

# Anadolu Efes

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## CONFERENCE CALL TO DISCUSS ANADOLU EFES FINANCIAL AND OPERATIONAL RESULTS FOR THE FIRST QUARTER OF 2021.

**Company:** Anadolu Efes

**Date:** 06.05.2021

### **Participants:**

- Can Çaka, Chief Executive Officer
- Orhun Köstem, Chief Financial Officer
- Asli Demirel, Head of Investor Relations

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### **Asli Demirel, Head of Investor Relations**

Ladies and gentlemen, welcome to Anadolu Efes first quarter 2021 financial results conference call and webcast. My name is Asli Demirel and I'm the Head of Investor Relations of Anadolu Efes. Our presenters today are Mr. Can Çaka, the CEO; and Mr. Orhun Köstem, the CFO. All participants will be in listen-only mode. Following the first part of this call, there will be a Q&A session and you will be able to write down your questions on the question box on your web screen. Just to remind you, this conference call is being recorded and the link will be available online. Before we start, I would kindly request you to refer to our notes in our presentation regarding forward-looking statements.

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

### **Can Çaka, Chief Executive Officer**

Thank you Asli. Hi everybody, good afternoon and good morning wherever you are. Thank you all for joining our first quarter earnings release call.

Apparently, things have not become easier since our year-end conference call. 2021 has started and continues to be tough especially in Turkey. However, I can happily say that we have made a pretty strong start to the year driven by the dedication and

hard work of the entire Anadolu Efes Team under such challenging circumstances. So, I just wanted to take the opportunity to thank to the whole team for this strong set of results.

We delivered 13% volume growth in 1Q, with the contribution of both business lines. Beer volumes were expanded by almost 5% with Russia, Kazakhstan and Moldova taking the lead in terms of growth percentages. CCI also had a remarkable performance both domestically and internationally. In addition, we had a strong revenue growth in the quarter, as a result of price increases, a favorable product mix, as well as favorable conversion impact. We also had a good profit performance in the quarter. In addition to the support of the topline, there has been some shifts between quarters in terms of opex which we expect partially to be normalized in rest of the year. Therefore, we were able to deliver a better than expected revenue and margin performance in the quarter.

As noted in our full-year results call, we accelerated our focus and investments related to our +1 Relaunch in Turkey in order to be ready for the peak season, that is why the opex in our Turkish operation was higher compared to a year ago. We had relaunched Efes family last year with full look and feel revitalization. And now we are renewing our look and feel in the market as we planned at the beginning of the year as we communicated in our prior calls as well.

We were also able to beat expectations in term of free cash flow with a significant improvement year-on-year basis. This is supported by a very disciplined working capital management thanks to Orhun and his team, despite the fact that we increased our market investments incrementally in this quarter to drive consumption and be ready for the season.

We are continuing to invest on our infrastructure to improve our digital capabilities in order to be more effective and efficient in the post-pandemic era whenever it comes. Therefore, our digital transformation projects which were awarded by industry experts in the first place, will continue to be at the core of our focus while achieving our long-term targets.

As a recent note, we made an announcement on Monday, regarding our intention to evaluate the opportunities to refinance our USD Eurobonds that are maturing in 2022. In this regard, we made our application to the Capital Markets Board for approval and started the process. So, this will be another busy period for our finance team.

In the first quarter, our consolidated volumes reached 23.2 mhl. 31% of our consolidated sales volume came from beer group. Our revenue growth significantly outperformed the volume increase, exceeding TL 6 billion. Contribution of Beer Group

in terms of the revenues was higher compared to the volume proportion almost 40% of revenues in 1Q.

EBITDA performance was very strong as well. This is especially attributable to the performance of soft drinks. International beer margin was also higher in this period. Therefore, consolidated EBITDA margin improved by almost 500 bps, reaching to 11.6% in 1Q.

Due to the seasonality of our business, free cash flow was negative. 1Q is the time where we spend disproportionate capex to be ready for the peak season whereas the revenue & profitability contribution is the lowest among all other quarters. However, there has been significant improvement year-on-year basis from negative TL 1 billion to negative TL 250 million this year. So, basically, we're talking about a positive TL 750 million improvement on the free cash flow generation versus last year.

Our beer operations' sales volume was up 4.3% reaching 7.3 mhl. International operations were the main contributor to the growth. It was another strong quarter for Russia where the beer industry grew by around 6% year-on-year according to Rosstat. And our volumes were even stronger than that. But more importantly, we gained value share compared to the year-end as we are focusing on the value share. We saw positive dynamics in different price segments. Specifically, BUD showed the highest volume growth increasing more than 25%, Spaten, Essa, Stella Artois registered double-digit growth rates. Our non-alcoholic offerings had a remarkable performance benefitting from their sales through e-commerce channels. However, there has been some deterioration in consumer purchasing power in the period due to the economic conditions following the COVID period; therefore, we are cautious for the rest of the year.

In Ukraine, the beer market was down by low-single digit and our performance was slightly below the market due to the implemented price increase ahead of the competition. We are expecting our performance to normalize starting from the second quarter onwards when prices are more settled. We continued our launches in the quarter offering consumers different tastes and varieties as well. So, our efforts are continuing despite all of it. In Ukraine, the number of cases is increasing unfortunately. There is the impact on the market and our performance specifically in Ukraine.

Kazakhstan and Moldova both had superior performance with close to 20% volume growth where Georgia was also up by low-single digits. We have observed some premiumization in CIS countries which also supported our profitability in the quarter. But obviously, our focus on where we are the most stronghold segment is the mainstream segment and we registered growth in this segment through the period as well.

Turkey is obviously the most impacted from COVID among all other operations due to its high share in on-trade. Our volumes were impacted the most as a result especially in the first two months of the year, due to cycling a pre-COVID period last year. However, we benefitted from a temporary re-opening in March where the shortfall in the first two months was partly mitigated. So, those are positive signs whenever we are out of this pandemic, I would say things will be expected to be normalized and be better. During the first quarter, we accelerated the marketing spend related to our +1 relaunch where we are seeing the early positive signs of stabilization in market share that is comforting us. Obviously, +1 relaunch at the Efes brand family is positively perceived by our consumers.

A couple of notes on our subsidiary, CCI's consolidated sales volume continued its growth momentum and increased by almost 18% in 1Q with positive contribution from all countries. International operations had a superior performance with Pakistan and Jordan taking the lead.

There were obviously lockdowns and restrictions that curb the number of COVID cases in Turkey. Despite these headwinds in Turkey we were able to deliver more than 10% to 12% volume growth. Sparkling beverages' growth was even higher where it registered around 20% increase where the stills category grew more than 15.7% with improvements in juice and energy segments. Water category declined by almost 15%.

International operations grew by 23%. Pakistan had a superior performance and posted more than 40% volume growth with consumer and shopper initiatives and regional acceleration plans, as well as optimal resource allocation.

In the CIS the volume growth was more than 8% in 1Q 2021. Excluding Kazakhstan, all countries recorded double-digit volume growth rates. Middle East posted 9% growth driven by Jordan, where the volumes were up 42%, remarkable performance.

We have already discussed the operational part in the previous slides, but I would like to go over the strong bottomline that we have delivered. Our net income was almost TL 300 million in 1Q, and it benefitted from higher operational profitability, as well as some one-off items like FX gains recorded as a result of repatriated cash from EBI to Anadolu Efes in order to finance the working capital needs here. Also, we sold our land in Lüleburgaz in the period, therefore the gains from this sale supported the bottomline as well as the free cash flow.

I am handing over to Orhun for his remarks on financials. And unfortunately, this would be last call on our side, actually Orhun is leading the call. Basically, I would like to thank him for his great contribution to this organization for long years. And

especially for the last two years working with him was a pleasure for me. Obviously, Orhun's departure is good for Orhun and is a loss for Anadolu Efes. But I'm happy for Orhun. And that's business that's life. I'm pretty happy that we have a strong bench at Anadolu Efes, and we were able to take the news from Orhun happily and while being happy for his career, we were able to also name his successor. Gökçe will be joining the team here in Istanbul spending long years in international operations, in finance and leading the team. You will remember Orhun paved the way for CFOs having operational experience. So, I believe Gökçe's operational experience will also add to our team. So, I'm very confident with this replacement. And I would like to thank Orhun once again, and I don't want to have him crying before he makes his final remarks. That's why I'm going to cut short and leave the ground to you. Thank you Orhun.

### **Orhun Köstem, Chief Financial Officer**

Thank you, Can. And many thanks for your kind words. Obviously, it was thrilling for me to be part of the journey for Efes starting from the improving business in Turkey, and now today, obviously a very sizable regional beverage business. Many thanks for your leadership and support, especially over the past two years, where we have been making serious changes to the business, which obviously, will impact the future years to come. And as Can was underlining, I'm quite confident as I pass the flag on to my successor Gokce, which I'm sure is going to continue raising the bar to better levels.

Ladies and gentlemen, welcome again to our first quarter results webcast for Anadolu Efes. And we're quite happy to report another quarter of strong results. First of all, it's important to note, that the first quarter of 2020 was our latest memories of our normal lives. So, basically, growing over that quarter in the first quarter of 2021, we feel it was quite important. Even though the rate of rebound is different, as I'm sure you know in alcoholic drinks and beer, obviously, some of the shopping patterns like e-commerce or home delivery are restricted. So, in essence, there are different paths and velocity of rebound for our two business units.

Coca-Cola İçecek, which I'm sure you must have followed, has announced a very, very strong set of results, and obviously contributed quite significantly to Anadolu Efes results in this first quarter. Beer Group, also in Beer Group we have enjoyed very strong growth in volume terms, obviously 4%, ahead of last year. And between the volume growth and the price increases in all of the operations, together with favourable product mix, we have been able to grow revenues ahead of volumes even on a constant currency basis, our growth was close to 19% revenue. And then EBITDA, we ended up with a slight negative EBITDA. As Can was pointing out, although we have seen a very, very strong performance across our businesses in Kazakhstan, Moldova and Georgia, and very favourable results in Russia and Ukraine

compared to last year; nevertheless, we have been disproportionately spending in Turkey, in this first quarter as we prepare ourselves for a very busy season hopefully, in rest of the year. And those preparations resulted in a slight negative EBITDA, even though a very serious rebound from last year's first quarter and 310 basis points margin expansion. But more importantly, as I'm going to walk you through, in the next page a very significant positive swing in the free cash flow of the Beer Group, just under TL 700 million compared to the first quarter of 2020.

So, if you look at Anadolu Efes, on a consolidated basis, Anadolu Efes has delivered very strong set of results, 13% volume growth; 36.5% revenue growth, which is about 27% on a constant currency basis, an EBITDA margin expansion of about 500 basis points, and again, just under TL 800 million of a positive free cash flow swing between first quarter of 2020 and first quarter of 2021. If I can walk you through the breakdown of how our EBITDA and free cash flow has grown in the Beer Group, as you see on the EBITDA side, as I was saying, we've seen price increases across all markets, we've seen positive mix in terms of super premium to premium segments of our portfolio growing incrementally faster, which added up obviously, a very strong revenue generation. Our costs of sales were up.

This year, obviously, we're happy with what we have done in the first quarter of the year, in general. And as a reminder, as you will all remember we have been actively hedging our positions in the cost of sales. And just to give you an indication, in Turkey we've hedged about 70% to 80% of our FX exposure. For aluminum and PET we've hedged about 68% and 43% of our exposure for 2021. And for Turkey, we've covered all our volume requirements. Nevertheless, we believe the cost evaluation for us in Turkey would be close to 20%. And still, if you look at the commodities, there is obviously a very serious price increase across the commodity space. And these are things we will need to manage in the rest of the year going forward.

The SG&A expenses, obviously if you look across the businesses, except for Turkey, all businesses delivered operating expense margins much lower than last year. As we said, in Turkey we are consciously spending behind our brands, which we feel is the most opportune time for us to enjoy a very good season, hopefully, rest of the year. And then the rest of it is mainly the currency conversion, which was favourable, which, in turn, almost half the EBITDA loss compared to the first quarter of 2020. And so, a good performance that flew into the free cash flow if you look at the chart below. Obviously, the biggest contributor to free cash flow in this period, the smallest period of the year, was the working capital in all of our operations, that was still very, very disciplined. And we are, in certain of our operations, building inventory and spots before the season to ensure that we can support the hopefully some demand growth in the summer season in the rest of the year.

We have realized the sale of ex-Lüleburgaz brewery land, it flows into our cash flow. And even though we spent incrementally higher in capital expenditures in the first quarter of this year compared to last year, we've ended up with a positive free cash flow swing of almost just under TL 700 million. The majority of this financial income expense and FX gain loss element that you see here is 151, is the dividends, we have received from Coca-Cola İçecek in the first quarter, which is obviously quite unusual, at this time of the year. Having said that, given the limitation and changes to the regulations in Turkey, obviously, the timing of that has changed year-on-year.

On the next page again, certain reminders, obviously we don't carry any FX-related debts in Turkey or elsewhere in our portfolio, except for the Eurobond, which matures at the end of October 2022. And as Can was pointing out, you must have seen our application as part of our review of refinancing debt in rest of the year. Just for clarification, because I'm sure it must be noted, we will be staying within our application limit of \$1 billion. However, what we look to refinance our existing Eurobond is only for \$500 million. Obviously, as we said in consecutive calls earlier, we would very much like to make sure that we are prepared to capitalize on the most opportunistic time in the markets for that exercise.

If you look at our indebtedness again, it's within our stated policy limits for Anadolu Efes. It's down to 1x net debt to EBITDA from 1.5x a year ago. And on Beer Group side is flat at 2x, that's pretty comfortable within our policy limits, which we disclosed to be between 1x to 2x. In terms of the risk management, I already talked about our commodity hedges, FX management and with the net investment hedge, our bottom-line is pretty much protected to a great extent against potential currency volatility in the rest of the year.

So, with that, I'll turn it back to Can to continue with the call. Thank you.

### **Can Çaka, Chief Executive Officer**

Thank you, Orhun. So, for the rest of the year, so far obviously 2021 is not different than 2020 in terms of challenges and ambiguities. I think the most concerning one is uncertainty around what's going to be next. How long these limitations, especially in Turkey will continue. So, we have little clarity, but what exactly lies ahead, I would say, in our region, that we'll look into different countries, Turkey and then Ukraine, the number of cases is very high, Russia is more under control, the second peak is behind, number of cases are going down, some sort of relaxation continues in the country. And Kazakhstan similar, vaccination is going reasonably well, similar to Russia. Moldova and Georgia, also we see kind of normalization, both in terms of number of cases and the restrictions. So, again, there are clear uncertainties around how long this would continue, new variants and so on and so forth. So, despite the

fact that we were quite happy here to note about the strong start we have for the year, on one side, this is the smallest quarter of the year, and on the other hand, all these uncertainties, that is the reason we just keep our outlook similar. So, we reiterate our 2021 guidance, we don't make any changes as of today. I hope to report much stronger results in the second and third quarter. And then we will obviously be discussing the guidance. But as of today, we reiterate and keep our guidance as of the beginning of the year.

So, thank you for your patience. We'll be happy to have questions. Actually, there is one, actually Orhun already responded about whether we will utilize \$1 billion or just consider the refinancing of \$500 million existing Eurobond. Yes, we applied for a higher ceiling, let's say, that's for the approval purposes. Our intention is to refinance the existing \$500 million as of today.

So, if you have any further questions, please note in the Q&A site.

**Asli Demirel, Head of Investor Relations**

Are there any questions? It seems no.

**Can Çaka, Chief Executive Officer**

Since you're quite clear. Thank you for your attention. Look forward to talk to you in the next calls and thank you again.

**Orhun Köstem, Chief Financial Officer**

Thank you very much. Stay healthy.

**Asli Demirel, Head of Investor Relations**

Thank you.