Company Name: Anadolu Efes
Company Ticker: AEFES TI
Date: 2019-03-01
Event Description: Q4 2018 Earnings Call

Market Cap: 11,877.63
Current PX: 20.06
YTD Change($): -.54
YTD Change(%): -2.621

Bloomberg Estimates - EPS
Current Quarter: 0.120
Current Year: 1.024
Bloomberg Estimates - Sales
Current Quarter: 2977.000
Current Year: 21658.538

Q4 2018 Earnings Call

Company Participants

- Asli Kiliç Demirel
- Can Çaka
- N. Orhun Köstem

Other Participants

- Nikolay Kovalev
- Hans Gregersen

MANAGEMENT DISCUSSION SECTION

Operator

Ladies and gentlemen, welcome to Anadolu Efes Beer Operations Full Year 2018 Financial Results Conference Call and Webcast.

I now hand over to your Investor Relations Manager, Ms. Asli Demirel. Madam, please go ahead.

Asli Kiliç Demirel

Hi, everyone. Welcome to Anadolu Efes beer operations 2018 last quarter 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'm leaving the ground to Mr. Can Çaka, Anadolu Efes' CEO. Go ahead.

Can Çaka

Thank you. Hi, everybody. Good afternoon, and good morning for some of you as well. Welcome to Anadolu Efes full year 2018 results call. Thank you for joining us today. I'm pleased and excited to be here for my first results call since taking over as CEO of Anadolu Efes at the start of the year. I hope some of you might remember me from my previous roles. As you would recall, I'm not new to the business just new to my current position.

I joined Anadolu Efes back in 1997 and the Overseas Investments Department which had been newly set up at that time in line with the company's decision to invest and expand beyond Turkey. Since then I have taken various roles in Anadolu Efes. Between 2002 and 2008, I had privilege to lead our strategy and business development team and managed various acquisitions that expanded our borders and especially for Russia strengthened our position in the competitive landscape for our operations. Lastly, I was the CFO for Anadolu Efes between 2008 and 2013, just before being appointed as the CFO for Anadolu Group. Between 2009 and 2013 we managed the business, strongly growing despite the global crisis, despite increasing taxes, and we have also supervised our teams adapt for the changing regulatory environment for our major markets as well.

I had also lead the SABMiller transaction that took us to number two position in Russia and that gave us an entrance to Ukraine and also paved our way to partnership with AB InBev today. Between 2013 and until the end of last year, I took the CFO and business development lead roles for Anadolu Group, however I was quite close to Anadolu Efes.

And as noted I am pleased to be back here.

I have with me today Mr. Orhun Köstem, CFO of Anadolu Efes who is also new to his lead role but similarly by no means he is not new to the company as well. He is a long timer. He will probably introduce himself in the coming minutes as well.

It has been quite a busy two months for us so far. We have been out meeting with many of our investors and look forward to meeting many more in the months ahead. Similarly, we have been listening to our business partners, employees, consumers, customers excitingly. We have a lot to do but we have the energy, enthusiasm and more important the determination to do all those as well.

Within a very short period of time, we've managed to align the senior leadership around the key initiatives that we will be focusing on the next 12 months. Today I see a lot of opportunities with this strong portfolio of great brands in every operation, and we are determined too for the operational excellence required to capture the value of our portfolio. I will give a few comments on the highlights of the year and then I will pass over to Orhun who will cover financials a lot in more details. Then I'll wrap up with our expectations for 2019 and open the floor for your questions.

Going to page 4, without a question as a snapshot of 2018, without any question, the highlight of 2018 was our successful closing of the merger in Russia which went very well indeed ahead of our expectations in terms of the speed of the integration and realization of the synergies. Obviously, both companies had unique competencies, one benefiting from large scale global expertise and best practices and while we have the longstanding successful regional experience in Russia. We combined our best practices, best people, created a dynamic and strong new business there. The merger also yielded a very strong brand portfolio covering all segments, but in particular leading the premium and super premium segment where we have over 40% market share. Our Asian brand portfolio includes well-known international brands such as BUD, Efes, Kozel, Corona, Hoegaarden, while it also includes strong local brands such as Klinskoye and Stary Melnik. We strongly believe in the mid-term high potential of this business. Secondly, the successful brand launches and sales execution we carried in our operating markets delivered positive results. Particularly in Turkey, we expanded our brand portfolio by introducing BUD and Var■m, both of which became very successful in a short period of time.

We had strengthened our brand portfolio with an affordable [ph] new (00:06:00) generation oriented brand we call Var■m in a macroeconomic environment which makes a lot of sense for such an affordable offering. [ph] Now with this (00:06:09), we had at the same time a premium launch as well serving BUD to our Turkish consumers who are looking for the brand for long years.

Furthermore, in 2019, early beginning of the 2019, we had three new introductions to our Turkish beer portfolio Corona, Leffe and Hoegaarden, all of which are very well known premium brands with distinct properties as well. Today, the premium segment makes 12% of our total portfolio in Turkey and contributes very strongly to our business.

In Russia, again we successfully implemented BUD sponsorship campaign during the 2018 FIFA World Cup at the highest level and contributed positively to the brand awareness. In other international beer markets, we gained market share, especially in the second half of the year supported by our initiatives around the core and premium brands.

Following the commercial snapshot going into the results in deeper, during the final quarter of the year, we grew both top and bottom line of our business. Consolidated volume growth was 1.9% on a pro forma basis and our revenues grew significantly ahead of volumes by increasing more than 30% year-on-year basis due to the price increases, positive mix, positive translation impact. Next, the EBITDA during the year was slightly down for the fourth quarter, mainly driven by higher COGS, higher sales and marketing.

Sales and marketing expenses are also impacted with shifts between quarters due to lower base of 2017 fourth quarter. On the bottom line, stronger Turkish lira during fourth quarter contributing to the bottom line and helped us growing for the bottom line.

[ph] Going on (00:08:14) the following results and focusing on full year results, on a consolidated basis we delivered 5% volume growth in 2019, towards the upper end of our guidance. Revenues again grew ahead of our volumes around

28% year-on-year, supported by pricing mix and translation effect.

Therefore, Anadolu Efes reached to an EBITDA of TRY 3.1 billion recording 24% year-on-year growth on a pro forma basis. Free cash flow generation was equally strong with [ph] all around (00:08:52) TRY 1 billion on a consolidated basis, enabling us to maintain our net-debt-to EBITDA ratio at 1.5 times despite the devaluation of Turkish lira during the year.

On the next chart, focusing on our beer business, full year total beer volume growth on a pro forma basis was 1.2% again beating our guidance while balancing the soft volumes in Turkey Beer with the good performance of our international operations highlighting the importance of our diversification strategy.

In Turkey domestic volumes were down by 4.2% in fourth quarter due to the price increases and deteriorating consumer confidence through the quarter, and partly cycling a high growth quarter of 2017. As a result, our domestic volumes was 2% below last year, in line with our guidance again. Turkish beer market based on retail consumer take-up grew through the year by mid-single digit, which is positively supported by tourism, weather in the first half and Ramadan period moving ahead out of the season. However, this positive news is partly offset with the trend changing as one would expect with the deterioration in consumer sentiment and higher prices at the end of the year.

Going into Russia, in Russia as well we have experienced market growing with positive impact of weather in the summer and World Cup as well. Following the positive momentum of the successful integration and excellent World Cup actuations, our volumes grew in Russia at high single-digit levels on a pro forma basis to the fourth quarter. Supported by the performance of the JV, our international volumes grew by more than 5% in fourth quarter 2018, a gain on a pro forma basis, and 2% to 2018 with the contributions of Ukraine, Kazakhstan, and Moldova on top of the Russian performance.

Before leaving the floor to Orhun, a couple of words about our soft drinks operation. Our soft drinks operations had a strong and quality volume growth in 2018, with 6% on a consolidated basis. As again, we had also net revenue growth ahead of volume growth and EBITDA growth ahead of our net revenue growth. In Turkey CCI recorded the highest annual volume growth since 2012, with strong performance of the sparkling and stills categories jointly.

International soft drink operations posted 8% annual volume growth, strong growth was mainly driven by Pakistan and Kazakhstan operations, although the former was under pressure in the fourth quarter to some extent. In the final quarter of the year, consolidated soft drink volume grew by 0.6% with flat problems in Turkey and 2% growth in international markets.

With that, I hand over to Orhun for the financial overview. Orhun?

N. Orhun Köstem

Thank you, Can. Good morning, and good afternoon, everyone. Before I go into details, let me very briefly introduce myself but maybe re-introduction for some of you in the audience.

I'm new started at the start of the year as the Chief Financial Officer even though, I have been with Efes for over 15 years, of which the last what I've done was 10 years ago. I was a Chief Financial Officer of the international brewing business. I worked with Coca-Cola ■çecek for about nine years, seven of which I was a Chief Financial Officer. In the past two years, I was always seeing the Pakistan and Middle East businesses. So, I'm happy to be back. Being closer to the brand and mothership.

And with that, let me just talk a little bit about what has happened in 2018. So, on slide 10, as you see our business units obviously 2018 by in all means was a very important year for our beer business, as we have integrated our businesses in Russia, primarily in Ukraine. Now obviously, there has been a lot of efforts in the process, and we are happy to say that through the integration we have been able to deliver performance. If you look at the full year obviously, the revenues were up by about 35%. Gross profit was up by 27% and EBITDA was up by 15%.

Obviously, there's a – as the average devaluation of Turkish lira was about 32%, 33%. And in the year, on a constant currency basis again we have delivered with high-single digit growth in net sales, revenues in our international businesses, so still growing quite strongly ahead of our volume growth which is a function of the price increases that was taken throughout the year in a number of markets including Kazakhstan, Moldova, Georgia, obviously.

Russian business as Can was pointing out had a – Russia, we had a good year as an industry given the World Cup that obviously helped us throughout the year. Our margins, although gross profit was lower. Now in general we can say, and I'm sure you have must have followed from the last quarter of the year the increasing raw materials, especially attributable to packaging cost plays a big part, in that outside of Turkey that's also, PET resin, which is a package that we utilize in certain of the markets. And obviously, looking ahead is also for us to be able to manage as we see channel mix shifting towards more modern trade, obviously away from traditional trade which is a trend that we would need to continue managing rest of the years to come.

But obviously the impact of the integration also is there in Russia. Even though we have been able to deliver better than our expectations on synergies, nevertheless in the first year of integration we've seen obviously some impact, especially flowing through our OpEx. So hence you also see a more or less similar margin contraction on the EBITDA level.

If we come to Turkey, again, we have a stronger revenue growth. That's again a function of the price increases especially in the last quarter in October, we have made our last price increase so far before 2018. That was obviously when the impact of the raw material increases and FX was taking place, but please bear in mind obviously when looking at 2019 we should remember that there was an additional price increase in 2018 which will have an impact on our results for next year.

If you look at the gross profit again we're looking at a 12% increase and margin contraction to the tune of about 300 basis points. The majority of which actually is driven by what's happened in the last quarter. Again the utility costs the packaging costs as well as the impact of the FX in the raw materials is driving the impact on the gross margin. And the EBITDA was for the full year close to flat 1% increase, with the margin contraction of about 340 basis points on top of what we've seen on the gross profit especially throughout the year.

If you look at the last quarter for our Turkey business, obviously our OpEx have increased. That's attributable to sales and marketing expenses to support the business at the time when market was slowing down and obviously cost was increasing and the price increase was affected. But all in all, if you look at our total beer business, we believe we had a good run growing revenues by 30% gross profit by 22% and EBITDA by about 9%, with margin contraction as I've explained in the business units. And if we come to Anadolu Efes, including Coca Cola ■çecek as a soft drinks business, obviously – I'm sure you must have listened to our friends yesterday in their webcast but CCI's performance obviously impacts Anadolu Efes where we're seeing much stronger performance on a consolidated basis or the total business.

Now one area that we have been obviously focusing on and we will continue focusing on, you'll see on page 11 is how we drive free cash flow. Again 2018 not different obviously both in Anadolu Efes and in the Beer Group; we were focusing on generation of free cash flow with continued to optimizing our working capital and obviously maintaining a moderate CapEx budget for the period. As a result of which I'm sure you also have seen even with the significant volatility in many of our markets macros, currencies we have been able to maintain that position. And then added to that, I'm sure you must have seen our dividend proposal which is about TRY 300 million for the year. Obviously that's also be supported by the subsidiaries, CCI's dividend distribution as well.

There is one thing that we've talked about we were talking 2018 and last quarter was raw materials and FX. Obviously that's also a theme for us as we look forward into 2019. We have throughout 2018 also hedged our positions for both raw materials. As you've seen, we have hedged about 70% of the aluminum exposure. And then we don't necessarily want to overdo this. Our outlook at this point in time is that the aluminum prices will not going to continue increasing quite significantly. But we can now have more visibility into that cost component. On the other hand, we have fixed 100% of our barley procurement locally. So our visibility into that is quite high. As far as the FX component in the cost is concerned, that's a very important part of what we are focusing on. And in that sense 90% of Turkey's exposure is cost and OpEx basis currently hedged. And then that's 100% for our businesses in Russia and Ukraine.

Now we've, most of that comes from either cash flow or designation. And usually if it's a FX exposure and then derivative contracts forwards or options, if it's hedging of commodities, in our cost of goods sold. The other obviously in the next page 13, you'll see another area of quite a bit of importance which is how we manage the exposure in our balance sheet.

Now as of 2018 December, if you look from a Beer Group, beer business point of view, 76% of our debt is hedged. Net investment hedge that has taken place last year is an important driver of that. Obviously which we have benefited and I'm sure you must have seen especially when comparing last quarter results of 2018 and 2017 the impact that's happening to our bottom line. And then, if you look over to Anadolu Efes on a consolidated basis, the hedge component of our balance sheet exposure is about 58%. So that's something that we are following quite closely and focusing on as we look into potentially more currency volatility into 2019.

Now having said that if you look at our leverage ratios on the next page 14, even after this currency volatility, raw material price increases, needless to say that was taking place quite severely in Turkey throughout our season, this year we have been able to maintain our net debt to EBITDA levels at a comfortable 1.5 times. You also see as part of our cash management, a majority of our cash both in beer and the consolidated business sits in hard currencies and we're now looking at fixed interest rates in our debt. Obviously in the Beer Group it's a function of the fact that the majority of our debt is the Eurobond which is fixed. And so it's coming from Coca-Cola ■çecek in that sense as well.

And if you look at the maturities overall if you take a step back and look from a larger picture point of view obviously we have a quite relatively less, say, comfortable repayment schedule. [ph] The largest part that's (00:23:26) maturing is the Eurobond which is due 2022 in the Beer Group case and for CCI is 2024 so there's quite a headroom for us next few years to get prepared for that while we continue accumulating cash and drive cash flow generation out of businesses.

And finally on page 15, very briefly obviously what we were looking at and what we will continue to look at as far as priorities is you should expect us looking at strong free cash flow generation and improvements in productivity, how we manage working capital and et cetera. P&L management would continue to be quite important for us as we described hedging the FX exposure or the commodity volatility, as well as how we can assess top line growth in these times when the affordability becomes more important. We will continue again managing risk effects, commodity risk that flows through our P&L or balance sheet. We would continue maximizing our cash returns as we prepare for redemption or utility of our free cash flow generation. And obviously we'd like to maintain a flexible balance sheet and a healthy level of debt in there.

So, I will now pass over to Can once again for his closing remarks. Thank you very much.

Can Çaka

Thank you, Orhun. Well again, as I noted, in every other operation we have very strong portfolios with great brands and we have a lot of plans for 2019, as well to improve the relationship with our consumers to improve the relevance of our portfolio to our consumers.

Yet on top of those plans, we have very – lot of plans also in terms of sales force effectiveness and efficiency in terms of operational excellence. So we are fully ready for the year. However, on the other side, we have a lot of certainties especially in Turkey looking at the inflationary environment, to some extent deterioration in the consumer confidence starting from the third quarter onwards, weaker Turkish lira compared to last year and probably fears of the volatility could be back are the main causes of concern in Turkey as we all know. On the other side, on the global economic conditions, geopolitical tensions, ever changing directions in trade talks with the two world's largest economies are also concerns to us.

So that's why as of today looking for the year, we are looking ahead cautiously, especially in Turkey and especially for the first quarter. By the end of which, we will have local elections. And as noted in my comments for 2018, at the end of the year, we have seen the beer market uptake declining and we expect the trend to continue at least for the first quarter as well. On the other hand, the Russian beer market will be cycling a very strong summer season supported by the World Cup and good weather. So those would have an impact as a high base.

Therefore, we expect sales volumes in our main markets staying flattish over the year. However, we are as I try to explain, we are very positive with our portfolio expansion that we had last year. And we have the plans we have this year, further segmentation, integrated activity plans we have available ready today to execute, we have started to execute. So with all these, with efficient revenue management, we expect positively implemented pricing decisions in certain cases proactively and positive mix effect of the portfolio. We expect a solid growth on net sales revenues both on Anadolu Efes consolidated and Beer Group basis.

On top of this, we expect slight improvement in consolidated EBITDA margin and we expect to reap an important part of our final synergy target in Russia throughout 2019 which will enable us slightly improve our Beer Group EBITDA margins as well. Similarly in CCI, we expect slight improvement in EBITDA margin. We have been able to consistently deliver very healthy cash flow, driven by our financial discipline. We will continue with our initiatives in that manner as well and to maintain a healthy balance sheet throughout 2019, together is generating also a very strong free cash flow.

So that concludes my 2019 guidance, so we are ready to take your questions. Thank you for listening us.

Q&A

Operator

[Operator Instructions] We have a question from Nikolay Kovalev from VTB Capital. Please go ahead.

<Q - Nikolay Kovalev>: Yes. Good day to everyone and thanks for presentation. I have a couple of questions on your primarily Russian business. So can you update us, previously you were talking about a 40% synergy target ratio 2019 which is almost $40 million? So is this target intact? And what measures do you plan to assume and if possible can you break for us this figure into key areas of improvement? And also to clarify, so if we apply the synergies then we will get like almost at least 3 percentage point improvement in margin on the 2018 base. So, is this calculation correct. And is this what you meant in your guidance?

<A - N. Orhun Köstem>: Thank you, Nikolay. First of all, obviously, our big driver and a big profit opportunity for us in a quite large market like Russia is the synergies we expect to drive from the merger, that should come from a number of places. Obviously the most – let's say simplest of which is how we plan our production and our supply matrixes and et cetera. So, it's a positive drive flowing through all the P&L.

In 2018, we have been able to deliver better than our expectations on the synergies that we were planning to generate in our Russian business. In 2019, obviously a large part of our – we expect to have a larger part of the synergies to be present – let's say, give or take, out of the total, as I remember that has been guided at $80 million to $100 million in total for a period of three years, so 2019 will be important for that. But yes, we are on track and we still expect that to be in place. I can't confirm the exact margin impact of that. All I can say is your assumption is correct in the sense that the synergies obviously is expected also to add to our current profitability levels and hence to our outlook for our guidance for 2019 for our Russian business. Would that answer the question?

<Q - Nikolay Kovalev>: Yes, mostly. And can I ask one more question. To realize synergies, I kind of look at your breweries and you have a number of breweries larger than the market leader [indiscernible] (00:32:02) So can you comment how happy you are with your current utilization in Russia and do you see a potential to optimize a brewery count?

<A - Can Çaka>: Well, when we look at our let's say network brewery – brewing network, we are very happy with that. And certainly, we are constantly reviewing our capacity utilization. And in accordance with the plans, in accordance with our current [indiscernible] (00:32:33) to market. We are also happy with the capacity utilization and our ability in the coming years to utilize the remaining capacity in that perspective, frankly speaking as of today we are not contemplating any change in our brewing network, I would say.

<Q - Nikolay Kovalev>: Okay. Thank you very much.

<A - Can Çaka>: Thank you.

<A - N. Orhun Köstem>: Thank you.

Operator

[Operator Instructions] We have a question from Hans Gregersen from Nordea. Go ahead.

<Q - Hans Gregersen>: Good afternoon. Just a follow-up on the previous question. You mentioned that synergies in Russia has exceeded your expectations in 2018, if I understood it correctly. Can you quantify how much you have done in terms of cost release? The second question goes also to the previous question. Can you give an indication of how progressed you are on integrating your, let's say, commercial operations and organizations as well as your supply chain. Thank you.

<A - N. Orhun Köstem>: Thank you Hans. Let me at least, this is Orhun speaking, take the first one. I'm afraid I won't be exactly be able to quantify you what the exact synergies and how we exceeded that. All I can say is we've delivered at least 70%, 80% higher than our initial expectation for 2018. So that's how we're happy and obviously had a positive impact. And look obviously quite closely in 2019 to continue with that good performance in delivery of synergies of our business in Russia.

<A - Can Çaka>: Yeah, Hans. Let me handle the second part of your question. Certainly [indiscernible] (00:34:43) we look at the integration. The first challenge, the first focus was to set up the leadership team and the leadership team as such on day one with a very strong combination. So they have taken the business. We are very happy with the progress of the leadership team of, in our joint venture. When we look at from the brand perspective, actually the brand portfolios were very complementaries and regional – also regional peculiarities of these two companies were supportive and complementing each other. So that was almost done on day one as well. And I have to admit we had a very good planning in terms of the pre-merger integration planning which the teams were able to deliver right from the day one. So in terms of branding, we didn't see any issues as well.

And in terms of supply chain, also I think the integration was there, even before – by the season, I would say. So it was quick and fast as well.

I think with respect to the integration the only, let's say, remaining pieces which remained after the season I would say was in respect to the route to market. So part of that were certain regions, that were a certain percentage of the route to market that was being integrated before the season. Throughout the season, we were very much focused in terms of our execution and in World Cup, so on, so forth. So we partly stopped that. And right after the season, the team take the same acceleration, take the same speed. And as of today, route to market integration is down as well. That's why we could say that integration type, the process the integration is done there. All is remaining with the [ph] extraction (00:36:45) of the synergies going forward. So that is what we see.

<Q - Hans Gregersen>: In the previous statement, there was a little bit of noise on the line. I couldn't hear your answer but was I right to understand that you argued that you would not close any breweries?

<A - Can Çaka>: We don't see any necessity today. We are happy with the capacity utilization as of today. We are happy with our long term view and with our aspirations in Russia, looking at the potential capacity utilization and we see that our current brewing network, current brewing logistic network is good to support the business for coming years

<Q - Hans Gregersen>: Then if I may ask just one additional small question...

<A - Can Çaka>: Sure.

<Q - Hans Gregersen>: ... some of your competitors have argued that if I say the combined ABI-Efes entity during 2017 and partial 2018 has been very aggressive in promotions. Do you see the promotional activity level to continue at the current pace we saw in 2018?

<A - Can Çaka>: Well, I think that's a little bit commercial detail. But frankly speaking looking at the Russian beer market, looking at the development of the modern trade and you would expect modern trade is very much linked with the promotions and everything. I think overall generally we can say that everybody is continuing with to try to reach out to the consumers with a lot of activities I would say, not necessarily in terms of discounting. So I think we are doing a very good job there and also look we have lots of other initiatives as well in that perspective. I don't think we are any different than the markets at all.

<Q - Hans Gregersen>: Thank you very much.

<A - Can Çaka>: Thank you.

Operator

Our next question is from [indiscernible] (00:38:41) Please go ahead.

<Q>: Hi. Thank you for the presentation and wishing you well in your new roles, obviously. I had a question

<A - Can Çaka>: Thank you.

<Q>: ... on the Turkey business. First question is about your market share. This number is coming down from 6% to 7% level since 2016. And I remember asking this question to your management back then as well. And I remember also the answer was you were expecting your market share to stabilize around that level but we are seeing that you're continuing to lose market share in that domestic market. Can you elaborate a little bit on that? Do you expect this trend to continue? And what was it that you were missing maybe in your previous calculations?

The second question is on taxes. Given the fact that the Turkish government has sacrificed a little bit on its taxing income in several sectors, would you expect in above inflation increase this year in your excise tax? Is that kind of number that you are incorporating in your budgets?

And then last question is, you've gone through this integration with ABI in the international business and probably some of your costs – maybe some of your costs have built up and there were some one-off expenses. Is there any room for your OpEx to come down in this year?

<A - Can Çaka>: Let me comment on the first and second question. And with respect to the integration costs, I ask Orhun to help me. Turkey Beer business like many businesses, like many beer markets globally, experiencing more or less the same trends. Consumers are, especially young consumers are looking for different varieties, different opportunities, different choices. So in that perspective, we have seen globally, a lot of examples in many markets where brands like [ph] Efes piece (00:40:54) are very strong brands, very highly connected with the consumers. When all marketing, when all communication is prohibited, it suffers because you lose the relationship to some extent and you are not able to deliver all the good things that you are delivering to the social life of your consumers and you don't have that effectiveness anymore. And with these global trends, where the core brands usually losing market share and brand portfolios are developing as we are seeing in Turkey.

We have witnessed certain market share losses throughout the years. And frankly speaking that continued through 2018 as well. Therefore, I think regardless of looking at specific numbers, where it would be by the end of next year or so, our focus is about that first creating a great portfolio to reach out to consumers and make sure that we have relevant brands to fulfill their needs and different occasions, so on and so forth. And I think we are very successful on that having various affordable brands, different [ph] young (00:42:11) brands, the various premium brands in that perspective.

So, even within our own portfolio, there are different movements with respect to the volumes and everything. And throughout 2018, especially during the second quarter and third quarter for more than six, seven months, we have seen our market share is stable. So those are all good indicators of what we're doing is right and in the right direction with all this expansion and with all this portfolio offerings in that perspective, certainly dealing with such a large portfolio of brands. Great brands requires additional capabilities and which we are focusing on that. I believe in that perspective we have improved ourselves significantly but yet there are other areas and there are additional improvements that we need to do.

And in that perspective, [ph] it's about (00:43:10) within our large portfolio we have CCI as a subsidiary, we have the Russia and Ukraine joint venture. We have other international operations. Every other within Anadolu Efes, every other piece, every other piece of this portfolio and [ph] they're just (00:43:28) different value add to the portfolio. And in that perspective, we look from the top as Anadolu Efes. Every other year we are delivering strong results both in terms of growth on top line, both in terms of growth in profitability, delivering very strong cash flow. So within that, our specific focus is making sure that we have a sustainably successful business beyond the horizon. So that's what we are focusing and guiding our businesses and we are very comfortable on that. Yes we may lose a couple of market share in this market or in that market but it's important and much more important for us that we have a very strong portfolio of brands that reach out to consumers on different occasions, so that we keep on delivering the strong results we are delivering up until now.

With respect to taxes, I mean certainly it's very, very difficult to comment on what would might the government – any government action. But at the end of today what we know is that there's a law that requires taxes increase every other six months, automatically in line with the inflation. So our current expectation and forecast is in line with that. So we expect excise tax to increase in line with inflation by July 1.

<A - N. Orhun Köstem>: [indiscernible] (00:44:56) This is Orhun Köstem speaking. For your last question the answer is in general, yes. As a percent of revenue and on a per liter basis we expect the operating expenses to come down. The way this should happen is that they're not going to increase, even though we should expect our top line to grow much faster than how our OpEx base is moving.

<Q>: Thank you very much.

<A - N. Orhun Köstem>: Thank you.

<A - Can Çaka>: Thank you.

Operator

[Operator Instructions] We have no other questions, Mr. Can Çaka, back to you for the conclusion.

Can Çaka

Thank you very much. Thank you. I thank you for all the questions. I think that gave us more opportunity to give you more clarity. So before closing, we wish you a nice weekend and I hope that you have a couple of our great brands by the end of the day today. Thank you all.

N. Orhun Köstem

Thank you very much. Have a very good weekend.

Operator

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