the case where beer operations posted strong growth with weakness in the soft drinks side. Positive price mix and higher volumes led to 12% consolidated and for the beer revenues 20% growth in the third quarter year-on-year basis.

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EBITDA growth ahead of the revenue in both segments resulting in four basis points to six basis points and 138 basis points margin expansion in Anadolu Efes consolidated and Beer group results respectively. Especially strong was the margin expansion in international beer operations which was driven by higher volumes and extraction of synergies.

As you would remember from our earlier calls, we constantly put emphasis on working capital management and this quarter we saw positive results on that front as well. Especially in soft drink operations and international beer.

Our working capital needs were decreased leading to strong free cash flow generation together with improved profitability. In the first nine months of the year, we recorded TRY1.4 billion of free cash flow generation naturally seasonality has a positive impact here as well.

Our bottom line performance was quite positive. We recorded TRY583 million net income against TRY66 million loss last year. Increase in operational profit as well as lower FX losses, lower net financial, and other expenses resulted in the strong bottom line figure.

In addition, we incurred FX gains from repatriation of cash flow from our international operations to Turkey as well. I already touch based on the financial figures, but what I want to highlight here is that our exposure to international market is growing quarter by quarter significantly.

International Beer revenue now accounts for more than one-third in consolidated results and together with CCI's international exposure, the revenue generation outside of the home country Turkey is now more than 60%, around 65%.

The 4% growth we recorded in beer group in the third quarter represents the sixth consecutive quarterly growth in our beer operations. All our beer countries with the exception of Turkey recorded growth and delivered strong results.

Russia and Ukraine in particular continue to deliver ahead of our expectations by growing mid and high-single digits respectively. Both performances were above the market growth in the relevant countries. This is of course led to a solid tight market position.

In Russia, in the quarter, all AB InBev Efes brands and various price segments showed positive market share growth in particular, but Efes, Gold Mine, Lowenbrau, Stella Artois and Hoegaarden showed market share improvements. Our market share increased in modern and traditional trade channels. Similarly in Ukraine, the growth leaders were Bud, Stella, Corona, Hoegaarden and Leffe.

In addition in Ukraine this year we launched Efes brands Kozel, Sary Melnik and Bely Medved and they contributed strongly to the performance as well. In Kazakhstan our volumes benefited from extended visibility in modern trade while in Moldova launch of ABI portfolio and re-launch of our national mainstream brand and strong contribution from Efes brand drove the volumes up.

Similarly in Georgia, despite the challenges with the relaunch of our mainstream market leader brand Natakhtari we were able to report double-digit growth. In Turkey 2019 was in general a difficult year for the FMCG sector at all, which contracted around 5% in the first nine months of the year.

And the decline in alcoholic beverage industry was around 7% and for the beer segment it was around 6%. The continued increase in excise taxes which was -- higher prices deteriorated affordable to be discussed this before as well. It was the main reason behind this decrease in the consumer pull.

In addition, we were expecting, as we discussed earlier this year, we were expecting an improvement in the consumer confidence, but we haven't unfortunately seen that and we have seen consumer confidence was at the lowest levels for the past decade continuing throughout the season as well.

On the positive side, tourism was favorable, and in line with expectations, but the unfavorable weather conditions especially in September and through the summer season combined with the high base of last year when volumes were growing 7% put further pressure on the beer market.

As a result, our sales volume contracted 6.4% in the third quarter in Turkey and 4.6% in the first nine months. This is the reason why we made slight revisions in our full-year guidance, which I will touch based on the later slides.

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Our sales volume performance in the first two quarters were slightly below the market. Yes, in the third quarter our performance was more -- parallel to the market contraction. We are quite happy to see a solid brand performance of Efes Malt and Bomonti Unfiltered and stabilization of the market share of our main Efes Pilsen brand.

Furthermore premium brand share in our total sales continue to increase. In Turkey, we continue to leverage on our portfolio and assure quality and freshness of our beer. We continue increasing our touch points with our consumers to more events and festivals. Notwithstanding the softness in volumes. We continue spending on our marketing and sales execution activities, improving our infrastructure, and accordingly we are increasing our service levels and customer satisfaction.

We view this as an indispensable investment for the sustainability of our business going forward. I will briefly say a couple of things on soft drinks. I'm sure most of you have heard the conference that our colleagues had yesterday. Consolidated soft drink sales volume decreased by 0.8% in the third quarter cycling almost a 3% growth last year. Although Turkey grew by almost 4% in the quarter. Lower volume in Pakistan and continued production stoppage in Turkmenistan led 5% international volume contraction in the quarter.

Now I hand over to Orhun for financial review.

N. Orhun Kostem, Chief Financial Officer

Thank you, Can, and good morning, good afternoon, ladies and gentlemen, welcome once again. Before I take you through the financial results for the period, just a word on the numbers overall. As you may have seen in our announcement as well, the numbers we are reporting and discussing all of them excludes the impact of IFRS 16 adjustments in the year 2019. So, they would be comparable.

With that, again, I'm also quite happy to report a strong quarter for Anadolu Efes as well as the Beer Group business. In both, you see that our revenues are growing ahead of volume and our profits growing ahead of revenue. So, that's the way we would very much like them to be. One thing that you don't see on this page, I'm sure you have seen in our announcement as well that we have also reported a very strong net income.

On our bottom line, I remember, reading in one of the research pieces that it was the highest over the past seven years, which I'm sure is true. And obviously, that's driven by the operational performance as well as a more stable Turkish lira in this period.

Our efforts to hedge are risk in our balance sheet plus obviously our ability to utilize the dividends we received from our international beer business to ensure that we don't overpay, let's say, any credit or high credit terms in Turkey. So, that's also under-utilization, which resulted in this.

If I look a bit deeper in the results obviously you see growth and margin expansion. If you look at the Beer Group, this is primarily driven by our international businesses. Across the board, we reported very strong results, but especially in size wise obviously the performance of our business in Russia and Ukraine is obviously quite strong, which led to a very significant margin expansion as well as growth in this nine month period which balanced the softness that we are seeing in Turkey as Can was explaining earlier, obviously, we have been discussing in these calls throughout the year. The elements that's impacting our gross profit, the raw material costs and etc.

But also we continue to invest in our sales execution and appeal to our brands and portfolio in general, which we believe we've started to see positive results and we expect to see them going forward as well. In next page, you're going to see how the EBITDA on the beer group is moving. Just a few words. Again if you look at the incremental revenue generation about three quarters of that is coming from businesses outside of Turkey, obviously.

Some elements here like you see especially in G&A and other income have calendar impact. So, may change in absolute terms as we go towards the end of the year, but this should give you an indication a) obviously of the synergies that we're extracting in our businesses and the impact of conversion in our results. There you see about, in the incremental, about a quarter of the impact is coming from conversion and hence we are reporting a 66% EBITDA

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growth in the nine months in 2019.

And that's actually if you look at our free cash flow generation on the next page. Free cash flow conversion rate is about 55%. Our working capital starting from the beer group obviously our working capital is in check. We still deliver on beer group with a minus core working capital as a percent of net sales revenue.

Our capex to sales as per our guidance, it's about 8% just under 8% and as you see here as I try to touch base, net financial expense is under, let's say, check so far which leads to strong free cash flow generation. Likewise in Anadolu Efes in general we have good working capital management again in the minus territory on a core working capital to net sales revenue basis.

And again capex to sales again under check and it's slightly above high-single digits in line with our guidance and there the free cash flow conversion rate is about 45%. We talked about how we mitigate the balance sheet risks on the next page, you see, on the beer group side about 77% overall debt is hedged especially through the net investment hedge and on a Anadolu Efes level together with the Coca-Cola Icecek business we have about 60% of that exposure hedged through net investment hedge and cross currency swaps.

Just a word obviously this is what you see on balance sheet. Having said that, we are actively managing the short-term currency risks that's impacting our P&L as well. That's under cost of goods sold and OpEx. So, just an indication for 2019, we've already for our Turkish business have hedged about 70% of that exposure, and if you look at the international business especially in Russia and Ukraine that's even higher about 80% and a little bit over.

If you look at the current state of our balance sheet, our net debt to EBITDA on the beer group is 1.2 times and Anadolu Efes is 1.1 times. These are, I believe, quite healthy, still quite a very healthy figures. You see in the maturity schedule that we have about US\$149 million maturing on the beer side before the end of the year.

This bit has already been rolled over about EUR100 million of this is already refinanced with maturities of two to three years and half of that is in hard currency, half of that already in Turkish lira and the rest is being paid. And the average maturity at the beer group now is about 2.5 years. The number you see as 2.2 is now longer and for Anadolu Efes on a pro forma basis obviously this is about 3.2 years at the moment.

So with this I will hand back to Can for his closing remarks. Thank you.

Can Caka, Chief Executive Officer and Beer Group President

Thank you, Orhun. Hi, again. Obviously, we are happy with our performance in the quarter despite the challenges we discussed. Very solid international beer performance and continued growth in Turkey soft drinks allow us to maintain our consolidated and beer group guidances. However, as I mentioned before due to the softer than expected season in Turkey beer and lower international soft drinks volumes, we are revising our segment of volume and revenue guidances.

Earlier, we guided for a low single-digit decline in Turkey beer, which we are now revising to mid-single digit decline. According to revenue growth for Turkey although still very solid is being revised to low '20s growth from high '20s. We reiterate our initial EBITDA margin contraction expansion for Turkey beer, but the rate of decline will be slightly higher than initially expected.

Consolidated soft drinks sales volume guidance is revised down to slight decline from previous 1% to 3% growth on the back of the revision in international soft drink volume guidance from 2% to 4% growth to low single-digit decline. And finally consolidated soft drink revenue growth is revised from its previous level of 16% to 18% to 10% to 12% level. All others remain unchanged.

As a beverage company with strong positions across the board our strategic priorities remain our people, our brands, obviously, our consumers and customers as well as our operational excellence as we call it corporate wisdom, which lately takes a lot of focus on digital transformation. Financial discipline is in Anadolu Efes DNA and our commitment to prudently and conservatively managing our balance sheet will remain our priority.

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We at Anadolu Efes will continue to brew joy for our all the stakeholders and we are ready to take questions. Thank you for listening us.

Questions And Answers

Operator

(Operator Instructions) We have the first question from Selim Kunter from AK Investments. Sir, please go ahead.

Selim Kunter, Analyst

Yes, thank you. I just have a question on the domestic market. I believe it's quite early to talk about the 2020, but it would be very helpful if you could just elaborate what to expect from domestic market and at least in the foreseeable future in terms of the sentiment and how the market is performing and where you are within the competition and also could you give some insights on how to deal with the upcoming packaging tax? Thank you.

Can Caka, Chief Executive Officer and Beer Group President

Yes, let me, I mean, it's obviously very difficult to put forward any guidance as of today. And by the beginning of the year we will obviously would be reviewing and giving more guidance. We are in the process of preparing our plans for 2020. So, but again, I mean up until now we have seen the current price levels, obviously, we believe the affordability of our business, affordability of our beers and our, let's say, our consumers reached our beers lower given the current price levels, we have been impacted with the devaluation and high tax increases through the last 12 months. So, the current levels is creating a barrier in that perspective.

That's why we have seen the beer market declining in terms of volume, but on the revenue side obviously the pricing and with the mix we are growing strongly. So, that is a holding factor, which has unfortunately coincided with the lowest level of consumer sentiment in the country for a while.

And I think the very first point is by changing the mood, I mean, in the country with the consumer sentiment improving certainly we could be more let's say optimistic going forward to expect the growth and so on and so forth, but obviously what has happened last year in August and Turkish lira devaluation had impacted the beginning of the year strongly.

And that's sentiment continued, that's something we have to follow very carefully, and we see that weakness through the season and despite the fact that after the election period so on and so forth with the summer period, we were expecting a little bit of improvement, which we haven't unfortunately seen there, and that is not only valid for the beer category that's valid for all alcoholic beverages and valid for all FMCG categories. So, that is the main factor that's holding us to put forward any, let's say, expectations for the coming periods.

But on the other side, I mean, as we discussed we are investing in our infrastructure. We are investing in terms of sales force efficiency and effectiveness. We are investing in our brands. We are investing in increasing touch points with our consumers and which in all those respects, we are having positive signals.

So, despite the weakness in the market, we are seeing positive developments in terms of the brand health scores that we are following. So, in that perspective, we are more confident with the competitive landscape that we have as of today. So, basically in the coming months, we will be reviewing the plans for the coming year and we will be able to give you a proper guidance at the beginning of the year.

When it comes to the packaging tax, I think, on the beer side we are a little bit, let's say, in a favorable position because still a significant part of our business is returnable bottles that is around 40% give or take. So, that helps in that

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perspective. So, we have to see how that packaging tax is going to be structured certainly as a company that invests a lot and that have deep beliefs in terms of sustainability to our business.

Certainly, that's an area we are very careful. In the last couple of years we've been investing in various developments in that perspective, lowering our aluminum usage, lowering our carbon footprint, lowering our energy usage in all perspective. So, in that perspective, we were one of the pioneers in Turkish market, but also significantly increasing our efforts in that area.

So as the, let's say, packaging tax details are revealed we will be able to give you more clarity.

Selim Kunter, Analyst

Thank you. It was very useful. Thank you.

Operator

Thank you. We have a next question from Nikolay Kovalev from VTB Capital. Sir, please go ahead.

Nikolay Kovalev, Analyst

Hello? Can you hear me?

Can Caka, Chief Executive Officer and Beer Group President

Yes, we can hear you, Nikolay.

Nikolay Kovalev, Analyst

Yes. Basically I have two questions. Just wanted to say like congratulations on good results particularly internationally. And my first question is on Russia and your ABI business and JV. So, can you update us on how much you've seen that you achieved already year-to-date and what do you plan for next year I mean operational wise. So, that you can reach your ultimate guidance for upto \$100 million of synergies? And my second question is on your stock performance. We basically see quite impressive results but Anadolu was one of the worst performer from the stock market in Turkey. So, my question is what are your thoughts here and anything on the corporate front you consider that can support the stock?

Can Caka, Chief Executive Officer and Beer Group President

Tough questions that's why I leave it to Orhun.

N. Orhun Kostem, Chief Financial Officer

Thank you, Can. Now, Nikolay, you remember that the initial guidance on synergies of the businesses in Russia and Ukraine. It was announced somewhere between \$80 million to \$100 million over the course of three years. I can't say the exact number on a year-to-date. What I can say is, we potentially could end towards the higher end of that spectrum and to deliver on the synergies over the three-year period because we have already been on track to deliver hopefully a bit better than our initial anticipation for the first two years as we enter 2019.

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Obviously on the stock performance. Well, I believe, one of the things again I was reading today in the research pieces was that now especially, the story of Anadolu Efes outside of Turkey is becoming a little bit more clear and I'm sure you maybe following that as well especially the contribution from the businesses in Russia and Ukraine.

So, potentially, I would have thought before any, let's say, corporate moves, obviously, it's our job and business to ensure that we continue that performance and make sure that we make that performance quite clear. So, that it can become part of Anadolu Efes value that's coming through the beer group.

Obviously, we can talk about, let's say, risks and rewards going forward about the Turkish market in general, how we have done, again, in general in the course of this year, but I believe going forward hopefully it's going to be -- once we can integrate the results that we achieve in our story, we maybe looking at a different picture, but let us please continue talking about this quarter-on-quarter and let's see if this prediction comes true.

Nikolay Kovalev, Analyst

Okay, thank you very much.

Operator

Thank you. We have another question from Hanzade Kilickiran from JPMorgan. Madam, please go ahead.

Hanzade Kilickiran, Analyst

Thank you. I have questions on Russia as well. Three questions. The first one is that, did you continue to gain market share in Russia in the third quarter and if so can you please share it with us, I mean, or let us know your volume growth particularly for Russia in this quarter? And the second thing is that when I look at the Russia retail sales data, the market data, I can see that it was down by around 10% in the third quarter, and last year same quarter seems to be a kind of low base because there was another 12% decline last year. Do you continue to see weakness in Russian retail sales so far in the fourth quarter? I try to understand the ongoing trend there. And finally, on Russia, what is your margin, EBITDA margin target in the international beer after the synergies, I mean, current level is over 14%, do you think that you can expand it more towards like 15%, 16% levels? Thank you.

Can Caka, Chief Executive Officer and Beer Group President

Thank you. I mean obviously with our sales volumes throughout the season was higher than the market in Russia. So and in Ukraine as well despite high comparables for our business because last year summer was -- better summer with the World Cup support and better weather conditions, but still we were able to grow better than the market that's obviously reflected into our market share performance especially high priority brands in our portfolio.

So, in that respect the season was positive for our businesses both in Russia and Ukraine. Retail sales, Orhun, if you can help me on that ground, but for determining the weather conditions partly impacted throughout the season. And I would say September was more or less in the same manner. So, in that perspective, we need to see the coming months to be able to give you more clarity for the fourth quarter, but we see more or less the same trend as per the season.

N. Orhun Kostem, Chief Financial Officer

That would be true, Hanzade, and obviously, again, if you look at the overall beer market and what we see this year, which was very promising that the overall market in Russia has been growing and that's also good news because obviously to be able to grow over the base of 2018, where we have seen the World Cup taking place, where a lot of

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beer was being consumed that's quite good to have.

Obviously, we could argue on one hand, the environment has been quite stable in terms of regulatory changes or taxes and etc in 2019, which could -- which is assisting this growth. On the other hand, obviously, the weather was not very favorable.

There was a VAT increase, which I believe also have been impactful on the overall softness in the retail segment in Russia as well. But so far at least we have been able to grow a little bit ahead of even market growth for 2019. And we can report back as we close the year back to your point whether that softness that we have been seeing in the third quarter continues or not, in general, once we announce our annual results.

Now, for EBITDA margin in this -- what I can say is, if you look at the first nine months, you will see our international business delivering about 13.9% EBITDA margin. And even though the swing in our businesses from Russia and Ukraine is quite high versus last year. They are still below that average. And therefore the margins that we deliver outside of Russia and Ukraine currently are higher. So therefore at least I would have thought that should be our initial target. So there is more scope obviously to continue expanding our margins.

On one hand certainly through the extraction of incremental synergies, but that's not all because as I was seeing the good news is we have seen a growing market this year. We know that the strategy that was implemented last year is working and we would expect -- continue expecting that to work, which helps also our top line growth and our revenue growth.

And these should expect, I would expect to continue expanding our margins in Russia and Ukraine. So, let's say, about mid-teens that's I believe overall is where it first should come to naturally.

Hanzade Kilickiran, Analyst

Orhun, thank you very much. When you say above 15, I mean, mid-teens sorry. Do you mean like EBITDA margin on the international beer business can go over like 15%, 16% levels, but not 20% levels, right. 20% is a quite high margin to achieve I presume.

N. Orhun Kostem, Chief Financial Officer

I didn't say 20.

Hanzade Kilickiran, Analyst

Yes, I know. I'm trying to -- because that mid and low-single, I mean, these guys always makes me confuse because mid-teens means like 15%, 16% you mean?

N. Orhun Kostem, Chief Financial Officer

I believe that's a natural target, Hanzade, because again the businesses outside of Turkey except Russia and Ukraine are at a higher EBITDA margin. That's what I was trying to say. The blended 13.9 comes where Russia and Ukraine are at a lower margin versus the other piece even though they swing higher versus last year. So naturally you would expect them to come at least to deliver in line with our overall international business, which would take our overall margins to at least mid-teens levels.

On the long-term, we can discuss further, how much we can continue growing them obviously. We have our own scope and expectations. But I would rather discuss that once we are able to deliver on our annual results given that we are in the interim now.

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Hanzade Kilickiran, Analyst

Okay. Thank you very much, Orhun.

N. Orhun Kostem, Chief Financial Officer

Thank you.

Operator

Thank you. We have no other questions for the moment. (Operator Instructions) We have another question from Ece Mandaci from UNLU & Co. Sir, please go ahead.

Ece Mandaci, Analyst

Hi. Thank you very much for the presentation. Could you please provide an update regarding the competition environment again particularly from the deal side. And any regulatory changes on that front regarding the budgeting etc. Could you just please elaborate on that? Thank you.

Can Caka, Chief Executive Officer and Beer Group President

The deals addressed on off-trade in specific, I guess, you are referring to Russia. It's a very competitive part of the market, I would say, especially also supported and it's kind of, let's say, source of revenue and source of position for local brewers.

So, in that perspective, when you look at the total Russian beer market slightly more than a quarter of the beer market is managed or provided by the local brewers and that they are benefiting from the deal sales. So, that's a very competitive market I would say.

But on the other hand, again, I mean that's also creating a consumer demand. So, in that perspective, that segment of the market where we would like to ensure that we are reaching other consumers. It requires expanding our footprint in those channels. And that was one of our strategies throughout the year, which is growing comfortably for our business and it's contributing.

I mean both in terms of top line growth and in terms of profitability as well. So, despite the fact that it's very competitive. I'm not saying that it's less profitable. So, in that perspective, it is a nice piece of the market and so we are more focusing, I would say, as the joint venture and benefiting from the growth and consumer demand on that specific segment.

Ece Mandaci, Analyst

And is there any news regarding the regulatory environment in Russia?

Can Caka, Chief Executive Officer and Beer Group President

No, to my knowledge, there is no any additional change we needed legislation or --

N. Orhun Kostem, Chief Financial Officer

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No, nothing new. I mean there could be an non-excise tax increase next year about ruble.

Can Caka, Chief Executive Officer and Beer Group President

Which is announced in advance.

N. Orhun Kostem, Chief Financial Officer

Yes, that's already known. Other than that current, I mean, look that doesn't mean obviously that there will not be any changes at least we can say retrospectively that in the absence of any changes we know that there is great potential in the market to continue growing as the market have demonstrated. So, for the time being nothing we know of.

Ece Mandaci, Analyst

Okay, thank you.

N. Orhun Kostem, Chief Financial Officer

You are welcome.

Can Caka, Chief Executive Officer and Beer Group President

Thank you.

Operator

Thank you. We have another question from Edward Mundy from Jefferies. Sir, please go ahead.

Edward Mundy, Analyst

Hey, Can. Hey, Orhun. Hope you're well. I've got two questions, please. The first is on your local currency revenue per hectoliter in the international beer operations. On slide 18 of the slide deck you show the Turkish lira versus ruble and Ukrainian currency movements, which looks like on average, blended average there has been a strengthening versus Turkish lira of probably 15% or so. It looks like you've got 26% revenue per hectoliter growth within ABI, which should imply your local currency revenue per hectoliter is around 10%. First question is that roughly correct math? And then the second question is whilst you've seen some extremely strong EBITDA margin expansion up to 14%. Your gross profit margin is still relatively low. I was wondering what is the opportunity to get the gross profit margins up through stronger pricing over the next few years if you continue to (inaudible) the portfolio?

Can Caka, Chief Executive Officer and Beer Group President

Let me start, by the way, hi, and it's good to hear from you. It's been quite a while. And let me start, yes, I mean if you look at the results of the joint venture. Obviously, there are two things that takes place. One, what's happening in the local currency level and obviously as we report in Turkish lira what's happening at the, let's say, Turkish lira to dollar level as well.

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Company Ticker: AEFES TI
Date: 2019-11-06
Event Description: Q3 2019 Earnings Call

Market Cap: 11682.2365679
Current PX: 19.7299995422
YTD Change(\$): -0.870000457764
YTD Change(%): -4.223

Bloomberg Estimates - EPS
Current Quarter:
Current Year: 1.527
Bloomberg Estimates - Sales
Current Quarter:
Current Year: 23306.714

And I believe you said just about 10% on a currency neutral basis that's what I heard from you, if I'm not mistaken. it's a little bit higher than that, but obviously is slower than the reported level. It's still in double-digit in that sense basically. And I believe there also a function of, for example, this year ruble being relatively stronger against the dollar and etc. So, we've gained on that as well. That is one. Secondly, on the -- I hope that answers the question by the way. First one.

Edward Mundy, Analyst

It does, yes. So, you've got double-digit revenue per hectoliter in local currency?

Can Caka, Chief Executive Officer and Beer Group President

Yes. Secondly obviously on the gross margin level certainly there could be more opportunities especially outside of Turkey one could be from the topline as you stated as we continue selling more premium especially in markets like Russia those segments are the segments very strong and expect to going forward expect to be stronger. That is also true. But secondly, obviously, when we talk about synergies not all of them are on the OpEx side, obviously we are generating them to cross brewing and etc our cost base as well. Now let's keep in mind that the markets we talk about are obviously very competitive markets as well.

So at least it would be reasonable to expect that the average pricing in these markets could be driven more with the portfolio and the composition as we execute revenue growth management efforts. And obviously we'll continue extracting from our cost base. But you're right, I mean, looking forward we would continue to seeking gross profit margin expansion because at the end of the day that's how we will start generating our margin growth.

Edward Mundy, Analyst

Great. Thank you.

Can Caka, Chief Executive Officer and Beer Group President

I guess what Orhun commented we have to also we can confidently share with you guys that you know our team especially on the joint venture side we have great -- a lot of focus in terms of variable industrial and variable logistic costs.

And the team has highly granular review of all the cost component and we're trying to improve and we have already identified a couple of areas where we are trying to benefit from cross brewing functions and so on and so forth. So, in that perspective, yes, up until now we have benefited with the synergies that has contributed both on the OpEx line and on the cost side, and we expect to improve on the gross profit margin level as well going forward.

Edward Mundy, Analyst

Great, thanks a lot.

Can Caka, Chief Executive Officer and Beer Group President

You're welcome.

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N. Orhun Kostem, Chief Financial Officer

Thank you.

Operator

Thank you. We have no other questions for the moment. (Operator Instructions) We have no other question. Sir, back to you for the conclusion.

Can Caka, Chief Executive Officer and Beer Group President

Thank you very much all for your participation and contributions and questions. Hope to talk to you in the next quarter results call.

N. Orhun Kostem, Chief Financial Officer

Thank you.

Operator

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

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