



**Transcription**

**Coca Cola İçecek 3Q 2023 Results  
Presentation**

01 November 2023

## PRESENTATION

### Çiçek Özgüneş

Good morning, and good afternoon, ladies and gentlemen. Welcome to CCI's Third Quarter 2023 Results webcast. I'm here with Karim Yahı, our Chief Executive Officer; and Erdi Kurşunođlu, our Chief Financial Officer. Prepared remarks will be made by Karim and Erdi accompanied by a slide deck. We will then take your questions. Please write down your questions on the question box of your web screen anytime you want. We will read them and answer them in order. Before we begin, please kindly be advised of our cautionary statements. The conference call may contain forward-looking management comments, including projections. These should be considered in conjunction with the cautionary language contained in our earnings release. A copy of our earnings release and financials are available on our website at [www.cci.com.tr](http://www.cci.com.tr). Just to remind you, this conference call is being recorded and will be posted on our website. If you have any objections, please disconnect at this time. Now I will turn the call over to Karim.

### Karim Yahı

Thank you Çiçek.

Good morning and good afternoon, everyone. Thank you for joining CCI's webcast.

This is my first quarterly results webcast as the new CEO of CCI after being appointed on September 1<sup>st</sup>. It is certainly a great honor to be part of this company, one of the largest bottlers of The Coca-Cola Company.

Very briefly on myself: I have been with the Coca-Cola system for nearly 20 years and held a lot of different roles throughout the years in multiple geographies. To name a few, I've worked in M&A, led the strategy and growth at Headquarters in Atlanta, I was the CFO of TCCC's Türkiye operation and just before coming here I was the COO of Fairlife, a wholly owned dairy company of TCCC.

CCI has a purpose to create value in everything it does and defined clear set of strategic priorities. Its clear and consistent strategy is what enabled improvement of per capita NARTD consumption in its markets, successful expansion of its geographical footprint and continuous delivery of quality growth algorithm notwithstanding the volatilities in its markets. My goal as the new CEO, is to continue building on the successful track record with the support of our amazing people and stakeholders.

In the third quarter, we have once again proved our dedication to quality growth algorithm.

Our consolidated sales volume grew by 3% vs last year and reached 482 million unit cases. We achieved 220bps year-over-year increase in the share of Immediate Consumption packs in our portfolio. From category perspective, we also saw positive impact as energy and adult premium subcategories grew above average. Timely pricing actions combined with optimized trade spend resulted in a 82% growth in net sales revenue year on year. On an FX-neutral basis, our NSR was also quite strong with 52% year-over-year increase. NSR per unit case reached 2.5 USD, the highest ever 3<sup>rd</sup> quarter level.

As the final leg of quality growth algorithm, we have delivered a strong improvement in profitability in the third quarter. EBIT grew ahead of NSR, delivering 327 bps margin

expansion year on year. Accordingly, EBITDA margin reached 24.2%, recording the second highest quarterly EBITDA margin ever. This was the result of effective cost management with proactive procurement and hedging initiatives as well as strict opex management.

Our net income reached 4.3 billion TL in 3Q, which implies the highest EPS in USD terms in CCI's history.

In this quarter, the key engines of growth were Türkiye, Uzbekistan and Iraq, while Pakistan continued to be negatively impacted by volatile macroeconomic environment.

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We have recorded growth in all categories within the third quarter. Especially, the growth in high-value categories have been remarkable. Under our flagship Sparkling portfolio, we had 15% growth in Fanta and a remarkable 31% improvement in Schweppes. Still category continued its robust growth trend too. In Energy portfolio, we had 34% year-over-year increase, while in Fuse Tea we had 13% improvement. Focused marketing strategies have proved very well and delivered these results.

Our strategic segmentation and focus on quality mix management continued in third quarter. Accordingly, we recorded 220 bps increase in the share of Immediate Consumption packs, which reached 28.5%. This is mostly due to the improvement in the share of On-Premise channel and prioritization of multiple IC packs at home channel. Our Premium Products share within total also improved by 93bps vs the same period last quarter. These products are basically can, glass packs as well as 100% fruit juices.

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In Türkiye, we have recorded 12.1% volume growth in third quarter. Effective sales incentives, loyalty-building marketing actions, favorable weather conditions were the main pillars behind this success.

In Sparkling category, we had 13% growth, which is mostly supported by Schweppes' 34%, Fanta's 15% and Coca-Cola's 12% growths year-over-year.

The stills category also continued its strong momentum with 14% surge thanks to Fuse Tea's 23% and Monster's 61% growth, both cycling a high base from last year.

Finally, the water category grew by 8% in 3Q23 year-over-year. Worth to mention is that the share of IC packs within water improved by 106bps with smart mix management initiatives.

Our NSR growth in Türkiye was 113% in the third quarter and NSR/uc growth was 90%. Apart from the robust volume improvement and smart Revenue Growth Management initiatives, we benefited from effective procurement and hedging especially visible in packaging. This supported Türkiye's profitability and gross margin expanded by 395bps paving the way for a robust 21.5% EBITDA margin.

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In international operations, Uzbekistan and Iraq have been the main contributors to the growth with 27% and 20% y-o-y improvement, respectively.

Pakistan, on the other hand, continues to get impacted by historic-low consumer confidence. Purchasing power is also quite dim on the back of volatile macro-economic environment. Accordingly, sales volume declined by 19% year-over-year in 3Q23.

In total, despite high single-digit growth of the Central Asia and mid-teens growth of the Middle East, international operations' volume declined by 2% y-o-y to 282 million uc.

The share of IC packages improved by 383bps and reached 26% in the third quarter. This is mostly attributable to strong on-premise channel performance and increasing share of IC pack offerings at home channels.

In the international operations, NSR growth was recorded as 64%, reaching 18billion TL. NSR/uc was up by 68% on TL terms and by 19% on an FX-neutral basis.

Thanks to timely pricing actions and disciplined cost management, our international operations' gross margin improved by 305 bps to 34.7%. Especially Pakistan and Iraq have been the main drivers of this improvement.

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As of third quarter, Uzbekistan's volume share has reached 12% in total, making it our 3<sup>rd</sup> largest country by volume. Our new production line is now operational, and our cooler placements are ongoing with full speed along with other Route-to-Market developments. We also expect the 4<sup>th</sup> plant to be operational next year.

Pakistan's consumer confidence index dipped to 26.2 within third quarter, which is the lowest figure of the last 11 years. Purchasing power of households also decreased amid the highest levels of inflation realized in the last 50 years. The silver lining was that our disciplined execution and effective trade discount management have supported us and we have realized 240bps value market share expansion year-to-date in Pakistan.

In Kazakhstan, sales volume was down by 11%, as we have cycled a solid 8% growth a year ago. Kazakhstan operations have softened due to reduced purchasing power of consumers, as FMCG pricing is higher vs nominal wage growth. Adverse weather conditions also negatively impacted sales volume in 3Q23. On the other hand, we are pleased to record 65bps improvement in on-premise channel's share within total.

Now I will leave the floor to Erdi for the financial review.

## **Erdi Kurşunoğlu**

Thank you, Karim, and once again, I would like to welcome you all to our Q3 webcast. Just like Karim, this is also my first webcast in CCI as CFO, although I'm not new to the company. For the last two years, I've been working as the Finance Director of Pakistan in CCI. Prior to that, I worked in Walmart and Ericsson for 20-plus years across Middle East, Central Asia, Far East and Africa and in various regional executive roles in finance and sales.

Moving on to our financials to start with and to summarize, we managed to deliver robust results, thanks to our strong commitment to our quality growth algorithm while our operating environments continued to pose challenges on us.

Our Net Sales Revenue increased by 82% year on year and reached 32 billion TL. Apart from the favorable foreign currency conversion impact, FX-neutral NSR growth was again strong at 52%. Timely price adjustments with close track of consumer purchasing power and optimized discount management helped to register this strong growth in NSR.

Gross margin expanded by 376 bps to 37.6% on a consolidated basis, mostly on the back of Türkiye and Pakistan. In Türkiye, the main cost benefit was the achievements in packaging, while in international markets, lower sugar prices were the main contributor.

We managed to contain opex near flat during the quarter, which enabled a similar expansion in consolidated EBIT margin to that of gross margin. EBIT expanded by 327 bps and reached 21.9% as of third quarter.

Our EBITDA margin was up by 248 bps to 24.2% in 3Q23, recording the second highest quarterly EBITDA margin ever. Finally, we had a record-high quarterly net profit with 4.3billion TL. We are very pleased to see that our quality growth algorithm delivers results and help us report the highest ever quarterly earnings per share in CCI's history in USD terms, despite devaluations of our major local currencies against USD.

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Our determined focus on efficiency continued to yield positive outcomes.

On a per unit case basis, FX-neutral NSR/uc growth was 47.6%, which delivered \$2.5 NSR/uc in the third quarter. This is the highest third quarter NSR/uc in the last decade in U.S. Dollar terms. This was achieved by the trade spend and right pricing actions.

With smart procurement measures, we managed to contain COGS per UC increase at 38% on FX neutral basis in this environment. Successful hedges and pre-buy initiatives made positive contribution to managing COGS per UC in the quarter.

Finally, currency neutral EBIT/uc growth has surpassed the NSR/uc growth by a solid margin this quarter and realized as 73% y-o-y.

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2023 is almost over now and we have 100% visibility on the costs for this year but let me give some outlook on our commodity hedging initiatives for 2024.

In markets where the sugar can be hedged, namely Iraq and Jordan, we covered 87% of our sugar need for 2024. For the regulated markets, where financial hedging is not meaningful due to low correlation, we started prebuys now that the crop finalized, but the total amount is still not significant. We expect to have more contacts by the end of the year. Right now, our total sugar hedge (all markets) amount corresponds to 14% of 2024.

For the aluminum and resin, we have covered nearly 50% and 42% of 2024 now, respectively.

Looking at the commodity exposure for 2024, we are comfortable at the current hedge rates. We continue to monitor markets closely and ready to add further coverage.

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In the third quarter, operating profit was up by 114.2% compared to the same quarter last year.

While strong volumes and right pricing actions were the main drivers of EBIT expansion, controlled COGS and OpEx also supported this success.

As a result, we reported TL 6.9 billion EBIT in 3Q23 with 21.9% margin.

Onto the next slide, please.

As a result of our tight financial policy, the balance sheet health remains to be strong and flexible.

Our net debt is 376 million US dollars, which is only 0.6x of our EBITDA.

Our balance sheet is fit to support our growth agenda. Even considering the planned cash outflows related to the Pakistan minority buy-out, we expect net leverage to stay below 1.0 times with positive free cash flow generation throughout the year.

Our short FX position after Net Investment Hedge is at a comfortable level at 134 million dollars.

Thanks to the proactive debt management, the average maturity of our debt is 3.5 years and 44% of our current debt is scheduled to be paid in 2029. This creates an additional comfort zone to manage and plan our liquidity in the globally tight monetary conditions.

Prudent financial management, maintaining healthy balance sheet and strong liquidity position will continue to be our financial priorities going forward.

Now back to Karim for his closing remarks.

## **Karim Yahya**

Finally, I would like to close today's webcast by sharing the success formula of CCI.

We often get the question on how we manage to deliver strong results in these volatile economies.

Our playbook is our key to unlock the value and opportunities that our countries offer. As we operate in relatively low per capita NARTD consuming geographies, a well-put playbook is our main enabler.

First of all, we prefer to invest ahead of the demand. We plan and invest in production facilities and coolers on the back of well-analyzed demand planning, so that we are fully ready to serve our consumers when their demand picks up.

Second, we have a unique route-to-market approach, in which we work with independent 3<sup>rd</sup> party distributors, who are exclusive to CCI in NARTD industry and who carry most of the capex. We analyze the need for a distributor for a region, we build their capability, train their sales staff and download CCI's way of serving.

Disciplined Revenue Growth Management is another very important key to our success. Thorough analysis of consumers' purchasing power, delicately managing pricing environment, smart mix management and win-win trade promo spending are the pillars behind delivering our quality growth algorithm.

Four, in-store execution excellence. Without a top-notch execution, a bottler is just a wholesaler. As CCI, we have high standards to deliver right execution daily. This ranges from cooler planograms to how we develop our relationship with our customers. We heavily rely on big-data digital capabilities and our long-standing personal relationships in order to better execute every day.

Supply chain excellence is another indispensable part of our journey. We are not only focusing on continuously improving our efficiency, digitization and adhering to our 2030 sustainability pledges, but also delicately analyzing the need for Greenfields and invest when needed.

Finally, finding the right talent and retaining and continuously upskilling them through high-quality development programs are the key bonds that connect CCI into one-team culture and makes it future fit.

Now, we will be happy to answer your questions that you shared via Q&A chat-box.

## **Question and Answers**

### **Melda Öztoprak**

Dear all, if you have any question, please share with us through the Q&A chat box. The first question comes from Melis Pocar of Oyak Invest.

According to the recent news flow, inflation accounting is planned to be applied in Türkiye. Can you enlighten us about expected impact on your financials? When do you think it will be effective in financial reporting for the first time? Is it first quarter of 2024?

### **Erdi Kurşunoğlu**

Thank you for the question. There is no full clarity on that, and it can only be earliest 1Q24. But as I said nothing is certain at the moment. But we did an exercise on our 2022 financials and when you look at our financials and obviously this applies only for Türkiye, which is 40%-plus of our total, and the inflation accounting on the asset side will increase on the inventory, fixed asset and prepaid concession. Whereas on the liability side, we don't have any item impacted other than equity. With the Türkiye impact, and taking that into consolidated figures, we expect based on that '22 exercise, we expect slight contraction in GP margin and an increase on OpEx margin, leading into a ~200-basis points EBIT margin reduction. But on the other hand, due to monetary gain that we will record on net income level, we expect higher basis points increase on net income margin. This is how we see at the moment based on a 2022 exercise and as I said, regulation-wise nothing is determined yet. And once again thank you for the question.

### **Melda Öztoprak**

Our second question comes from Erim Isparta of Ata Portfolio. In the early reports, there were declarations that Pakistan is the market that has one of the highest growth expectations due to high population and low consumption per person. How would you evaluate midterm and long-term projections? Do your expectations remain the same?

### **Karim Yahya**

Thank you for this question. Pakistan is a 250 million population country with low per capita in NARTD and in our business. It continues to be a challenging market for macroeconomic reasons and inflation has picked up recently, increased between August and September from 27% to 31%, remittances coming from abroad have declined by approximately 20%. So

it is a challenging environment. Yet our team, by doing the right thing every day, has gained market share, as I indicated earlier on, again demonstrating our ability to do the right things with the trade, with our customers, with our partners, to always stay close to the market and close to the opportunity. All this to say that the opportunity that Pakistan has is not going away. Historically, we have seen such dips in the past, and for us, it's not the dips that matters, it's what comes after the dip. We prepare ourselves to come back stronger than before the dip. In the recent past, during the COVID times, the per capita in Pakistan has decreased, but we came back stronger after that and that is why we will continue to focus on what we need to do today in order to come back stronger after the economy in Pakistan stabilizes. And we hope that it's going to be as soon as possible, as elections are going to be held in January and as the IMF is working on implementing its program in the upcoming month.

### **Melda Öztoprak**

Follow-up question comes from Melis Pocar. What was the reason behind Iraq's robust third quarter volume growth?

### **Karim Yahi**

So, first, the economy of Iraq is growing. So, the PCE in Iraq in 2023 versus prior year is growing approximately at 6%, which creates significant opportunity for us in NARTD. Second, our focus on key packages, focus on transaction growth, immediate consumption growing faster than future consumption, focusing on the right marketing, engagement with consumers and partnering with customers have enabled us to create the growth that we have delivered in the third quarter. So, to summarize, we have done the right things in Iraq in 2023. We have implemented our playbook and it is now paying off.

### **Melda Öztoprak**

Our next question comes from Ece Mandacı of UNLU Securities. Congratulations on the strong results. Could you please provide an update on Bangladesh acquisition?

### **Karim Yahi**

So, Bangladesh is a significant opportunity. It has a very low per capita NARTD, and therefore, is a great market for growth in the future. We are currently in discussion with the Coca-Cola Company to acquire the Coca-Cola Company Bottler in Bangladesh. And I cannot comment further, but we are in discussions.

### **Melda Öztoprak**

Next question comes from, again, Melis Pocar. Can you summarize the current demand on market environment in Pakistan?

### **Karim Yahi**

So it's a little bit of a repeat of the earlier question. Again, Pakistan significant opportunity for us. Right now, the macroeconomic context is challenging. It doesn't take away the significant opportunity for growth we have in the future. But again, to remind ourselves, inflation is at its highest level for the past 50 years. It has recently reached 31%.



Remittances coming from abroad have declined by 20% recently. The IMF is reviewing its program and there is an important meeting on November 2nd that will take place. Elections are planned to be held in January of 2024. That is the overall context in the market now. As I said earlier, even if volume went down in the quarter, I'm proud of the work that our team has done locally as we focused on right execution daily, doing the right things with the store, and as a result, have gained market share in the country. Again, that is a testimony to the strength of our team, to the strength of our operating model and show our readiness to capture growth as soon as the macroeconomic context improves.

### **Melda Öztoprak**

Next question comes from Zeynep Erman of Ata Invest. Congratulations for the strong results and thank you for the presentation. Could you please give some sort of information about your ongoing preliminary discussions regarding the acquisition of Bangladesh operations? - *which we have covered already* - Do you have any timeline for that or anything you can share for the future expectations of Bangladesh? Thank you.

### **Karim Yahi**

We do not comment publicly on these discussions, so I will go back to my earlier comment that we are in discussions with the Coca-Cola Company.

### **Melda Öztoprak**

Next question comes from Ebru Durusoy. Net working capital to sales ratio declined from 13% in June to 11% as of September. What should we expect for the same ratio in fourth quarter '23?

### **Erdi Kurşunoğlu**

We will normalize as we get towards the year end, and we are keeping our net working capital guidance intact for full year.

### **Melda Öztoprak**

Thank you. Another question is, please discuss the FX impact on the debt. How is it hedged currently?

### **Erdi Kurşunoğlu**

That's why we had this slide actually on the disciplined financial management. So, if you look at our net position in FX, it stands at USD134 million. So, although we have two Eurobonds outstanding with a magnitude of 800 million and some more FX denominated borrowings through Holland, we managed with net investment hedge disposition successfully. And as you can see from the waterfall there and we also managed to keep half of it in liquid cash. Hence, you see the net result impacting and flowing into our P&L which we shared on the earnings release.

## **Melda Öztoprak**

Next question is about the outlook on volumes and price increases in each market. As you see today, is the focus on volume growth or price increases?

## **Karim Yahı**

So at CCI, we pride ourselves in looking at both together. And it's all dictated by the context. Our focus is the quality growth algorithm. And if you look at every market, the way we look at business is a little bit like what I shared earlier about what our winning playbook is all about. So, it is not about pricing only, but it is about revenue management. And in our world, it is about net sales revenue per unit case growth or if you want to make it simple, net sales revenue per bottle growth. And what are the three components of that growth? One, it's list pricing. Number two, it's mix management, so category mix management, channel mix management, pack mix management. And three, it's trade discounts. So, in every market where we operate, we do not rely only on pricing. We do focus on net sales revenue growth per unit case or per bottle as that is the most effective indicator of how we can create quality growth in the market despite macroeconomic volatility. Our objective in every market is always to grow net sales revenue per unit case or per bottle above cost inflation, therefore, above inflation. That is our focus. And again, it is not only relying upon pricing, but it is activating the entire toolbox of a very disciplined revenue growth management that we have at CCI. Repeating myself, it's about list pricing, it's about mix management and it's about trade discount optimization.

## **Melda Öztoprak**

Our next question comes from Mustafa Kemal Karaköse. Despite achieving strong results and record high profit margins, I'm curious why you haven't revised your guidance. Are you anticipating a softening for the remainder of the year?

## **Erdi Kurşunođlu**

For full year, as stated in our release, we indicated stronger margins than our guidance already in our earnings release.

## **Melda Öztoprak**

In which of the markets are you most optimistic about?

## **Karim Yahı**

So, as the CEO of CCI, I am optimistic about every market. Why? Because at CCI we have opportunities in the market because we operate in low per capita markets. We operate in markets where most of the population is below 30 years old. We operate in markets where most of the industry is in sparkling, therefore, there is not much diversification into the stills category that has happened. So, the market opportunity is flagrant in front of us. On the other side, our winning playbook is something that we can implement everywhere and something that we implement everywhere. And the third piece is the quality of our people is bringing the winning playbook into action and is making it a reality and gives me optimism. So, to summarize, opportunities in the market because of low per capita, a winning playbook and a high quality of people that are capable of implementing our winning playbook and capturing the opportunity.

### **Melda Öztoprak**

Our next question comes from Nikhil Bhat. Two questions, please. First, could you please elaborate on your comment about the Pakistan minority stake buyout? How much cash outflow should we expect and when? Second, with less than 12 months to go for maturity of your EUR300 million bond, what are your plans for the bond? Do you intend to repay the bond given the strong balance sheet or refinance it? If refinancing, when would you look to refinance the bonds?

### **Erdi Kurşunoğlu**

Thank you for the question. The Pakistan minority stake buyout, the deal is yet to close soon and the cash outflow will be \$300 million, depending on the time of the deal being closed and eventually thereafter. As for the Eurobond, our plans are not clear yet. Either we will repay it in full or maybe we will partially do a refinancing. We are proactively looking into that as with all other plans.

### **Melda Öztoprak**

Another question comes from Cemal Demirtaş of Ata Invest. Could you further elaborate demand in Türkiye, sell in versus sellout? Do you see any pressure on prices or any price increase expectations? How was the consumption trend in October considering the hot weather conditions?

### **Karim Yahı**

Thank you for the question. We do not comment on pricing measures expectations. However, let me speak a little bit about the most recent trends we are observing in the market in Türkiye. Yes, we have experienced some good weather conditions. However, we also are seeing a slowdown overall in FMCG in the month of October. And we have a strong base effect from last year where we actually had a very good month of October volume. So for all these reasons, we actually see a softening in the first half of the month of October in the marketplace.

### **Melda Öztoprak**

Next question comes from Hanzade. Can you provide outlook for Türkiye, Pakistan and Kazakhstan? Do you expect any adverse impact from GLP-1 drug in your operating market?

### **Karim Yahı**

No, I have to be direct. I don't know much about that drug to be very honest with you. But I would like to remind everybody that we are in the beverage industry, and we have very low per capita in our beverage industry. Therefore, we have significant opportunities for us to capture in the beverage industry.

### **Melda Öztoprak**

This ends our Q&A session. Thank you, everyone, for joining us today, and thank you for your interest in CCI. Goodbye.