

Coca-Cola Icecek

CONFERENCE CALL ON CCI'S RESULTS FOR THE 4Q OF 2024

Moderator:

Ladies and gentlemen, thank you for standing by. I would like to welcome you to the Coca-Cola Icecek's conference call and live webcast to present and discuss the 2024 financial and operational results. We are here with the management team, and today's speakers are the CEO, Mr. Karim Yahı, and CFO, Mrs. iek UŐaklıgil zgüneŐ. Before starting, I would like to kindly remind you to review the disclaimer on the webcast presentation. After the call, there will be an opportunity to ask questions. I would now like to turn the call over to Mr. Burak Berki, Head of Investor Relations. Sir, the floor is yours, please go ahead.

Burak Berki:

Good morning and good afternoon, ladies and gentlemen. Welcome to our 2024 results webcast. As the operator said, I am here with our CEO, Karim Yahı, and CFO iek UŐaklıgil zgüneŐ. Today's remarks will be accompanied by a slide deck. We will then turn the call over to your questions.

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.

In addition, in accordance with the decree of the Capital Markets Board, our 2024 financials are reported using TAS29 financial reporting in hyperinflationary economies. The financial figures in this presentation and all comparative amounts for previous periods have been adjusted according to the changes in general purchasing power of the Turkish lira in accordance with TAS29 and are finally expressed in terms of purchasing power of the Turkish lira as of December 31, 2024.

However, certain items from our financials are also presented without inflation adjustment for information purposes. These analytic figures are clearly identified as such.

Following the call, a full transcript will be made available as soon as on our website. Now, let me turn the call over to Karim.

Karim Yahı:

Thank you, Burak. Good morning and good afternoon, everyone. Thank you for joining CCI's full year 2024 results webcast.

Before we start our presentation, after more than three and a half years at CCI, first as Finance Director for Pakistan and then as Chief Financial Officer, our colleague Erdi KurŐunoĐlu has

decided to leave CCI to pursue other interests outside of Türkiye. I would like to thank Erdi for his contributions to our organization and wish him and his family well in their new chapter.

In light of Erdi's departure, I'm pleased to announce that Çiçek Uşaklıgil Özgüneş is now assuming the role of CFO as of March 1st. Many of you already know Çiçek well. Before stepping into this position, Çiçek built a strong foundation in corporate finance and investor relations, having successfully served as CCI Investor Relations and Treasury Director from 2020 to 2024. I have no doubt that her expertise and leadership will add great value to our company and I wish her every success in her new role.

Now coming back to our presentation. Looking back at 2024, it is clear that it was a challenging year. We navigated a complex operating environment characterized by macroeconomic challenges, the cumulative impact of years of inflation, and ongoing geopolitical sensitivities, all contributing to the decline in consumer purchasing power and demand. However, at CCI, we have stayed focused on what we can control and influence. Remaining affordable, winning in the store, and strengthening the quality of our portfolio helped us navigate challenges effectively.

Our actions, combined with early signs of improving market dynamics, paved the way towards gradual recovery in volume performance towards the end of the year. Accordingly, in the last quarter of 2024, we achieved a 7.3% year-on-year growth in consolidated sales volume, reaching 271 million unit cases. While Türkiye grew 18%, Azerbaijan and Iraq recorded middle single-digit growth, while Pakistan grew by 5% following six quarters of decline. This improvement partially offset the softness in our full year 2024 volume, which was 2.2% lower than the same period last year with 1.5 billion unit cases.

Throughout the year, we continued to track consumers' behaviors and accelerated recruitment by focusing on smaller packs, the on-premise channel, and the low and no sugar portfolio, all in line with our long-term strategy. As a result, immediate consumption package share grew by 183 basis points to 29.2% in full year 2024.

In 2024, we achieved a consolidated revenue of 137.7 billion TL, alongside a 260 basis point increase in gross profit margin and a 50 basis point improvement in EBITDA margin year-over-year. We have managed to keep our margins within an acceptable range despite the volumes pressure we faced.

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Throughout 2024, consumers and customers have been under pressure due to a challenging operating environment, marked by persistent economic volatility, elevated inflationary pressures, and ongoing geopolitical tensions in the region. These factors had a substantial impact on consumer confidence, purchasing power, and overall demand dynamics. In this context, we have focused on what we can impact.

Our sparkling volume declined by 4.4% year-over-year, with Coca-Cola's trademark performance aligning closely with the category trend. Our stills volume experienced strong growth, rising 9.4% year-over-year, driven by 19.7% robust growth of Fusetea. This emphasizes the significance of portfolio diversification in our region.

In this difficult context, CCI has focused on the areas we can manage and impact. In addition to the improvement in category mix, immediate consumption packages continued its upward trajectory throughout 2024, with a 183 basis points year-over-year increase, reaching 29.2% from 27.3% in 2023. From a channel perspective, shares of our volume in traditional channels increased by 37 basis points year-over-year in 2024.

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In 2024, we recorded a 0.1% volume increase in Türkiye, while 18.4% growth in the fourth quarter was promising, building on the low base of the last quarter of 2024, shaped by the unrest in the Middle East that emerged late last year, combined with high inflation and lack of salary increase in the economy, our successful execution of consumer-centric marketing plans, combined with effective revenue management, delivered strong volume growth.

Our dedicated focus on quality mix and daily execution has driven progress towards our strategic ambition to evolve with our consumers and customers, leading to market share gains towards the end of the year. While our immediate consumption package share grew by 16 basis points to 33.7% in 2024, share of on-premise channel slightly declined by 96 basis points to 31.6% in Türkiye, whereas share of traditional channel increased by 238 basis points to 37.9%. Continued focus on low- and no-sugar portfolio also contributed positively, as low- to no-sugar portfolio share among total sparkling sales jumped by 7% year-on-year to 46.1% as of full year 2024.

Türkiye recorded 7.5% and 7.6% net sales revenue and net sales revenue per unit case decline in 2024, respectively. Without inflation adjustments, net sales revenue in Türkiye grew by 48.6% and net sales revenue per unit case realized as 95.97 Turkish lira, with 48.4% year-over-year improvement thanks to continued focus on effective revenue growth management initiatives.

The successful management of our cost base in Türkiye supported profitability, and hence we have realized 590 basis points year-on-year improvement in gross profit margin and 130 basis points year-over-year EBITDA margin in full year 2024.

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International operations recorded a 3.6% year-over-year decline to 934 million unit cases in 2024, mainly driven by weakened volume momentum in Pakistan. However, in the last quarter of the year, international operations grew by 1.4% year-over-year with positive contributions from Pakistan, Iraq, and Azerbaijan.

Pakistan's economy saw major shifts in 2024, with inflation dropping to 4.1% in December from 29.7% a year earlier. However, high energy costs, taxes, and past inflation continue to pressure consumer confidence and spending, leading to a 14.2% volume decline in full year 2024.

In international operations, net sales revenue declined by 3.9% year-over-year to 75.5 billion Turkish lira, while net sales revenue per unit case recorded a minimum 0.3% year-over-year decrease. Although local currency prices increased in major markets, it was below the inflation adjustment rate. Without the impact of inflation accounting 29, net sales revenue was 38.8% year-over-year, and net sales revenue per unit case improvement was 43.9% year-over-year.

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Among our largest international markets, Iraq recorded a notable volume growth of 12.1% year-over-year in full year 2024, building on the solid base of 10.7% growth in the previous year. The growth in the sparkling category in Iraq in 2024 was the highest growth achieved in the Coca-Cola system globally. Similarly, Azerbaijan achieved a strong volume increase of 9.3% year-over-year in 2024, demonstrating solid market momentum. In both Azerbaijan and Iraq, this positive volume performance reflects the combined impact of well-executed consumer-centric strategies, right pricing, and disciplined market execution, reinforcing our commitment to sustainable growth in these markets.

In full year 2024, Uzbekistan recorded a 3.8% volume decline, primarily due to the impact of newly introduced regulations and higher taxation. Additionally, this decline reflects the challenge of cycling an exceptionally strong prior year performance, during which the country achieved an impressive 25.8% growth, setting a high base for comparison.

Similarly, Kazakhstan's sales volume declined by 6.4% year-over-year in full year 2024, following two consecutive years of robust growth, which was partially fueled by temporary migration from neighboring countries.

Pakistan's economy saw major shifts in 2024, with inflation dropping to 4.1% in December from 29.7% a year earlier. However, high energy costs, taxes, and past inflation continue to pressure consumer confidence and spending, leading to a 14.2% volume decline in full year 2024. Thus, we focused on making our products more affordable while implementing revenue growth management actions. These actions have led to a 208 basis points increase in our immediate consumption share and a 12 basis points rise in the on-premise channel share year-over-year.

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I'm delighted to celebrate a significant milestone for CCI, our first anniversary since acquiring operations in Bangladesh on February 20th of 2024.

From the current day, our goal has been to integrate the strength of CCI with a positive people mindset and rich market potential of Bangladesh. We have worked hard to align our strategies, enhance operational capabilities, and foster a diverse and inclusive culture.

As we look ahead, our commitment remains unwavering. We will continue to invest in our people, infrastructure, and technology to drive sustainable growth. With this dynamic market, Bangladesh holds immense potential, which will undoubtedly lead us to great success.

Bangladesh is a market with strong growth potential and a young dynamic population. With 56% of the population under the age of 30, urbanization is accelerating, rising from 37% in 2019 to 41% in 2023, which represents a significant growth opportunity for packaged beverage.

Despite being the eighth largest country by population in the world, non-alcoholic ready to drink per capita consumption remains among the lowest globally, highlighting the significant untapped potential.

Bangladesh represents a strategic long-term growth market for CCI, and we remain committed to expanding our presence, strengthening execution, and unlocking its full potential in the years to come.

Now, I will leave the floor to Çiçek for the financial review.

Çiçek Uşaklıgil Özgüneş:

Thank you, Karim, and thank you for the nice words on the opening speech.

Hello, everyone. Thank you for joining us today. As Karim said, many of you know me from my previous role, and I'm excited to continue engaging with you in this new chapter.

First, to our financial summary, all the numbers you see here are with inflation accounting unless I express otherwise.

In 2024, we delivered 137.7 billion Turkish Liras in net sales revenue, reflecting a modest 5.6% yearly decline compared to last year. Excluding the impact of inflation accounting, NSR reached 129.8 billion Turkish Lira with 43% year-on-year growth driven primarily by effective revenue growth management initiatives. In dollar terms, we recorded \$4 billion in net sales before inflation accounting. In the fourth quarter, our NSR declined by 8%, while without the impact of inflation accounting, NSR grew by 26%.

Türkiye's gross profitability was very positively impacted by the favorable raw material prices, which were accompanied by right pricing. International markets were more under pressure cost-wise. Especially in Pakistan, sugar prices increased significantly in 2024, and that had a negative impact on gross profitability. Nevertheless, as a result of Türkiye's strong performance, our consolidated gross profit margin increased by 259 basis points to 35.3%. Without the impact of inflation accounting, gross margin increase was 132 basis points. The lower than expected

increase in cost of sales relative to inflation has contributed to a more significant gross profit improvement in our financials after hyperinflationary accounting adjustment, as Türkiye, which has gross profit improvement, has higher rate in consolidated financials.

OPEX increased mainly as a result of employment and transportation, which was impacted also by the scale economy because nearly 40% of our operating expenses consist of fixed costs. Accordingly, our OPEX increased by around 300 basis points. This offset the improvement in gross margin, and as a result, our EBIT margin declined by 61 basis points to 13.7%. Without inflation accounting, EBIT margin was realized at 16.3%, with 169 basis points contraction. Without the impact of inflation accounting, we recorded \$785 million of EBITDA with 20% margin.

We had about 2 billion Turkish Lira higher net financial expenses due to higher interest rate and increased share of local currency borrowings. I will cover this in more detail in the coming sections.

The monetary gain we recorded in 2024 was almost 13 billion Turkish Lira lower than it was in 2023 due to indexation rate difference between 2024 and 2023. This mainly explains the swing at net income level compared to operating profitability. Net profit totaled 14.8 billion Turkish Lira in 2024. Excluding inflation accounting, net profit in 2024 reached 9.3 billion Turkish Lira, with 12.5% year-on-year growth.

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On a per-unit case basis, NSR is down by 3.5% in 2024 compared to last year. Without inflation accounting, NSR per UC reached 86.5 Turkish Lira in 2024, up by 45.8% year-on-year thanks to effective mix management actions, which includes higher share of smaller packs and portfolio diversification with increased presence of the stills category.

Due to proactive and smart procurement measures, we managed to contain our cost of sales per UC increase. Our cost of sales per UC declined by 7.2% year-on-year as we reduced costs at a higher rate than the decrease in revenues. The shortened inventory days also supported the impact of inflation accounting. Excluding inflation accounting, COGS per UC increase is also lower than that of NSR per UC.

Subsequently, EBIT per UC is down by 7.6% to 12.6 Turkish Lira. Excluding the impact of inflation accounting, our EBIT per UC growth in 2024 became 32.2%, despite higher OPEX, mainly on the back of successful COGS management.

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As always, we prioritized having clear visibility on costs, enabling us to focus on revenue growth initiatives.

We continued to win with our proactive approach in procurement, which created a significant support to our improved gross profit margin during 2024, and we are very pleased with the cost of sales performance in 2024.

We are encouraged by the stability we see in commodities along with exchange rates. So in order to leverage this, we finalized a good portion of our contracts and hedges for 2025. As we sit here today, we are over 70% hedged in resin, have over 60% price visibility in sugar, and close to 60% hedged in aluminum.

Of course, there are other elements of cost of goods like labor and utilities. We expect to see the usual inflationary pressures on these. Given the current market conditions, we are confident in our hedge positions and coverage. We will remain diligent in this approach, without exception, and continue to monitor market opportunities.

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This bridge explains the net income development.

Net profit for 2024 was recorded at 14.8 billion Turkish Lira, marking a 50% decline, primarily due to the lower contribution from monetary gain, as I mentioned before. This was driven by the declining impact of inflation accounting adjustments.

Lower costs offset lower NSR and higher OPEX, but this was not sufficient to offset the swing in monetary gain loss line.

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

While our net debt was \$778 million at the end of 2024, our net debt to EBITDA stands at one time, slightly up from 0.8 times of 2023 end, due to the acquisitions, one of which is Bangladesh, as you know. The other one is Anadolu Etap İçecek's minority stake, and finally, the installment payments of Pakistan's minority stake acquisition two years ago.

We have a short FX position after net investment hedge at 36 million USD level. And before net investment hedge, FX short position is \$398 million. We always state that we monitor the short position by comparing it against our international EBITDA. The reason is that we repatriate hard currency dividends from international operations and use this to serve our FX liabilities. As of end of 2024, our short FX position before net investment hedge over our international EBITDA was 0.8 times, so in line with our policy.

I want to highlight one achievement here. Over the course of last four years, we have substantially decreased the share of hard currency loans to 57% from 84% in 2021. All the local currency borrowings have higher interest rates. When combined with the devaluation impact, the total cost

of debt is much lower. Besides, we don't only diversify it to Turkish Lira, but also to Uzbek Som, Pakistani Rupee, Kazakhstani Tenge, and Azerbaijan Manat.

During 2024, we paid back the remaining \$300 million of our 2024 Eurobonds, and with that, now our average maturity increased to three years. This creates an additional comfort zone to manage and plan our liquidity in the globally volatile financial markets.

The majority of the redemptions scheduled for 2025 that you see on the right-hand side here on the slide is either local currency loans or short-term portion of long-term borrowings. We plan to roll them again with local currency loans.

Now back to Karim for his closing remarks.

Karim Yahi:

Thank you, Çiçek.

Finally, we would like to share our view on 2025.

Cycling a difficult operating environment in 2024, we will remain focused on what we can control in 2025, staying true to our purpose of creating sustainable value. To that effect, we will focus on driving volume growth by prioritizing affordability for consumers, delivering world-class execution with our customers, and an overall commitment to operational excellence.

Following the announcement of our 2025 volume guidance, we now offer a more detailed guidance on net sales revenue per unit case and EBIT margin, both on the reported basis and excluding TAS-29 adjustment. Additionally, we have incorporated Bangladesh into our 2025 volume expectations with a limited impact on the previously provided volume guidance. Thus, we continue to uphold our previous volume guidance. This additional information offers further clarity on the financial outlook and demonstrates our ongoing commitment to transparent communication with our stakeholders.

For 2025, we expect the following results on a reported basis.

Mid-single-digit volume growth on a consolidated basis, low-to-mid-single-digit growth in Türkiye, and mid-to-high-single-digit growth in international operations.

With inflation accounting, we expect to deliver mid-single-digit net sales revenue per unit case growth with flat EBIT margins.

And without the impact of inflation accounting, ethics-neutral net sales revenue per unit case to grow by low 20s with revenue increases in local currencies, balancing cost inflation and price affordability to drive volume growth with a slight EBIT margin pressure.

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Now, to close our presentation, in line with previous sessions where we shared more details about our CCI playbook, today we would like to continue and share more about our commitment to excellence in in-store execution.

Our commitment to in-store execution excellence is anchored on four major priorities. Number one, be available. This is to ensure that our portfolio is within arm's reach of desire from consumers in our 1.2 million stores in all our countries. Number two, be visible. This priority is focused on ensuring that our product is well presented and in effective terms means that we place our products in coolers and sell our products with convenience to reach consumers in every location. Number three, be effective. We leverage our route to market, which I described in the previous session, and we make sure that we can reach our stores in the most effective way economically. And number four, be trained. This is the priority where we make sure that we enhance our sales capability and equip our teams with more operational capabilities to help them do their job better. Be available, be visible, be effective, be trained, ultimately is summarized in what we call a one-number execution score, and we track this performance in every country every day.

Now, as we evolve and embed more digital capabilities in our work, we also support our priorities with Daha Daha, ASA, and CCI Next. We are continuously evolving our approach by striking the right balance between digital innovation and the human touch, ensuring we deliver impactful experiences to both our customers and consumers.

For instance, Daha Daha, which is owned by the Coca-Cola Company, ensures that we can connect with consumers, recruit them, and create more loyalty directly where they shop.

Number two, ASA. This is one of the key advancements in our daily execution. It is an artificial intelligence-powered order prediction model that we embed, and this technology enables us to better anticipate customer needs, optimize inventory management, and enhance service levels to ultimately guarantee that our products are available exactly when and where they are needed.

And number three, CCI Next. It is a self-service platform designed to enhance our service to customers, particularly in traditional channels and on-premise locations. With now over 300,000 registered users across Türkiye, Pakistan, and Kazakhstan, CCI Next provides businesses seamless access to our products and services, and by continuously monitoring customer behavior through the platform, we gain valuable insights that enable us to improve engagement, optimize service levels, and strengthen our relationships with our customers.

Now, we will be happy to answer your questions. Dear Closir agent, over to you, please.

Moderator:

Thank you. Thank you very much for your presentation. So we'll now be moving to the Q&A part of the call. If you are dialed in via the telephone, please press star 2. That's star 2 on your keypad for any question. You may also ask a voice or a text question if you are dialed in via the web.

We'll give a moment or two for any questions to come through. OK, we have a voice question from Maxim Nekrasov from Citi. Please go ahead, sir. Your line is now open.

Maxim Nekrasov

Thank you so much for the presentation, and congratulations to Çiçek with the new role. I have a couple of questions on the guidance specifically. On the volume side, the guidance seems quite constructive, mid-single-digit growth. However, last year, as I remember, in the beginning of the year, you also got it for mid-single-digit growth, volume growth. So where do you see recovery coming from, right? Maybe specifically by the markets. And whether you see this year guidance is confirmed currently by the trends that you saw in the first couple of months. Yeah, that would be the first question, and I have a couple more.

Karim Yahi:

Thank you for your question. Look, guidance was basically us taking the learnings from 2024 and applying them to 2025. So, number one, we assume that overall the context may not change dramatically in the future. Therefore, our focus remains on being affordable, executing in the store, activating revenue growth management initiatives so that we do not rely only on pricing, and leveraging the strengths of our country portfolio. So ultimately, the guidance puts us back to our long-term aspiration. We need to create volume. We need to recover volume growth. And that's why we have volume growth recovery in both Türkiye and international operations. Then from a revenue growth management standpoint, we are looking at not depend only on pricing, but again, activating the rest of the revenue growth management toolbox, meaning immediate consumption packages, category diversification with continuing to push on low/no sugar and still portfolio, continuing to push on-premise and traditional channel so that we can be less dependent upon pricing. And that is for us to have pricing and revenue growth management initiatives cover cost inflation on one side, yet pricing being less than food and beverage inflation on the other side. So that is to help us absorb cost inflation on one side and remain affordable in the market. So that is how we have created the guidance for 2025. We need to return to long-term sustainable value creation, and that starts with recreating volume growth, to summarize. Now, what do we see right now, starting 2025? Actually, we have a good, strong start to 2025 as we are continuing to build on the actions we took in 2024. And as we continue to see the returns on the investments we have made in the market in the last quarter of 2024.

Maxim Nekrasov:

Okay. Thank you so much. That's very clear. The second question is on, actually, I think you briefly mentioned on the net sales revenue per unit case guidance, mid-single-digit growth in real terms, or low 20s without inflation accounting. Can you specify by market, right, what do you see, what do you expect in Türkiye versus international in terms of that NSR per unit case growth? And whether, like, if we go back to Türkiye, because last year NSR per unit case was below inflation, whether you would expect the situation to reverse in the future?

Karim Yahi:

So, we do not provide, you know, this guidance by market. However, let me just share with you maybe some headlines and address your question on how we see Türkiye versus international

operations. One, in terms of numbers, we actually closed 2024. I'm going to share with you some dollars net sales revenue per unit case, just to share and provide some comparability. But, you know, in the fourth quarter of 2024, without TAS 29, we actually realized a \$2.75 net sales revenue per unit case. And this has put us as a full year, again, without TAS 29, you know, at a level of \$2.64 net sales revenue per unit case overall CCI. You know, and if you look at comparability, you know, the \$2.64 net sales revenue per unit case is above the \$2.49 net sales revenue per unit case that we had in 2023, for instance. You know, and you can go back in history to the previous years as well. This puts us, actually at a quite good level in terms of net sales revenue per unit case, yet without, naturally depending only on pricing, which was really the good work that the teams have done in all the markets. Again, back to the earlier comments I made, we focused on remaining affordable, and we activated the rest of the actions that we have in our hands. Again, pushing immediate consumption that has reached overall full year 29.2%, a historical high. Pushing on-premise, pushing traditional channel, pushing low/no sugar. All these actions are not only, were not only good to create good net sales revenue per unit case in the fourth quarter of 2024 overall and in the full year, but are also sound actions that we need for the future. This is where our actions in the short term meets the long-term aspirations we have, as immediate consumption is necessary to recruit more consumers because we are in low-per-capita markets. We evolve with them, and all these actions also lead to higher profitability. For references, immediate consumption's gross profit per unit case margin is actually 1.5 times vs. future consumption. So, small packs are more profitable than big packs, and by a ratio of 1.5x. So, to summarize, these actions we took in Q4 are not here to save the day, not here to save Q4, but they were here because they are sound actions for the long-term, and this is why we have implemented them in the short term. This is why we have implemented them, and this is how we have created actually the relatively high level of net sales revenue per unit case in dollar terms without necessarily depending upon pricing. Now, moving to the second part of your question, how do we see 2025? Well, we are going to continue doing what we do, meaning we still see pressure on the inflation side in our major markets. Therefore, we have to continue working in the portfolio to manage to be affordable on one side and to continue pushing on package mix, on category mix, on channel mix, so that we can continue creating healthy net sales revenue per unit case. And again, I repeat myself, without necessarily depending upon taking price. And that is the model we have for all our countries, Türkiye and international operations.

Maxim Nekrasov:

Yeah, thank you so much. Just a very final question on the margin guidance. So flat with inflation accounting and slight pressure without inflation accounting. So I was just wondering what's driving the difference and which margin guidance closer reflects what would be happening in terms of, let's say, cash flows.

Karim Yahi:

So I'm going to start and I'm going to let my colleague, Çiçek, elaborate on the difference between the inflation accounting and without inflation accounting on margin. But overall, look, the overall cost inflation in 2025 is going to be higher than the cost inflation that we had in 2024 overall. Commodity prices, although we are hedged, as Çiçek shared earlier, to a high level and we have confidence in our ability to manage our margins. Yet, it is important to have in mind that 2025,

from a costing standpoint, in particular on the commodity side, is not going to be as benign as it was in 2024. Okay, so that's number one. Now, which, you know, our objective again is to, at the local level, make sure that we price above cost inflation, behind food and beverage inflation in the local market, and that we do not depend only on pricing. Okay, so again, pushing, you know, the mix, the favorable mix that we have and all the long-term strategies that we have. Now, which margin, sorry, which, you know, that's how we have built our, you know, guidance. Okay, so then with inflation accounting, it ends up with flat margin. Without inflation accounting, it ends up with some pressures on EBIT, all right, on EBIT margin, which we're going to work to, you know, compensate. Now, for which margin to look at, you know, I'm going to let my dear colleague Çiçek elaborate. And then on the free cash flow, also, you know, plan that we have, I'm going to let Çiçek also elaborate on that. Çiçek, please, over to you.

Çiçek Uşaklıgil Özgüneş:

Okay, Maxim, regarding the inflation accounting, as you know, this is very dependent on the inflation assumption that you take. As Karim said, the main, let me just walk you through the pillars of our expectation for margin. As we stated, this year, we had a positive impact from the gross margin side, but that was offset by higher OPEX. In 2025, it will be the reverse. It will be the opposite. So in OPEX, we expect improvement, but in the gross profit level, we expect some impact on the cost of sales, especially in Türkiye. This year, international markets are doing better. And since inflation, international operations are not inflation adjusted, but restated when being compared to 2025 numbers, their 2024 numbers will be restated as for our year-end expectation of inflation, which is 30%. So that is below the NSR increase and the cost increase that we have. Therefore, the margin guidance, very technically, the margin guidance that we give on inflation adjusted basis is slightly better than without inflation adjusted basis. But when we are also looking at our internal targets, we are looking at both, but we are also acknowledging the fact that the inflation assumption that we use may materially change our inflation adjusted guidance. Therefore, we also look at the non-inflation adjusted numbers to measure our profitability. So that's basically the reason.

Maxim Nekrasov:

That's very clear. Thank you so much.

Çiçek Uşaklıgil Özgüneş:

Thank you.

Moderator:

Okay. Thank you very much. So we are now moving to the next question. We have received from Hanzade Kılıçkiran from JP Morgan. Please go ahead. Your line is open now.

Hanzade Kılıçkiran:

Thank you very much for the presentation and Çiçek congratulations on your new post. I just want to make a follow-up on Maxim's question about the NSR per unit case, I mean, without inflation accounting. So you are guiding low 20s growth here, but you highlighted previously that you want to be affordable. And when I look at the fourth quarter numbers, I mean, NSR per unit case without

inflation adjustment was quite poor, both in international markets and also in Türkiye. So would you please explain how you are going to achieve this low 20s growth while you want to be affordable? Because this is something about the inflation growth.

Karim Yahi:

Look, overall, I'm going to repeat myself. But first, in the fourth quarter of 2024, it's important to have in mind that intentionally, we wanted to recreate volume growth in Türkiye. And good news is we have achieved that. And fortunately, we actually do have a portfolio of countries where we can actually activate the other parts of the countries so that we can then fund recovery of volume in the short term in Türkiye. So that's, namely, the rest of the countries, Central Asia and the Middle East have basically, we had opportunities to create profits. And we have used these profits to recreate volume growth in Türkiye in the short term so that the performance of CCI consolidated is not impacted negatively by short term disruptions that we may have. So that's number one. Then, how are we going to achieve in 2025 our net revenue per unit case target? Well, again, important to have in mind that, number one, we do have a portfolio of countries and they're not all affected in the same way by short term disruptions, that's number one. And number two, again, we're going to continue focusing on pushing immediate consumption, pushing low/no sugar, pushing still beverages, pushing on premise and traditional channels, which all are realizing higher net revenue per unit case than the average of CCI, and which also takes the pressure of taking pricing down over time. So that is the overall plan. And that is the game plan for 2025. And we're ready and we started implementing it. Now, I'm going to leave Çiçek to elaborate on your question as well.

Çiçek Uşaklıgil Özgüneş:

Just a small thing to add on Karim's point. One of the drivers of the NSR increase is coming from a tighter discount management between growth and net sales revenue. As you know, there are a lot of discount items. Some of them go directly to consumers, some of them go to our customers. So we will be selectively choosing the discount items that we are going to implement so that it's not hurting affordability of our consumers, but will yield to higher NSR for us. And together with mix impact, as you know, this year we had a decline in sparkling overall for the full year. And the majority of the growth came from still beverages and also water. But this year, as Karim said, we are also leveraging our mix factors. So we expect improvements from mix management. We expect improvements from tighter discount management, which will not impact affordability. And some price increases. So all together, we are quite confident that our NSR produces together with the geographical mix is we will deliver in line with our guidance.

Hanzade Kılıçkiran:

All right. Okay. Thank you very much, Karim and Çiçek. And I have also a question on gross margin. I mean, it is great to see that you have a great profitability across the year. I mean, on full year numbers. But when we look at the fourth quarter in Türkiye, as you also highlighted, there was a substantial setback in the gross margin. I mean, cost per unit case increased substantially to around like \$2.1. And would you recommend us to keep this \$2 levels in cost per unit case being stable in 2025? I mean, use a similar number.

Çiçek Uşaklıgil Özgüneş:

Hanzade, in the first three quarters that, you know, as we always say that we enjoy the benign raw material prices in Türkiye in 2024, it was mostly tickled in the first three quarters of the year. Whereas in the fourth quarter, we have seen an increase in our raw materials. Both concentrate and some other raw materials as well. Some of them will continue. Some of them will be offset on a margin basis because the price increase that we are taking this year will offset that increase. But since in the fourth quarter, our NSR in Türkiye was also lower, as Karim said, we tried to support the trade, support the volume, because we had a good momentum in volume. And we wanted to make sure that this continued. In order to secure that, our NSR per uc was also lower. That could not support the increase in the cost per uc in fourth quarter. That shouldn't be the case for the remainder of 2025. It should normalize going forward.

Hanzade Kılıçkiran:

All right, thank you very much. It's very clear.

Moderator:

Okay, thank you. Thank you very much. We'll be moving to the next question. We received both text question and now voice question from Bernard Griesel from Steyn Capital. Please, please go ahead. Your line is now open.

Bernard Griesel:

Hi, thank you. I wanted to know, I mean, it seems like there was volumes rebounding in Türkiye. You've discussed it now as well. And it seems like in Pakistan. I mean, are you seeing that continue in 2025 as well? I mean, up to now. And then, I mean, is this a turning point in these markets? And then additional to that, maybe you can just also speak about volume performance in Uzbekistan in Q4.

Karim Yahi:

Thank you, Bernard, for the question. Again, in 2024, let's start differently. You know, something that we sometimes do not speak enough is, you know, the fact that we do have a diversified portfolio of countries. And I'm saying fortunately, because when we manage our investments in the trade to create more volume and to create performance, you know, we can actually activate, you know, different levers. So for instance, you know, what I shared earlier about Q4, we needed to create and we intentionally decide to invest in Türkiye in the last quarter of 2024 to recreate volume growth. And we funded these investments in the market thanks to the profit from the other countries. Just to summarize. And that is the strength of our country portfolio, our diversified country portfolio. Now, the trend we have created in Q4 of 2024, as far as 2025 has started, you know, they continue. We have a good start to 2025 because again, the actions we took in 2024 are not short-term actions. You know, ultimately they are actions that are here to create sustainable volume performance. Now, as Çiçek said earlier, you know, in terms of profitability, Türkiye, you know, we see is going to stabilize, you know, and the other countries are going to also continue growing. But, you know, that's how we see, you know, Q4 2024 linking into Q1 2025. Because we need to keep in mind that our business doesn't stop with Q4 2024. The 1st of January is just one day after the 31st of December. The actions we take, you know, in 2024 end

of year are carrying us into the beginning of 2025 and beyond. But, you know, ultimately, we see positive momentum as of now, you know, in our markets. And we're happy with that because it confirms that the actions we took in 2024 were the right ones.

Çiçek Uşaklıgil Özgüneş:

And if I may add one thing, it's always good to have a check in terms of how the trade is going, how we're performing versus our internal targets. I have no rejection to that. But we have always maintained a long-term perspective. We are fully aware of our company's long-term potential. And we are operating in a highly seasonal industry. That's why we prefer to manage our business based on at least annual targets rather than quarterly goals. As one of the most profitable bottler in the system, we strategically allocate our profitability at times investing in the market to drive volume growth, at times using the cash flow generated to finance new investments and acquisitions, and at times leveraging it to continue creating value. So our focus is not short-term, quarterly basis. We tend to look at it on a longer term, at least one year basis.

Bernard Griesel:

Thank you. And in terms of when you say you reinvested in Türkiye in Q4, does that mean it's just you ran more promotions to stimulate volume growth? So you were selling product at better prices?

Çiçek Uşaklıgil Özgüneş:

Exactly. And that is also continuing throughout CCI, in the first quarter as well, because as you know, Ramadan also moved forward 10 days in the first quarter. And Ramadan is always a big occasion for us, big event for us. So we are trying to make sure that we support our volumes by taking some of the promotions earlier in the year. And since both fourth quarters, first quarters are small quarters, any change that you make in investment makes a bigger difference. So that's why we are trying to get you to think more on a long-term basis rather than quarterly focus, because there will be quarterly cyclical moves in terms of profitability.

Bernard Griesel:

Yeah. And then maybe, can you just unpack, I mean, what are some of the lessons you learned in 2024 that you are implementing now in 2025?

Karim Yahi:

Lessons learned from 2024 that we're taking in 2025. Yeah, no, this is a good question. So I'm going to actually start from where Çiçek left. The need for us to be very dynamic in the way we manage our resources and our performance. So for instance, we invested in Q4 in Türkiye. That's why you see the numbers in Türkiye being temporarily impacted, because we invested to create more volume, momentum in the country. But then we were able to do that thanks to opportunities on the revenue realization and profit side that were coming from the other countries. And again, that's the strength of the portfolio. That's number one. And this is to help us, as Çiçek said, never lose sight of the long-term. A quarter cannot take you too far away from your long-term trends. And if you think about Q4 being a changing quarter, , we actually have been able to weather, you know, the pressure. And, at the end of the day, the quarterly overall CCI, overall consolidated

performance was solid and not taking us away from the long-term trajectory, because it was solid also for the full year. And again, taking us into the long-term trajectory. So that's number one. So number two, you know, we focus on what we can control and influence. Again, that is the most important message. You know, I share that with our sales teams everywhere I go. No, we cannot impact, you know, the overall macroeconomic, societal, geopolitical context in our region. Nevertheless, what we can influence is what we do every day. And what is it? It's executing to the best of our capabilities in the 1.2 million stores we visit. That's number one. Number two, how do we price, or not price, you know? So how do we leverage revenue management so that we are not only dependent upon price? Pushing the mix, right? Category mix. Pushing the package mix. Small packs going faster than big packs. Pushing, you know, the channel mix, you know? Evolving with consumers, you know? Meeting them at the point of consumption. You know, restaurants growing. Therefore, we need to grow with restaurants and with consumers. And all this, again, are things that are good for the business, because we recruit more consumers, and are good for the margins as well. Because again, the margin is 1.5 times higher for small packs versus big packs. So again, focusing on what we can control and influence. And that is what we do every day, you know, in all our markets. So that is the biggest lesson from 2024 that we take with pride into 2025. And that's why we are confident in the guidance that we are sharing, because we know that it comes bottom up from local market realities, and how we can impact the business positively in every market where we operate.

Bernard Griesel:

Thank you very much. That's great detail. Thank you. I guess just speaking for myself and I guess many others, I mean, the focus, I guess, in the queue is just seen, because I assume most of us are just looking for where some turning point is for volumes to recover and prosper, because of your markets being such underpenetrated markets with so much opportunity. But yeah, thank you for the question. Yeah, that's all I have for now.

Karim Yahi:

Thank you, Bernard. And I'm looking forward to continuing our discussion in the future, because yes, you know, our part of the world is underdeveloped, as you said, you know, we have low per capita, that's the way we measure opportunity for us. And we are looking at creating a long-term, sustainable, value-creative business, you know, in our geographies. You know, thank you, Bernard.

Moderator:

Okay, thank you. We'll be now moving to the next question from Evgeniya Bystrova from Barclays. Please go ahead. Your line is now open.

Evgeniya Bystrova:

Yes, thank you very much for the presentation and thank you for taking my question. I have just a quick one. So on your free cash flow, I guess it seems that it was slightly negative during 2024. So I was just wondering, what's your outlook for CapEx and maybe financing costs for the 2025? And also my second question, and I apologize if I missed it during the presentation, but I think,

especially in the beginning of the year, Kazakhstan market wasn't performing as you would have expected, or maybe it was slightly weaker compared to previous years. So I was just wondering, what's your outlook for Kazakhstan for 2025? Thank you.

Çiçek Uşaklıgil Özgüneş:

Okay, let me take the first part from free cash flow perspective. We had a positive free cash flow without inflation accounting. However, due to inflation adjustments, we had negative balance in inflation financials. And since this is a cash-based metric, we evaluated excluding the effects of inflation accounting. So we prefer to look at it when we are doing our own internal calculations, we exclude the impact of inflation. First of all, let me say that. Secondly, we expect free cash flow improvement to continue, obviously, this year it will be a priority for us. It will come from a couple of pillars. CapEx will continue to be high, by high, I mean, it's still, in the high single digits to NSR territory, but it is higher than last five, six years average. Because in the last five, six years, the average CapEx/NSR was around 6%. Now we are looking at like at least 100 to 200 basis points, higher CapEx/NSR ratio, both for 2024. And this will continue in 2025 as well, because we keep on investing in our markets. So CapEx will be more or less stable, but there will be profitability growth from EBITDA side on an absolute basis. We will be looking at a more optimized interest and tax environment, because that's also another priority. As I mentioned, we are trying to reduce the FX exposure as much as we can by localized borrowing. But we are also trying to find a balance by using the county portfolio to make sure that we can also leverage our international country's balance sheet, where the cost of borrowing is much lower than in Türkiye. So we are trying to optimize our interest level as well. So we expect some saving from the interest and tax side on our pre-cash flow. And also, obviously, no need to say working capital. That will be, again, a priority. This year, we have seen some deterioration in 2024. For 2025, it's our target to improve it. And the improvement will come from all pillars, but mainly from a better inventory management, which we believe is possible with the growth volumes. So these will take us to an improved pre-cash flow yield in 2025. That's the expectation.

Karim Yahi:

And regarding the second part of your question about Kazakhstan, in 2024, Kazakhstan went through some structural changes as a country. You may recall that approximately 1.5 million people were asked to leave the country during the year. And basically, these are people that had moved into the country with their own purchasing power. And as they moved, as they left, they took away their purchasing power that had created a hole in the economy and a hole into the non-alcoholic ready-to-drink category and basically has eroded some of the opportunities that existed in the market. Now, within this context, what have we done? Again, in Kazakhstan, we focused on what we can control. So we focused on execution. We focused on creating consumption growth, continuing to build future consumption also at the same time. And we also opened our new factory in Shymkent, which is, again, a testimony to the fact that we believe in the long-term potential of Kazakhstan. Now, with all this, we have actually seen some good recovery also in the fourth quarter in Kazakhstan. So we ended up strong there. And again, we focused also in Kazakhstan on regaining competitiveness so that we can always be stronger in the store and have a high leadership ratio versus competition. So all in all, although we don't share detailed guidance by country, Kazakhstan belongs to the international operations. And you've seen our

guidance that international operations are going to grow faster in 2025 versus Türkiye. So our plan is to grow international operations mid to single, mid to high single digits in 2025. And Kazakhstan will be part of that mix.

Evgeniya Bystrova:

Thank you very much. That is a very useful color. And congrats on a new role, Çiçek.

Çiçek Uşaklıgil Özgüneş:

Thank you.

Moderator:

Thank you. Thank you very much. So before I move to the next question, just a quick reminder. If you are connected via the telephone and you want to ask a voice question, please press star 2. That's star 2 on your keypad. If you have any voice question or want to send a text question and you are connected via the web, also you are able to do so. We'll be taking the voice questions first. So our next question comes from Arda Solmaz from Pilea Invest. Please go ahead. Your line is open now.

Arda Solmaz:

Thank you. So thank you for taking my question. My question related to Bangladesh and Iraq and Azerbaijan. So you expanded into Bangladesh and you opened new plants in Iraq and Azerbaijan. So I'm just trying to understand here, what is the long-term potential in these countries, especially in Bangladesh? Thank you.

Karim Yahi:

Thank you for your question. Look, the long-term potential of the three countries you mentioned, Bangladesh, Azerbaijan, and Iraq, is positive. I mean, very clear. These are three markets that are still relatively low per capita, although Azerbaijan has higher per capita than Iraq. And Iraq has higher per capita by far than Bangladesh. Nevertheless, all these three markets are true frontier markets where we have plenty of opportunities. So and that is why we have always this mindset at CCI to invest ahead of demand. And that is why we're going to open a new plant in Baghdad in 2025. And Azerbaijan also in 2025. Now, Bangladesh, for references for you, a good important reference for you is Bangladesh, has approximately one fourth, so 25% of the NARTD per capita of Pakistan, when it has also 2x the GDP per capita of Pakistan. So I'm going to repeat that just to give you some perspective. So to give you the number, Bangladesh NARTD per capita is 10. And that is one fourth of the NARTD per capita of Pakistan, although it is a relatively richer country when you look at GDP per capita, you know, with a 2x GDP per capita versus Pakistan. So again, Bangladesh is a country full of opportunities for us. And, you know, that is why we made the acquisition. And that is why, you know, we are excited about the opportunity there, investing right now in route to market, investing in coolers, and implementing all the fundamentals of the CCI playbook.

Arda Solmaz:

Thank you.

Karim Yahi:

Thank you.

Moderator:

Okay, thank you. Thank you very much. We are now moving to the next question from Zeynep Erman from Ata Invest. Thank you for the presentation. Could you please give us more color regarding the 2025 outlook? And how was the consumer demand, both Türkiye and international operations in two months 2025? What is the expected CapEx/net sales for 2025?

Çiçek Uşaklıgil Özgüneş:

I think this is answered mostly. For CapEx/net sales, we expect high single digits in 2025. And Karim already mentioned that we had a good start to the year. So, Zeynep, unless you have any follow-up questions, this was already answered.

Moderator:

Okay, perfect. Thank you very much. And our final question comes from Mustafa Arıkan from Thornburg. Why are volumes in Türkiye 50% lower than where they were in 2019? How much of that is competition macro? Or were there one-off benefits in 2018-2019?

Çiçek Uşaklıgil Özgüneş:

Hi, Mustafa. Thank you for the question. 2019, we had a tea business called Doğadan, which was a loose leaf tea business. Then we sold to the Coca-Cola company and we started to deconsolidate that business. So, that had around like 8% of impact on Türkiye's volume. So, without that, we are above, definitely above 2019 volume. If you look at our 2020 release, actually, you will see the restated 2019 number. And there you can see that actually it is lower than today. So, for 2020, it was 512 unit cases without, million unit cases without Doğadan tea. So, that is the main reason. Could have it grown more in this period in the last five years? Yes, it could have. Türkiye definitely has the potential. But please bear in mind, since 2019 until today, purchasing power in Türkiye deteriorated by nine times. The cost of living increased by nine times in Türkiye between 2019 and 2025. And on top of it, we had a major earthquake and a lot of other challenges. I'm not trying to find excuses here, but this explains that maybe a below potential growth that we have witnessed in Türkiye, but that it is definitely not lower than 2019 numbers on an organic basis. I hope this answers your question.

Moderator:

Okay, thank you. I believe we have a follow-up question, voice question from Bernard Griesel from Steyn Capital. Please go ahead. Your line is open now.

Bernard Griesel:

All right, thank you. Just one last question. I was just wanting to think if you can give us some sense of market share trends. I know that specifics you might not be able to share, but if you look over your markets, are you taking market share or is there certain markets where you might be losing or stagnating in market share? Could you go over your markets and just give us a sense of you've been gaining in the last year or losing or stagnating?

Karim Yahi:

Thank you. This is not something we typically disclose, but I'm happy to give you some color. First, we measure market share, but more importantly, we measure what we call leadership ratio. A leadership ratio is basically our shares versus the second best. And as my words indicate already, our leadership ratio is above one. In our biggest markets, and it is up to 2.5 to 3 in, for example, Türkiye. Now, regarding recent trends, as I mentioned earlier, Bernard, we have been focusing on recreating growth and volume growth, and that was mission critical for us in Türkiye, for example. And yes, over the past six months, seven months, we have actually recovered shares month over month. Right. So that's one. Same thing in Kazakhstan, same thing in the biggest operations in Uzbekistan, etc. Pakistan, we are still under the pressure from local brands, but we know that opportunistically local brands, when they launch, they cannot sustain the game. So to say they cannot play at our scale. Again, let's keep in mind that we deliver to 1.2 million stores every day. So in all our geographies and the small brands and the local brands cannot sustain this. So opportunistically, they come in, but we know that over time, they do not sustain and they cannot compete with us. So all in all, to summarize, we remain strong. Our leadership ratio remains strong. And wherever we have suffered from some disruption on market share, we are working to recover that.

Bernard Griesel:

Yes, that is very helpful. Thank you.

Karim Yahi:

Thank you.

Moderator:

Okay. Thank you. Thank you very much. As we are seeing no further questions, I would like to pass the line back to Coca-Cola Icecek team for closing remarks.

Burak Berki:

Well, thank you everyone for joining and hope to see you next quarter. Bye bye.

Moderator:

Thank you. This concludes today's calls. We are now closing all the lines. Goodbye.