Company Name: Anadolu Efes
Company Ticker: AEFES TI
Date: 2016-03-04
Event Description: Q4 2015 Earnings Call

Market Cap: 10,894.74
Current PX: 18.40
YTD Change($): -.49
YTD Change(%): -2.594

Bloomberg Estimates - EPS
Current Quarter: 0.030
Current Year: 0.826
Bloomberg Estimates - Sales
Current Quarter: 2053.000
Current Year: 11636.053

Q4 2015 Earnings Call

Company Participants

- Ayse Dirik
- Robin Michael Goetzsche
- Onur Çevikel

Other Participants

- Edward B. Mundy
- Maryia Berasneva
- Walid Bellaha

MANAGEMENT DISCUSSION SECTION

Operator

Ladies and gentlemen, welcome to the Anadolu Efes Beer Operations Year-End 2015 Financial Results Conference Call and Webcast.

I will now hand over to the Investor Relations Manager, Mr. Ayse Dirik. Please go ahead.

Ayse Dirik

Thank you. Hi, everyone. Welcome to Anadolu Efes Beer Operations 2015 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. Robin Goetzsche, Anadolu Efes Beer Group President and CEO. Sir?

Robin Michael Goetzsche

Good. Thank you, Ayse. Well, good afternoon from Istanbul to everybody and it's good to be here with you. I think last time I spoke to you, I was brand new to the role, some four months into the role now. So, I certainly have a better feel for the organizations as I've traveled around. What we obviously want to cover for you today is really our 2015 results, and I think as you've seen pretty much in line with our guidance in terms of our consolidated results, with volume down just under 3%, but as I think you all used to know we do show the numbers excluding Ukraine as well because of the specific circumstances we have there, so the decline just below 1%.

We've seen some positive flow-through to both consolidated revenues and EBITDA. So, revenues being up just under 2%, and EBITDA up just over 2.5%. The margin on EBITDA that is in line with our guidance and most of the margin improvement in fact led by the Beer segment particularly the improvement in our International Operations. I think a positive thing to call out is a strong free cash flow that we generated and certainly this has been a strong focus of management in all of our business units and at the same time and this will be an ongoing focus for us.

And what that has helped us do is really have a consolidated net leverage ratio of around two times for the year-end. I think also accolade for the team was that we ordered the first prize in the Turkish Corporate Governance Association for corporate governance rating. So, we are pretty proud of that.

If we then move on to just some of the graphics, as I mentioned, you can see the volume down just under 3%, or 0.8% excluding Ukraine, with the leverage coming through the sales revenue, up 3.6% excluding Ukraine and 4.6% EBITDA level. Volume about three-quarters coming from Beer business – from the Soft Drink business, 8% from Turkey business and 16% from International and has revenue level at about two-thirds from the Soft Drinks business. And at the EBITDA level, about under 60% from Soft Drinks, 24% from Turkey and 18% from International Operations.

I won't dwell long on Soft Drinks business CCI but a pretty good year in terms of the Turkey business showing a comeback in terms of volume, which is great in terms of our expectations and also I have seen growth across all of the segments and certainly International Operations, up as well considering they are cycling a very strong 2014 and about 50% of our volumes still coming from the Turkey operations, so good to see the Turkey operations showing growth.

If we move on to the Beer Operation, we saw a decline in the Turkey business by just over 6%, while our view on the total market was about a 1.5% decline. The difference is really that we have managed the stock in the channel quite significantly down, which has been a positive for us in terms of managing our own working capital, but also in terms of our own route to market and distributor channel. And of course, you can see the International business down just under 20%, but if you exclude Ukraine, that's around 8%.

The Russian beer market as per expectation was around sort of high single-digit in terms of volume decline really driven by the economic impacts of the deterioration of the Russian ruble against foreign currencies, but also sanctions and other geopolitical impacts.

If I can dwell on the Turkey operation for a while, I think certainly, the team has done a lot of work in getting the portfolio right. If we go back five years, it was a much more single brand, single SKU business, certainly, we have a great set of brands across different SKUs, different price points, meeting different consumer needs but in terms of pack sizes as well. So, we have some upsized packs, downsized packs and lots of variety in terms of our multipack offerings.

Also it good to report that we've certainly seen a stabilization in our market share in the second half of the year, and we'll continue to see good innovations, particularly around offerings that we bring to the market from a brand pack point of view. And the team has also simplified and focused execution much more so being clear around our cooler penetration and how we execute in our coolers and on the SKUs we're focusing on, so we have a much more simplified approach in terms of how we execute. And as I already mentioned to you, a much better stock levels in terms of Q4 that we put into the business, and as I said, also market share pretty stable now sitting at about 68.5%.

If we move on to the International Operations, clearly, I think everyone is fully aware that all of these businesses are suffering from the typical emerging market issues, but also some serious geopolitical and macroeconomic issues. I mean, again, very much for us around three things is the brand portfolios, innovations we can bring to the market for our consumers, and then of course continued improvement in execution.

Russia had a particularly good year in terms of our plan, strong performance particularly in Premium and a turnaround in Upper Mainstream and a much improved performance in the Modern Trade channel, which is important for us, where we do only index a little bit. We also saw the Russian beer market performing better certainly by virtue of some warmer weather, but also just the overall pricing pressures in the market [ph] that being that (7:31) actually pricing has been quite subdued in the market, and we believe that has not flown through to the impact that some of the other packaged goods have had on the consumer.

So, we did lose a slight bit of volume market share, really driven by strategy around pricing up on the Lower Mainstream PET packs, but as I mentioned, good growth in the Premium segment. So, you can see, our value share higher than our volume share. I think just the other interesting point is that the expected restrictions around PET are probably only going to be coming through in 2016 or beyond. So, I think that will have an impact on the volumes in the market, but certainly, we should continue to see a fairly subdued pricing environment and a lot of promotional activity.

If we look at just generally our strategy overall, we continued with our Beer Framework so continuing to grow our key brands and making sure that we have a focused brand portfolio. Execution from, really, a sales point of view and a route to market point of view key for us and making sure that we drive availability pricing point of sale impact. As we in these tough environments, efficiency is key for us both in terms of average, but also in our overall cost base, so continue to look at – looking at our cost, and then of course working around building employee capability, working with our customers, and managing the regulatory environment where we can, and of course making sure that we have a sustainable business in terms of our breweries and the environmental operations.

So that's a broad overview, and then I will come back to some questions a bit later, but what I'd like to do is hand over to Onur just take us through some of the more specifics on the financials. So, Onur?

Onur Çevikel

Thank you very much, Robin. Good afternoon and good morning to everyone. It's a pleasure to host you in Anadolu Efes' 2015 financial year results conference call today. I'll take you to our financial results briefly today. Starting with our consolidated results. Our sales volume was 86.5 million hectoliter with a 2.8% decline. Excluding Ukraine, our volumes though almost flattish as mentioned by Robin. Despite the declining volumes, we were able to increase our revenues with 1.8%, consolidated revenue reaching to TRY 10.2 billion.

In the financial year 2015, we were able to register an EBITDA of TRY 1,766 million [ph] a result (10:17) of 2.6% compared with the same period of 2014. Consequently, we were able to grow our net revenue ahead of our volumes and we managed to grow our EBITDA ahead of our revenues. We also reported an EBITDA margin of 17.3%, 13 basis points better than previous year.

Going to our Beer group segment, volumes in Turkey has declined by 6.3% in 2015, which is mostly discussed by Robin in his presentation. Despite the decline, we were able to keep our revenues flattish, reaching to TRY 1,484.8 million. We closed the year with an EBITDA of TRY 437 million, [ph] the result (11:13) EBITDA margin was 29.5% with 299 basis points lower than previous year. This decline is mostly attributable to these economies of scale, volume declined, earning a bit higher fixed cost, an increase in [ph] malt and barley (11:30) prices as well as accelerated currency devaluations.

In our International Beer segment, our sales volume declining with 19% is mainly being Russia and Ukraine. Without Ukraine, the decline was limited with 9.4%, the remaining reasons being Russia. Net revenue of our International Operations declined by around 37% being at a level of USD 725.1 million. The main reasons of the decline is the volume decline, as mentioned, and it keeps the valuation and pressures on the local currencies in our operating geography. According to our internal calculation, the rate of decline would be limited to 7% if constant currency methodology was applied.

On the profitability front, we registered USD 118.5 million of EBITDA with a 16.3% EBITDA margin. This represents a strong 274 basis points of improvement, main contributors being price and brand initiations as well as cost and expense control, efficient procurement, lower commodity prices on certain materials, efficient and favorable FX hedges, efficient expense control and reductions, those are the contributors for the increase in the EBITDA margin despite declining volumes creating higher fixed cost and as well FX exposures. Finally, on the Beer group, we ended financial year 2015 with TRY 714.5 million of EBITDA BNRI with a 20.5% margin, 171 basis points improvement compared to financial year 2014.

In the next slide, I want to talk about free cash flow generation in the Beer group. Returning back to 2013, we said positive free cash flow generation across all countries in the geography that we operate is a key priority. We are happy to report another strong free cash flow generation in 2015. You will recall that we had a strong free cash flow generation in 2014 with TRY 454 million, in 2016, we reached TRY 551.3 million of free cash flow, one of the highest in Beer group operations.

I'm also particularly happy with the effectiveness of the balance sheet management especially on the working capital front. Talking a bit more on the balance sheet management. We are happy to report a net debt to EBITDA ratio of below two times on a cash consolidated level in a year where significant devaluations against local currency has happened.

On the Beer group financials, we registered a net debt to EBITDA ratio of 1.57 times, as a consequence of the balance sheet management measures that we previously discussed. One of the priorities we had declared back in 2013 was to deleverage the company through the balance sheet measures. Looking at the financial year 2016 results, we see that despite significant devaluations, we will able to go below USD 400 million of net debt in Beer group is the net debt number being USD 385 million.

On the borrowing side, we feel very comfortable with having no material financing need until 2018 at Anadolu Efes level and until 2022 at Beer group level. Average maturities reaching to 3.9 years in Anadolu Efes consolidate level and 5.6 years in the Beer group is a good sign for the balance sheet held of our operations in these turbulent times.

We can also see that we have moved our floating interest rates to fixed ones proactively to report [ph] FX (15:44) on the possible interest rate increases. Total 90% of our debt being with hard currency, we're also closely following on the fixed devaluations in our current markets. I think it's also important to mention about our operational hedges that starting from 2013, we are hedging our operational FX exposure mainly in Turkey and Russia to make sure that we have our visibility on the cost front. For 2016, we also have hedged most of our operational exposure on cost in these two operations on the FX front.

Moving to the page 20, I want to talk a bit about on the consolidated free cash flow. Similarly, to the Beer group on a consolidated basis, we managed to generate a very strong free cash flow of TRY 637.8 million in financial year 2015. Both Beer Operations and Soft Drink Operations generating positive free cash flow.

Our board has proposed a cash dividend payment of TRY 145.1 million in total, which is corresponding to a TRY 0.245 on gross level per share. Let me remind you that, this proposal is subject to general assembly approval.

Before handing back over to Robin, I want to talk about our financial priorities for the year 2016. As we said, keeping the focus on cash flows, particularly to the working capital management, optimize capital expenditures and, as you have been hearing for the last three years, tight balance sheet management is going to be on the top of our priority list. Efficiency improvements and deleveraging will also be on the top our agenda. Managing the impact of a fixed volatility on operations is another key priority for us going forward. Finally, our commitment to investment grade will remain as our key priority.

Now, I will be handing over back to Robin for his closing remarks.

Robin Michael Goetzsche

Onur, thank you. Just to possible summarize then is that, clearly for us is two big things, one is continuing to improve our margins and secondly as on a dollar to going back and going forward will be our focus on the free cash flow. At an operational level, making sure that we have great brand portfolios, but also the optimal brand and SKU mix. So, a lot of work being done on the commercial front just around making sure that all of our SKUs are delivering to our profitability.

Ongoing focus on improving execution, penetration through the effectiveness pricing and promotions. And then of course making sure that we continue to grow and sustain market share, but making sure it's quality market share so not at all costs and really delivering a contribution towards the free cash flow is making sure we focus on working capital. So, we have a process in place now to manage our working capital in the Beer businesses very tightly.

Turning on the Soft Drink side is making sure that we also accelerate revenue and margin growth. Wining at point of sales and ongoing focus for the business and these is a big initiative around sales force effectiveness. So, pretty much in line with our ongoing strategy, preserving cash and continuing to build our operational excellence.

What I'd like to do is then just ask Onur just to give us a snap shot on our 2016 guidance, which we did promise in early March, which we are in now. So, Onur if you could do that.

Onur Çevikel

Yeah for sure. For 2016, I will just start with the Beer group and then talk a bit about the consolidated guidance. So, for our 20 Beer markets we think there will be a decline for low single digits but overall volumes, we expect flattish volume. For the Russian Beer market, our expectation, the decline being parallel to the decline in 2015, as we expect that we are going to be outperforming the market.

Our total Beer volume, we expect decline at a rate of mid-single digits as we expect that our revenue lower decline compared to volume decline. And on the EBITDA margin level we expect slightly lower EBITDA margin.

On the consolidated level, we expect to grow on low single digits. On the sales revenues, we expect to grow mid-single digits, and on EBITDA level we expect to grow in absolute terms and on EBITDA before non-recurring items margin, we expect to either to be flattish or being slightly lower margin.

So, this is our guidance for the year 2016.

Robin Michael Goetzsche

Thank you, Onur. I think what we will do now is open for questions.

Q&A

Operator

Thank you. [Operator Instructions] Our first question is from the line of Mr. Edward Mundy of Nomura. Please go ahead, sir. Your line is open.

<Q - Edward B. Mundy>: Hi. Good afternoon, Robin. Good afternoon, Onur. I've got three questions, please. The first one on your guidance on Turkey Beer, which implies reversing some of the market share losses. I appreciate you had a better second half in 2015, but I was wondering whether you could flesh out some of the measures you're taking around innovations, execution, and your SKU strategy that gives you confidence in gaining market share in Turkey Beer in 2016?

The second question is around Turkey Beer margins. I mean, do you feel an EBITDA margin of 30% is sustainable over the medium term? And the third question is just a point of clarification. Q4, I think there were higher SG&A costs in International Beer in the fourth quarter, I was wondering if you could just flesh out what that was?

<A - Robin Michael Goetzsche>: Hi. Thanks very much. Good to hear from you. Turkey, just in terms of market share, I think there are couple of things that are quite important. I think the first one is that we've focused our sales force much more on prioritizing the SKUs that we want to push and make sure that they are actually in place. So, we have got a program in place called six plus six. So the six core SKUs that we push nationally and we expect to be executed nationally and then the other six SKUs, which top of our region.

The second is a good investment in coolers, particularly improving visibility of the [indiscernible] (23:20) range and there is a big program for us to, in fact, increase our cooler door penetration. The third is a quite a lot of SKU innovations coming through, in particular an emphasis on the returnable bottle and quite a lot of launches that we're in fact putting in place going into the season which will help us in terms of our return of a bottle and bringing some excitement to the consumer on the return of a bottle in market. So, I'd say those were the big things that we're looking at.

I'll ask Onur to comment on margins and the SG&A.

<A - Onur Çevikel>: [indiscernible] (23:59) numbers that we were talking about the margins, in between – somewhere between 30% to 35% in mid-term to long-term in our Turkey operations. And as we do think that this is going to be sustainable going further with all the initiations that we have been taking both on the brand perspective, as well as the operational perspective as well mentioned by Robin.

Talking about a bit on the inclination side, especially if I understand the question well, the question was more on the fourth quarter results. So, what we've seen in fourth quarter is actually nothing has changed that dramatically on the EBI front and on the Russian front. There has been some timing and one-off issues that has created this difference between the third quarter and fourth quarter. We are going to be even [indiscernible] (25:00) that we had reported around 1,000 basis points improvement in the third quarter, but at the end of today, in the fourth quarter we were expecting that this is going to be a decline like this one.

Looking at the overall numbers on our EBI numbers, having around 274 basis points of improvement on our EBITDA margin compared with 2014 and a lot better improvement if you compare it with 2013, we do feel quite comfortable in that front.

<Q - Edward B. Mundy>: Thanks. And Robin, just a follow-up on some of the initiatives around Turkish Beer market share, I mean when did you really kick off, some of these initiatives you talked around the SKUs, the coolers and the returnables, I mean there is something that kicks off towards the end of 2015, and therefore you got momentum going into 2016 or this newish initiative?

<A - Robin Michael Goetzsche>: A bit of balance on both. So, some of the stuff came earlier, and some of the stuff we started now. So, obviously the cooler investment is kind of being ongoing. The returnable – the change on returnable packs and what we're doing on those actually being launched as recently as last week, we launched that all – overall distributor fraternity. And there are number of other initiatives that are on some of the brand packs that will come in. So, kind of a combination, but still certainly we think that we have a very fairly good program going into the summer season now.

<Q - Edward B. Mundy>: Great. Thank you.

Operator

Thank you. We have a question now from Mrs. Maryia Berasneva of Morgan Stanley. Madam, please go ahead.

<Q - Maryia Berasneva>: Good afternoon. Thank you for taking the questions. My first question is on Russia, where I understand that there will be sort of voluntary PET ban, or restriction introduced. First of all, are you still comfortable going ahead with it in 2016, given the headwinds that the industry is facing already from struggling consumer. And secondly, do you think that with the consumer under pressure, second year in a row and this, if you introduce this PET ban, do you feel that the volumes there should come down more year-over-year and they have done in 2015?

<A - Robin Michael Goetzsche>: Thanks very much, Maryia. If we just go back a little bit of these, one of the initiatives that the Russian Beer Union talk was to look to see if I could coordinate an orderly transfer to a different PET regime, really driven by strong signals coming from the different government agencies around PET. I mean I think the industry generally has argued long and hard that there's nothing wrong with PET, but to try and actually enable the industry to manage the transition there was a view that from a voluntary point of view, the beer producers would in fact restrict the maximum size from July of 2016 to 1.5 liters.

Since then quite a lot of things have changed. The first thing is that, I think a second drop legislation has gone through the Duma recommending maximum 1.5 liters in the beginning of 2017, January 2017, and that's by no means approved beer sites still would have to eventually be signed off at Presidential level and that hasn't happened yet.

And secondly the reason why there has been a delay from a Duma point of view straightly legislative point of view is exactly the point you raised is that I think there is a lot of sensitivity around the decline in the beer market, the impact of the excise increase and the impact that will have on consumers, particularly in quite tough economic times for them. So, I think it's gone down on the radar of kind of trying to deal with the alcohol issues.

And as I understand it just quite recently the responsibility of Russ alcohol now, in fact, report into the Ministry of Finance, so there has been a change as well. And I think it's really driven by the fact that, there is a feeling that we need to optimize the income coming into government. As a result, that the industry has taken a view that they will have to wait to get more clarity on what the legislation will look like and the timing of that before they implement any self-regulation.

So, at this stage, the Russian Beer Union has taken the view that, they'll await to see what the outcome of that is, and take the view on whether they would do it effective 2017 or what the legislation looks like. So from that point of view, we probably would expect as our guidance was that we see probably mid to high single-digit declines in the Russian beer market depending on two factors, one is, there was an excise increase of RUB 2 a liter from 2018 to 2020 from the beginning of January.

And secondly, there was the implementation of the E-guard's tracking system, E-guard's tracking system goes live with distributors from July and in line with the retailers at the end of the year. And really there were quite a lot of issues in fact from brewers to distributors at the beginning of the year, which was effectively from January.

And so, I think it will also depend on how well the E-guard system is implemented, but went very well from Efes' research point of view in the same is that we didn't have any major issues at all, and we didn't have any disruption to our stock going into the distributors and into the trade. But I think with these changes, I think there will be a kind of a period of wait and see.

And then I think the third area is for us to see what the pricing regime looks like. I think there seems to be an appetite by the industry to take little bit more price in the marketplace as witnessed by some of the price increases coming through. And I think that may impact on volume, but also on the industry profitability. So, I think a lot of it changes on the summer selling season and what the volumes look like.

<Q - Maryia Berasneva>: Understood. Okay. Thank you. And just a small follow-up in Russia, if I may. In terms of consumer backdrop and real disposable consumer income contracting significantly second year in a row. Do you still feel there is scope for you to push on with the premiumization of your portfolio?

<A - Robin Michael Goetzsche>: Yeah. I mean, that's a good question. I think one of the things that – we think our Premium brands are well-positioned both in terms of the equity there, but also with our price now. So, we're not looking to take significant pricing above where our index now. We think the opportunity for us is we fix the pricing on both the major Upper Mainstream brands being Sokol, Zolotaya Bochka, and Stary Melnik. And they are now actually showing good growth. So in fact for us, the opportunity is much more mix benefits in Upper Mainstream.

The other thing we're doing is we have rectified the sizing on our PET packs to match the equivalent of what cool will be the default industry standard, which makes us from an individual cross-point a much more competitive. So, from our point of view, I think our portfolio looks better and is kind of from a mix point of view, it looks fine from a profitability point of view, enhance you to seen in our guidance as we'd expect our volume, which on the index slightly in 2015 to actually over index the relative volume situation in the country.

<Q - Maryia Berasneva>: Okay. So you're kind of happy with the mix. And just one more question, if I may on Turkey. With the – can you give us some commentary on the consumer backdrop you're currently seeing and also the impact on your volumes and trade with regards to the drop in tourism?

<A - Robin Michael Goetzsche>: Yeah. Obviously, I think we'll see – that we see impact on the economy coming from tourism, tourism is about 15% of the overall contributed to the GDP and clearly about the sanctions from Russia, where Russia is a reasonable contributor to tourism and what that looks like in the season down on the coast, but also some of the recent attacks that have happened in the country, certainly could affect tourism. Tourism is probably for us as a business about 5% of our business. So, they all obviously impact that we could feel, we haven't felt that necessarily it, because we haven't really gone into the season. So, we'll only start seeing that coming from May onwards, but clearly, there certainly could be an impact.

We haven't seen any major impact economically yet, and I'm sure Onur can comment on that as well. And I suppose with all these things and as we saw in Russia as well with sanctions and so on. There seems to be a lag effect on some of the stuff in terms of how they impact to consumer. So without trying to dodge the question, I'd probably say a little bit too early to say.

<**Q - Maryia Berasneva**>: Absolutely. And is it – did you say 5% of your business about your overall Beer business, or just your Turkey business?

<**A - Robin Michael Goetzsche**>: No. No, just our Turkey business.

<**Q - Maryia Berasneva**>: Wonderful. Thank you very much.

Operator

Thank you. We have a question now from the line of Walid Bellaha of Barclays. Please go ahead sir. Your line is now open.

<**Q - Walid Bellaha**>: Hi. Good afternoon. Thank you very much for your presentation. Just a follow up question on the Turkey trading. If you can give a little more color on the first few months of 2016 and what you have been seeing so far? Understand, it's still a small quarter of the year, but do you have any sense of what the – where the trend is? And also my second question is I understand your focus is about free cash flow generation, I think for next year and the leveraging just to confirm that the use of the free cash flow that you expect in 2016 is going just to reduce that or would you consider it for other purposes?

<**A - Robin Michael Goetzsche**>: Thanks. Thanks very much. Walid, I'll answer the first question is we obviously two months into the season – into the year and not really into the season yet. Certainly, my sense is what I've seen is Turkey volume is a little bit softer than we expected. But having said that, we obviously had the excise increase, which is effective 1st of January and we knew that was coming. It was higher than we expected, but we did have a fair amount of stock that we put into the trade and a hit of that.

So, a little bit mix I'd say, but certainly a little bit softer than we expected. But as you said, the first quarter is quite a small quarter, in fact February this January the smallest month that we experienced. So, I think the positive what we are seeing is we certainly seeing our market share holding out nicely, which is the positive. So, that would be sort of the broad view.

Onur, you want to talk about the free cash flow?

<**A - Onur Çevikel**>: Yes. Thank you very much for the question. I think one or two very important things that we have been putting in front of ourselves as a priority has been the free cash flow generation and it's the second consecutive year that we have been generating strong free cash flow, which is good and we have [indiscernible] (37:42) that we had from the positive free cash flow in order to make sure that we deleverage the brand, we're going to continue with that. I have also spoken a little bit about the payment that we have for the Dutch, that are not that much significant.

So for us, what we look at is, first, the most important and the most hard thing is to make sure that we get a sustainable free cash flow generation, which we have managed to do in the last two years and we are also looking forward to make sure that we sustain this free cash flow generation. Of course, year-after-year, it's getting a lot harder to make sure that we get the improvement both on the working capital, as well as in the other respects, also balance sheet management. When we generated free cash flow then it's going to be a lot easier for us to think how the revenues or free cash flow generation [indiscernible] (38:48)

<**Q - Walid Bellaha**>: And sorry, just a follow-up question on the excise tax you mentioned in January. Was that in Turkey and how much was it?

<**A - Robin Michael Goetzsche**>: Yeah. It was 15% in Turkey.

<Q - Walid Bellaha>: Okay. Thank you very much.

Operator

Thank you. We have the question now from Mrs. Maryia Berasneva of Morgan Stanley. Please go ahead.

<Q - Maryia Berasneva>: Thank you. I didn't realize that I was next one out in the queue, but thank you. My – another question that I have is on the balance sheet and the target leverage or the leverage that you see by the end of 2016. Another question was on the cost side, with the increase in minimum wage from January 2016, what's – how much do you expect its impact your wage build in your operating cost in general?

<A - Onur Çevikel>: Well, thank you very much for the question. We don't really give a guidance on what we are really targeting on net debt to EBITDA or on our total leverage. However, we always said that we feel comfortable with [indiscernible] (40:08) having a net debt t EBITDA ratio of somewhere between 2 times and 2.5 times, which we feel quite comfortably about that. And our target going forward is basically going to be making sure that we keep this leverage level in absence of any acquisitions or mergers.

So, that's going to be mostly our target level. The same is valid for our Beer Operations as well, as only on the consolidated side. We've seen our net debt to EBITDA level has been around 1.6 times, which has been quite a success in a year that has been quite significant devaluations on our TL and on the other hard currencies. And our basic aim is to make sure that we keep our leverage levels on this healthy levels.

The second question about the minimum wage level. Well this is, we said this before as well the minimum wage increases doesn't have a very significant impact on our cost base. So, we are confident that we are going to be able to compensate this cost impact that are coming from the minimum wage increase, again I'm not repeating that will very significant in our cost base, we're going to be compensating those with the initiations that we have both on the procurement side as well as on the productivity side.

<Q - Walid Bellaha>: And presumably through a bit pricing as well?

<A - Robin Michael Goetzsche>: So Pricing.

<A - Onur Çevikel>: In Turkish. Can you repeat the question? I think I missed the question.

<Q - Walid Bellaha>: No, no. I said, you basically should be able to compensate it with some initiatives on the current procurement side and presumably with a little bit of pricing as well in Turkey?

<A - Onur Çevikel>: Yeah, I mean pricing is always a tool to compensate those, but it's not that high to get into the pricing issue for that.

<Q - Walid Bellaha>: Okay. Thank you.

<A - Onur Çevikel>: Thank you.

Operator

Thank you. We have a question now from Mr. Edward Mundy of Nomura. Please go ahead, sir. Your line is open.

<Q - Edward B. Mundy>: Hi, thanks for taking the follow-up. Couple of questions, I mean, first of all, have you seen any change in behavior from the market leader in Russia, given there has been management change in Copenhagen? Secondly, a point of clarification, how big now is Ukraine, I mean in volume terms also as a proportion overall international? And then thirdly, I think I asked on the call, the Q3 call, around the potential impact of the ABI-SAB transaction, which hadn't been agreed back then. Was wondering whether you had any further thoughts and do you envisage any opportunity to collaborate with ABI, once that deal actually gets signed off.

<A - Robin Michael Goetzsche>: Thanks, Edward. To go to the last question first, I mean as we've mentioned because of the takeover rules from the – let's see, we can't actually comment on ABI at all. So, there is nothing more to report there. In terms of Russia, I think certainly what I'm seeing from BBH Carlsberg is a more [indiscernible] (43:40) pricing strategy and they seem to be willing to lead the market from a pricing point of view. So, that looks positive. And I certainly think this more realism at the Russian Beer Union in terms of what the industry is dealing with and their leadership in terms of the Russian Beer Union and being the market leader. So, I'd say the positive [indiscernible] (44:07)

<Q - Walid Bellaha>: How about Ukraine?

<A - Robin Michael Goetzsche>: Ukraine. Yeah, I mean, the fact that we – we're in the east, means that we are in a very difficult situation. So, our focus is really being just firstly to protect our employees and then protect the assets. We've done that. What we are essentially doing at the moment is we're running an import business in the west of the country. So, we're importing from Turkey and Moldova making sure that we have a sales representation there. We don't have any – any solution to what's happening in the east at this time. So, nothing more to report, but certainly very negligible in terms of our beer business now.

<Q - Walid Bellaha>: So, essentially your International Beer volumes should more closely track Russia in 2016?

<A - Robin Michael Goetzsche>: Plus obviously Kazakhstan and the other two [indiscernible] (45:02)

<Q - Walid Bellaha>: Yeah...

<A - Ayse Dirik>: Now, we have two questions from the webcast. First one is from [indiscernible] (45:10) We will be answering that first. He's asking that as you expect Turkey sector volume go down, while your goal is to have flattish volumes, what would be your strategy to gain market share in Turkey? Should we expect higher OpEx or lower product prices, while you are gaining market shares?

<A - Robin Michael Goetzsche>: Okay. Thanks for the question. Certainly, I mean, if you look at our long-term market share position, we have lost a fair amount of market share driven by the number of factors. Our view is that we need to stabilize, and I think we have done that in the last six months. We would like to gain market share, but again certainly not at all cost of ideas, not to go and gain, what I call unprofitable market share.

So, it's much more making sure we're executing, we have the right brands, packs, et cetera, we have the coolers in place and so on. And as mentioned, I don't think we're going to go and show a huge amount of discounting OpEx at the problem just because we want market share at all costs. So essentially, what our overall approach is sustainable market share rather than massive growth and picking up quality market share, where we targeted.

<A - Ayse Dirik>: And we have another question from [indiscernible] (46:43) and he is asking, might you please share some thoughts and considerations regarding the future of your International Beer business in light of the amalgamation of Anheuser-Busch InBev and your partner SABMiller. And the second question is, please comment on the treading conditions in Russia in 2016 so far market trends and effective market share trends and the third question is any thought on the possibility of Russia will impact excise duty, as suggested by members of the Duma?

<A - Robin Michael Goetzsche>: Yeah. Thanks. So good, I mean – I think the first thing is that obviously, as I said already on the AB indexing, until they [indiscernible] (47:25) of this, we can't do anything because of the restrictions by the take of the panel on the London Stock Exchange so, nothing I can add to that.

Trading conditions in Russia, in fact I think it's – if I said Turkey was a little bit soft, I'd say, Russia is tracking a little bit ahead of our expectations at the moment. So, looking quite good, but again these months are very small market share, but early to tell because we don't have kind of market shares in the – we don't have – we only have sort of December market share, so we don't have a sense of those yet. But our expectation would be, as I said, over the year and certainly through the season is to gain some market share through our initiatives, but ongoing focus on really particularly getting ourselves up on the Upper Mainstream.

In terms of the excise roll back, I think it's an interesting discussion. I mean, I think there is a lot of kind of [indiscernible] (48:28) before something could happen. I mean we would welcome that of course absolutely. And as you know, there was a freeze over the last two years on the spirit take size very much driven by the fact that there is so much illicit or illegal spirits being made in the country. So, we would certainly welcome any roll back in the excise, if there was, but I think in the context of the economic environment in Russia, I would find it quite odd to believe that there would be that, but let's wait and see.

<A - Ayse Dirik>: And we have one more question, again from [ph] Dmitry. (49:10) First question is, do you plan to hedge any of the FX debt? And the second question is, should we expect new issuance on international markets this year?

<A - Onur Çevikel>: So, let me answer this question. As we mentioned during the presentation as well, basically our first aim is to make sure that we hedge our operational FX exposures proactively and at good rate, which we have been very successful doing back in 2015 and we have gone ahead with in 2016 as well.

Coming to the question on the balance sheet side and a fix debt side, well we are working on this. So, whatever we think that it's going to be a beneficially for the company and it's going to be feasible for the company in terms of cost and maturities and all the other related criteria, then we might be going for this. We are not out ruling that we might be doing FX hedging on our balance sheet, but yet we don't think that is the right time to do it at the time of the year.

And second question is, any issuance on international markets this year. Well, as we said, we have a very limited credit repayments back in 2016. So, in absence of any major acquisitions or where the issues, we are not planning to tap the international markets for this year.

<A - Ayse Dirik>: Thank you. Jake, we can take the questions from the queue.

Operator

Thank you. [Operator Instructions] We have a question now from the line of Maryia Berasneva of Morgan Stanley. Please go ahead. Your line is now open.

<Q - Maryia Berasneva>: Hello. Just one more question from me if I may. On the working capital side, I'm sorry if I missed this, but could you please expand on whether you see room for further improvement and which areas of your working capital and would that take place in 2016?

<A - Onur Çevikel>: Well, thank you very much for the question. I will take you through the working capital requirement part of the business. So, what we have been basically able to manage in 2015 and that we want to continue doing in 2016 as well was, first to manage our accounts receivable and stock levels in perspective that we want ideal commissions on those.

And as well mentioned by Robin during his presentation, the optimization of stock levels both of plans, as well in our distributors in the marketplace has taken place mostly in the fourth quarter of 2015 and we want to make sure that we are going to be carrying forward those optimized levels of inventories which is helping both to make sure that we improve our working capital requirement, as well as this helps also our business partners in the marketplace[ph] with us. (52:49)

And also in most of the other items of the balance sheet including accounts payable and other stuff, we are working on those to make sure that we get better results. Most of the improvements as I said, we have managed to do in the last two quarters of 2015. What we are going to be doing is expanding these into 2016, so that we make sure that the EBIT line, our working capital requirement is as a percentage of sales.

<Q - Maryia Berasneva>: Okay. And in terms of the cash conversion, do you expect or do you think what you've done in 2015 is sustainable going forward and if there is room for improvement, is that a fair assessment?

<A - Onur Çevikel>: Well, of course we are targeting an improvement, but as I well said, 2015 has been quite successful in that perspective. So – but we are going to be having some improvements in 2016 as well.

<Q - Maryia Berasneva>: Wonderful. Thank you.

Operator

Thank you. And we have no other questions. So, Mr. Robin Goetzsche back to you for the conclusion.

Robin Michael Goetzsche

Well, thank you, everyone, for the questions. Of course, our team are happy to field any other questions afterwards if you want to ask. But I really thank you for your time and we look forward to our next session in a couple of months. Thank you very much, everyone, for taking the time and effort.

Operator

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