

Coca-Cola Icecek

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 1Q25 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 Uřaklıgil zgüneř. 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 First Quarter 2025 Results Webcast. As the operator said, I'm here with our CEO, Karim Yahı, and CFO, iek Uřaklıgil. 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 statement. 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 2025 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 the general purchasing power of the Turkish Lira in accordance with TAS29 and are finally expressed in terms of the purchasing power of the Turkish Lira as of March 31, 2025.

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

Following the call, a full transcript will be made available as soon as possible 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 first quarter 2025 results' webcast.

We started the year with strong momentum, successfully carrying the positive volume trajectory from the last quarter of 2024 into the first quarter of 2025. Despite ongoing macroeconomic challenges reflected in declining consumer purchasing power and regional instability caused by the unrest in the Middle East, in 1Q25 we delivered solid volume performance across all our markets.

By prioritizing affordability, accelerating trade promotions and consumer marketing activities ahead of the Ramadan, and continuously elevating the quality of our portfolio, we managed to navigate external pressures with a measured and focused approach. These strategic actions,

combined with the initial signs of improving market conditions, supported a strong rebound in volume performance.

In the first quarter of 2025, we delivered a 13.4% y/y increase in consolidated sales volumes, reaching 387 million unit cases. This growth was supported by a solid performance across all our markets. While Türkiye recorded an 8.4% increase, our international operations grew by 16.1%. Among our key markets, Pakistan grew by 17.2%, Kazakhstan by 11.7%, Uzbekistan by 8.4%, Azerbaijan by 13.3%, and Iraq by 11.2%.

As Ramadan took place entirely within the first quarter this year, sales of future consumption packs accelerated to support family occasions, resulting in a 199 basis points decrease in the immediate consumption mix, which declined to 24.4% in 1Q25. Still, our strategy to enhance product mix remains intact, and we will maintain our focus on driving the growth of smaller, value-generating packs throughout the year.

In 1Q25, we recorded consolidated revenue of TL 36.2 billion, decreased by 3.8% compared to the same period of last year. Our gross profit margin declined by 282 basis points to 30.4% in line with expectations, due to cycling low-cost base, which will gradually phase out in rest of year. The EBITDA margin declined by 346 bps to 12.9%. Without TAS 29, EBITDA margin was realized as 14.2%. Net profit is recorded as 1,3 billion TL in 1Q25 down by 66.0% y/y due to higher interest expenses and lower monetary gain vs. last year.

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As part of our strategy to focus on affordability to drive volume growth, all major markets contributed positively to the overall growth.

The sparkling category grew by 16.9%, driven primarily by Coca-Cola™, which recorded a strong 18.6% growth and remained the key driver of category performance. Sprite also delivered an impressive 21.0% year-on-year volume increase, further supporting the solid momentum in the sparkling category.

The stills category grew by 8.7%, building on the 11.0% growth recorded in 1Q24, with Fusetea leading the segment through a robust 13.2% increase. On the other hand, the water category experienced a 9.2% yearly decline, in line with our long-term strategy to gradually reduce lower value-adding volume.

With Ramadan falling entirely in 1Q25, future consumption packs gained momentum, lowering IC share to 24.4%, down 199 bps yearly. Despite this, our focus on value-adding smaller packs remains intact. Channel mix shifted slightly, with modern trade and discounters up, while traditional and on-premise declined. Our low/no sugar portfolio also advanced, increasing its share in sparkling by 171 bps to 15.5%.

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In 1Q25, volume in Türkiye increased by 8.4% y/y and reached 128 million unit cases, cycling a 5.4% growth recorded in 1Q24. Volume growth was supported by accelerated execution of trade promotions and consumer activations ahead of Ramadan, and right pricing strategies, all contributing to stronger consumer demand.

Sparkling sales increased by 14.0% in 1Q25, primarily driven by a strong 15.6% growth in our Coca-Cola™ brand. The stills category also grew by 4.5%, supported by a robust 12.1% increase in Fusetea, which remained the main growth driver of the category, as it was last year.

Türkiye recorded a 2.6% net sales revenue decline to TL 14.4 billion in 1Q25, with NSR/UC down 10.2%. Excluding TAS 29 adjustments, NSR grew by 35.7% and NSR/UC rose by 25.2% y/y to TL 110.1, driven by ongoing revenue growth management initiatives and close monitoring of customer purchasing power to ensure affordability.

The decline in gross margin resulted in EBIT margin compression in the first quarter, primarily due to a strong base effect stemming from exceptionally favorable commodity costs in the same period last year. EBITDA turned negative in the first quarter of 2025.

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International operations delivered a robust 16.1% y/y growth in 1Q25, reaching 259 million unit cases, supported by strong contributions from each of our operating markets.

Pakistan's macroeconomic environment continued to stabilize in 1Q25, with inflation dropping to 0.7% in March, its lowest level in decades. This decline supported a notable recovery in both consumer and business confidence, although the overall environment remains fragile.

In international operations, net sales revenue declined by 4.9% y/y to TL 21.8 billion. Without the impact of TAS 29, NSR increase was 31.3% y/y and NSR/uc improvement was 13.1% y/y. Due to ongoing macroeconomic challenges and the continued negative impact of the conflict in the Middle East, price increases were either postponed or kept limited in majority of the markets to prioritize affordability and support volume growth.

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Pakistan delivered 17.2% y/y volume growth in 1Q25, reaching 100 million unit cases, also supported by cycling a low base of 22.8% decline in the same period last year. Sparkling, particularly the FC segment, was the main contributor to this growth. The first quarter featured impactful consumer and trade activations, including campaigns around the International Cricket Counsel Champions Trophy tournament, as well as Ramadan activations, which helped drive demand for IC packs.

Kazakhstan's sales volumes grew by 11.7% y/y in 1Q25, reaching 56 million unit cases. While the growth partly reflects a low base from the previous year, it was also supported by effective trade promotions and the successful introduction of new product launches in the market. The on-premise channel also performed strongly, growing ahead of the overall market and further contributing to volume expansion.

Uzbekistan recorded an 8.4% volume increase in 1Q25, reaching 35 million unit cases, cycling an exceptionally strong base from 1Q24, when it achieved an impressive 22.5% growth. This performance was supported by a 31% year-on-year growth in the My Coke brand and a 131 bps increase in the on-premise channel share, further strengthening the overall momentum in the market.

Iraq delivered strong volume growth of 11.2% y/y in 1Q25, reaching 30 million unit cases. This performance builds on the solid 24.3% growth recorded in 1Q24, with positive momentum sustained into 2025. Iraq has by far the highest IC mix share within total sales across our markets.

Azerbaijan delivered solid volume growth of 13.3% y/y in 1Q25, reaching 15 million unit cases, successfully cycling a strong 15.4% increase in 1Q24. This performance was driven by a strong market share in the sparkling category, which grew by 17% y/y, and a remarkable 29% y/y growth in the Fusetea brand, further supporting the momentum in the stills category.

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

Çiçek Uşaklıgil Özgüneş:

Thank you, Karim. And hi, everyone. Thank you for joining us today.

Let's start with our financial summary. So, unless I say otherwise, all figures I will refer to are with inflation accounting.

In first quarter of 2025, we delivered 36.2 billion Turkish Lira in net sales revenue, reflecting a 3.8% decline year-over-year. However, when excluding the impact of inflation accounting, net sales revenue reached 35.9 billion Turkish Lira, representing a 33.2% increase.

We wanted to keep the momentum of last year's fourth quarter in this year's first quarter as well, and prioritize volume growth as the operating backdrop is still not very accommodative on the back of macroeconomical difficulties and sensitivities around the war in Middle East. This was a strategic decision, and it proved successful. Our volume momentum remained strong, with all our markets delivering higher sales volumes year-over-year. However, this also meant that net sales revenue growth fell short of expectations. We expect this to rebalance over the course of the year.

Our consolidated gross margin came in at 30.4%, down 282 basis points. As expected, Türkiye operations saw a decline in gross profitability, particularly in the first quarter, due to low base of certain raw materials, which will normalize in line with our guidance during the year. The year-on-year delta in COGS and softer NSR growth both will normalize in the upcoming periods, as I said earlier.

Gross profitability in our international operations remained resilient, supported by strong volume momentum, disciplined RGM yielding in solid net sales revenue, and tight cost management as well as proactive hedges. Without the impact of inflation accounting, gross margin was 32.2%, with a margin contraction of 451 basis points.

International operations OPEX margin was lower year-on-year, while the one percentage point increase in OPEX margin at the consolidated level came from Türkiye, mainly attributable to marketing expenses, which were once again front-loaded in the year due to Ramadan.

Our consolidated EBIT margin was 7.9%, with a decline of 385 basis points. Without inflation accounting, EBIT margin was realized at 10.6%, with a 552 basis points contraction.

Our net income was 1.3 billion Turkish Lira in first quarter, 66% lower than previous year. This was driven by operating profits, high interest expenses, and also 1.3 billion Turkish Lira less monetary gain versus last year's first quarter. Excluding inflation accounting, net profit in the first quarter stands at 85 million Turkish Lira.

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On a per unit case basis, NSR is down by 15.2% in first quarter compared to first quarter of last year. Without inflation accounting, net sales revenue per unit case reached 92.6 Turkish Lira in first quarter of 2025, up by 17.4%.

With effective hedges and lower stock revaluation impact this quarter versus last year, we managed to have 11.7% year-on-year decline in COGS per UC. Excluding inflation accounting, however, COGS per UC growth of 25.8% in the first quarter is led by lower base of last year.

Subsequently, EBIT per UC is down by 42.9% to 7.4 Turkish Lira. Excluding the impacts of inflation accounting, our EBIT per UC declined by 22.9% in first quarter of 2025. As discussed, majority of this was driven by seasonal factors and will normalize during the year.

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As always, we want to have a clear visibility on costs, enabling us to focus on revenue growth initiatives. In line with this strategy, we hedged and or contracted majority of our raw material needs for 2025. This is giving us additional comfort these days as the volatility and lack of visibility in the global markets after Liberation Day is causing concern for many companies.

Right now, we do not expect a major direct impact on our operations. Possible indirect impact on the economies of the countries we are operating in are constantly monitored and tracked. Our focus remains on what we can control, enhancing operational resilience through agility, foresight, and adaptability. In markets where sugar hedging is possible, specifically Iraq and Jordan, we have already secured 75% of our sugar requirements for 2025.

In our other markets, pre-buying activities are largely completed, bringing our total sugar coverage for this year to 81%. Similarly, we have locked in 56% of our 2025 aluminum needs and 72% of our resin requirements. Of course, other key components such as labor and utilities also factor into our overall cost of sales. As expected, we anticipate typical inflationary pressure on labor costs going forward. 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. For example, with the recent decline in commodity prices, we have started hedges for 2026 and beyond, carefully taking advantage of attractive pricing windows to support long-term cost efficiency and margin stability.

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Net profit for the quarter was 1.3 billion Turkish Lira, representing a 66% year-on-year decline. This drop in bottom-line performance was primarily driven by a softer contribution from net sales revenue, as we maintained our strategic focus on affordability with limited pricing action. Additionally, elevated interest rates led to higher financial expenses, while the monetary gain was significantly lower compared to the previous year, as I mentioned earlier. This decline in monetary gain reflects the diminishing impact of inflation accounting adjustments.

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As a result of our financial policy, our balance sheet still remains to be strong and flexible. As of end of first quarter, our net debt stood at \$912 million, with a net debt to EBITDA ratio of 1.3x, versus 1x times at the end of 2024. Although still at a low level, the increase in our leverage ratio compared to the year-end primarily reflects the seasonal nature of the first quarter, typically the least cash-generative period with front-loaded capex and limited inflows. To bridge this temporary gap, short-term working capital financing is utilized, and that had a negative impact on leverage. By the end of the year, we expect to go back to last year's year-end levels.

As of March 31st, 2025, 50% of our consolidated financial debt is in U.S. dollars, 8% is in Euros, and the remaining 42% in Turkish lira and other local currencies. This marks a significant decline in FX position, FX debt position, compared to the previous year, where the share of Turkish lira and local currency loans were 30%, versus 70% of Euro and USD. Four years ago, FX portion was even as high as 84%. This lower FX exposure is naturally resulting in higher interest expenses from local currency borrowing, but if we look at the total cost of

funding, including depreciation of local currencies against hard currencies, we have made significant progress in the last three years.

Moreover, our diversification strategy extends beyond Turkish lira to include Uzbekistan, Pakistan Rupee, Kazakhstan Rupiah, and Azerbaijan Manat. We have a short FX position after net investment hedge at \$166 million. And before net investment hedge, so on a pure financial hedge perspective, we have a short position of \$515 million. We always state that we monitor this short position by benchmarking it against our international limits.

Right now, it's around one time. The reason is that we repatriate hard currency dividends from international operations and use this to serve our FX liabilities. The majority of the redemptions scheduled for 2025 is either in local currency loans or short-term portion of long-term borrowings. We do not see any refinancing risk here.

Now back to Karim for his closing remarks.

Karim Yahi:

As part of our continued focus on supply chain excellence, I'm pleased to share that our greenfield and new line investments are progressing as planned, just as they did in 2024. We continue to invest ahead of demand, ensuring we are well-positioned to meet future growth while advancing at full speed to drive operational efficiency.

Today, we operate 33 production plants across our territories, with a combined capacity of 2.2 million unit cases. Over the past decade, we've consistently invested in our business, with capex averaging 6.7% of net sales annually.

Importantly, 79% of our capex is directed toward international markets, highlighting our growth-oriented investment strategy, while Türkiye accounts for the remaining 21%.

Cooler investments continue to be a critical part of our operating infrastructure, accounting for 18% of our total capex. Meanwhile, capacity expansion takes the lion's share at 61%, reflecting our commitment to strengthening production capabilities across our footprint. This disciplined yet growth-focused approach positions us well to sustain our competitive edge across all markets.

Now before we move onto Q&A; I would like to remind you that we will have a capital markets day with Anadolu Grubu Holding and our group companies in London at the May Fair Hotel on June 23rd. This will be an opportunity to discuss the rest of 2025 as well as share with you our 2035 vision.

If you're interested in attending this event, please reach out to our Investor Relations team and they will help you with the registration. So, see you soon in London.

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

Moderator:

Thank you. We will now move to the question and answer section. If you would like to ask a question, please press star 2 on your phone and wait for the prompt. If you are dialed in by the web, you can type your question in the box provided or request to ask a voice question. We will just wait a few moments for the questions to come in. Okay, so our first question is from Ece Mandacı from Unlu Securities. Your line is now open, please go ahead.

Ece Mandacı:

Hi, thank you for the presentation. During the presentation, you have mentioned that gross profit margin and NSR growth will normalize during the year. Do you refer to the second half

of the year? Because for the second quarter data, historic data, I see that the margins were stronger in the second quarter for Turkish operations. When do you plan to make the price adjustments? Is it before the season starts for FC packs and could that have an effect on margins in the third quarter maybe? That would be great if you provide some more color on that. Thank you.

Çiçek Uşaklıgil Özgüneş:

Hi Ece. From a gross margin perspective, yes, you are right. It is usually the trend, but this year we have an anomaly because last year's first quarter was exceptionally low because of some stocks that we had carried over from the fourth quarter of 2023. Actually, as you would remember, this war in the Middle East first started, which had an impact on our volumes together with the heightened level of the macroeconomic conditions with the high inflation at that time with very low affordability. And as you would remember, we had a contraction of around 17-18% in our sales volume in fourth quarter of 2023. So, that resulted in some carryover costs to 2024's first quarter. That provided a very low base for Türkiye. That's why this year we are seeing this much deviation in the cost base year on year. So, this is an anomaly and it will phase out during the year. Yes, we still guided for higher costs as a percentage of net sales compared to last year for the full year, but this is a, you know, a milder contraction than what you are seeing in the first quarter. This is totally due to base effect and it will gradually correct itself in the second quarter, but mostly third and fourth quarters. Regarding your question about pricing, we have already taken the price increase in April, mid-April for FC packages. So, yeah, so that completes it. I mean, the plan for before the season is completed for now.

Ece Mandacı:

FC pack price increases just for Turkish market or for other markets as well?

Çiçek Uşaklıgil Özgüneş:

I thought you asked for Türkiye. So, yes, I answered for Türkiye. Every market has different pricing structures. In Kazakhstan, we already took price increases in February. So, one of the reasons why international operations performed in terms of gross margin and OPEX better is because of higher NSR there, even compared to our expectations, and this was because of earlier pricing that we planned in Kazakhstan, better discount management in countries like Uzbekistan, Azerbaijan, and Pakistan. But in some markets, we haven't taken any price increase yet. We are just monitoring the market situation, affordability, etc., like the case in Pakistan. But we are compensating that with tighter discount management, resulting in net sales revenue going in line with our expectations.

Ece Mandacı:

Thank you.

Moderator:

Okay, thank you. Our next question is from Miraç Başcı from GPY. Thanks for the presentation. I have a few questions. One, is there any risk to your guidance in the coming periods? And the second question, can you give any color related to revenue growth and margin in the coming quarters? Thank you.

Karim Yahı:

Thank you for the question, Miraç. Look, to your first question, we do not see a risk to the guidance. And why? A few things. One is when we built the guidance, we actually explained that 2025 will be a year to focus on affordability. That's one. Second, we explained also that there will be a less favorable overall cost environment driven by higher commodity prices in 2025 relative to 2024, number two. And as Çiçek explained, if you look at the numbers, in actually the first quarter of 2025, our COGS as a percentage of revenue is 68%, which is very much in line with the average of the past five years. Last year, the first quarter of 2024, COGS

as a percentage of revenue was 63%. So 63% as the COGS as a percentage of revenue last year versus an average of a range of 67% to 69% over the past five years. And that was known to us as we had created our guidance. So right now, what we see overall is that this very favorable cost base we had last year in 1Q24 is going to normalize, is going to phase out in the remaining quarters. And at the end of the year, we will have a more in line with a little bit above last year, but in line with the previous year, full year COGS that allows us to basically create margins quarter on quarter until then. So as far as we're concerned, we do not see a risk to our guidance. It is in line with plan. And as Çiçek explained earlier, our COGS is either hedged or contracted. That is what is giving us visibility and confidence that the anomaly in the higher COGS in the first quarter will phase out in the remaining of the quarters in 2025. And therefore, the guidance will be delivered.

Regarding your second question, I think Çiçek answered, between now and year end, you will see improvement quarter on quarter towards delivering the guidance that will come from, again, the combination of phasing out of the favorable cost base we had last year, as well as NSR/uc increasing gradually during the remaining of the year.

Moderator:

Okay, thank you. Our next question is from Maxim Nekrasov from Citi. Your line is now open. Please go ahead.

Maxim Nekrasov:

Yes, thank you. Thanks a lot for the presentation. The first question is regarding the current situation in Pakistan, right? We see deterioration in geopolitical environment. I wonder if you can provide any comments on that, any color, if you've seen any impact in recent weeks or days, and what's the current outlook?

Karim Yah:

Maxim, thank you for the question. Look, you know, the situation in Pakistan overall is improving, right? When you look at trended numbers, from a macroeconomic standpoint, inflation has stabilized, yet there is still a relatively high level of poverty. Nevertheless, you know, we are following closely the tension. But we hope for prompt and peaceful deescalation, clearly. The operation in Pakistan is not interrupted. I actually was on the phone with our general manager a few times today. And we have not been impacted, infrastructure has not been impacted. And even more importantly, our people are safe, our distributors are safe. The safety and well-being of our employees first, our ecosystem and assets remain our top priority.

Maxim Nekrasov:

Understood. That's quite clear. I just wanted to follow up on margins, right, that was asked before. But, and I understand your answer regarding the year on year impact in terms of cost of goods sold. But still, in even in absolute terms, if we look at the Turkish margin, fourth quarter, first quarter this year, it's close to zero. So I wonder what would be the drivers to improve margin in Türkiye in particular, because international looks so strong. And also why there is a different growth in cost of goods sold when we look per unit case in Türkiye versus international in the first quarter.

Karim Yah:

Türkiye margin in Q4 as well as in Q1, we have actually a CCI leverage, what I described last time as the strength of our mix of countries. And why have we done that is because we needed to recover the volume loss, you know, in Türkiye and overall in CCI, but mostly in Türkiye, that was the biggest loss that we had in the fourth quarter and in the first quarter of 2025. How have we done that? Well, we have pushed trade promotions, we have pushed consumer activations in order to focus on affordability and recreate the volume base that we need. Again, in our emerging markets, we need volume to grow per capita over time. And that is how we create a sustainable value model, value creation model, you know, in our geographies. And

that is exactly what we have done. Now, Türkiye has benefited more than the other markets, in the first quarter of 2024 from a lower cost base because of what Çiçek just explained earlier. You know, you have to go back in history to the fourth quarter of 2023, where Türkiye experienced a significant volume drop. Therefore, a drop also in all the commodity purchases. And these drops basically were carried forward in the first quarter of 2024. So we benefited actually from all this, in the first quarter of 2024, even more significantly in Türkiye versus the rest of the portfolio. So it's all about the relative impact of this cost base in 2024, first quarter, coming from the last quarter of 2023. So you're going to have to trace this back a little bit, Maxim, but that's how it works. And that's why Türkiye, as it was affected more by the drop of volume in the fourth quarter of 2023 because of high inflation on the rest of the Middle East, etc., was more favorably impacted from a more favorable cost base in the first quarter of 2024 versus international operations. You're going to have to reconcile all this data, Maxim, and my team, our team here will be happy to help you. But that's the idea.

Maxim Nekrasov:

Understood. And just to follow up on your answer, can you confirm that this push in terms of promotions has basically ended in the first quarter or you continue to be quite promo active to recreate volumes in the second quarter?

Karim Yahia:

Look, the first quarter of 2025, overall in our markets and mostly in Türkiye, has been really like the Ramadan quarter. And during Ramadan time, the biggest consumption occasion is at home consumption, right? Celebrating togetherness and family occasions. Therefore our focus was on future consumption and recreating volume growth. So we deliberately, intentionally decided to support volume. That was intentional and planned. And now, Ramadan was only in the first quarter, right? So now we move to the second quarter and already it is in the market. But we decided actually to surgically start taking price, right? 2.5 liters of Coca-Cola™ in Türkiye right now our recommended sale price is 70 TL. And it was 60 during the first quarter of 2025. So again, it's not a blank check to take price on every pack in every occasion all the time. No, we are surgical on that. But yes, we did take price at the beginning of Q2 so that we can also cover the cost inflation that impacting our business and decrease our dependency also on trade promotions and consumer activation. So to answer your question, Maxim, we are gradually and surgically phasing out of this very strong focus that we had during the first quarter that was really because of Ramadan. And now, again, back to the revenue growth management playbook, you know, being surgical on where to price, not to price, what to incentivize, etc, etc.

Çiçek Uşaklıgil Özgüneş:

And if I may add one thing, Maxim, we occasionally prioritize between volume and profitability within the quarters. Differences observed across each quarter could be, but this does not steer us away from our long-term goal of delivering quality growth, which means growing EBITDA, EBIT, above revenues and revenues above volume. So from quarter to quarter, you may see fluctuations in discounts, pricing, etc. but our overall long-term strategy remains the same.

Maxim Nekrasov:

Thank you very much for the detailed answers.

Çiçek Uşaklıgil Özgüneş:

Sure.

Moderator:

Thank you. Our next question is from Ali Akkoyunlu from Gedik Yatirim. Your line is now open. Please go ahead.

Ali Akkoyunlu:

Yes, hello. Just very briefly to follow up on margins, you know, you've answered a number of questions, so very quickly. How do you think the events after March and the slowdown in economy should be impacting your pricing strategy going forward, you know, versus the beginning of the year? You seem to be quite confident on the guidance, thanks to cost, but from a pricing standpoint, would that potentially create a change? And secondly, you know, going forward, a devaluation in the lira, let's assume 10%, how would that impact the P&L and the balance sheet? Thank you.

Karim Yah:

So thank you for the question. On your first question, we do not necessarily see a big risk on the overall economic forecast, okay? So overall, in all our operations, international and Türkiye, right? Actually, to the country right now, we actually see that the inflation is on a decelerating trend, right? You know, in our major operations. And back to what we do at CCI, we focus on what we can control, which is what do we do every day in the store. How do we price? What do we do with discount management? What do we do with channel mix? What do we do with pack mix? So again, in line with what we have always shared in our calls and webcasts, we do not look only at pricing when we think about margins. We think about revenue management. And again, it has more tools than the pricing only. So right now, based on our forecast for the year, the economy will be what the economy will be. And again, we will continue to create volume. We will continue to create revenue. And we will continue to create margins so that we can deliver the guidance that we have created. Now, on your second point, I will let Çiçek, you know, address your question about the scenario of a 10% Turkish lira devaluation. So over to you, Çiçek.

Çiçek Uşaklıgil Özgüneş:

Sure. Well, regarding FX evaluation, we have to look at from two perspectives. One is the operational FX exposure, which is around 30% in our total cost of sale. 30% is denominated or linked to hard currency. This is either directly linked to hard currency or indirectly, for example, aluminum is indirectly linked to hard currency. So around 30%, which we believe is manageable from the hard currency inflows as well.

And the second factor is the balance sheet exposure. When I was talking about the balance sheet slides, I mentioned that our short position is 1.0x of our international EBITDA. And we are happy to keep it that way. So when there's a devaluation, first of all, the long maturities of around three years give us enough time to pass on the impact of devaluation onto our prices to make sure that by the time that's mature, we are able to reflect the impact of the devaluation onto our profit generation as well. And secondly, because the leverage is low and the short position is also low within our tolerance zone, we also have the opportunity to roll the debt over when in the case of a severe devaluation. Having said all this, don't forget, we also have a diversified portfolio where Türkiye accounts for around 35% of total revenues. So actually, when Türkiye devalues, because of the conversion of international operations, we may end up with higher consolidated results, which we have seen compared to our budgets this year in the first quarter. And the reason is that when we are making our budgets and assumptions and giving the guidance accordingly, we do not try to just have an estimate on hard currency rates. We simply take the forward rates in order not to have any arbitrary interest rate difference. So we just use whatever the forward rate indicates at the time when we are preparing our budget. And when we do a rolling estimate, we update it according to what is indicated in the market by the interest rate differences. Why I'm saying this is that if you look at the forward rates, you will see that we are still very far away from the current reality of the Turkish lira versus hard currency.

So we do not see major risk of devaluation that would result in a change that will force us to change our guidance just because of the FX devaluation in Türkiye, because we still have a lot of push in there. And secondly, as I said, because of the diversified portfolio of our

operations, a devaluation in Turkish lira may actually result in higher conversion of international operations, which may result in higher absolute numbers than we forecasted.

Ali Akkoyunlu:

Thank you very much.

Moderator:

Thank you. Our next question comes from Hanzade Kılıçkiran from J.P. Morgan. Your line is now open. Please go ahead.

Hanzade Kılıçkiran:

Karim, Çiçek, thank you very much for the presentation. And I'd like to also make a follow-up on this pricing and also the margin management. But the first question is about the NSR per unit case. I mean, it is significantly down in the first quarter, but you still keep your guidance of single-digit growth in the rest of the year. So I think this could be achieved in two ways. If you price higher than inflation in the rest of the year, or there should be an apparent consumer shift to IC packages. I mean, which one is happening now in Türkiye or in international markets?

Karim Yahşi:

Thank you for the question. Look, on the margin, it is not going to come only from the net sales revenue. Again, I have to repeat that. The low-cost base from last year, and it's phasing out in the remaining quarters as we have hedged or contracted our cost, is going to significantly contribute to the re-establishment of margin in the upcoming quarters. Now, on net sales revenue, it's going to be a combination of both. Why? Because the first quarter was heavily skewed towards future consumption. Therefore, lesser net sales revenue per unit case average versus immediate consumption. There is like a one-to-two ratio, depending on the countries. Let's say one-to-two ratio between net sales revenue per unit case of immediate consumption to future consumption, with immediate consumption having the higher realization. Moving forward, as we follow consumers and the season, we are entering now into warmer times, entering more into what we call the season for us, and therefore, more focusing on impulse, more focusing on immediate consumption, and therefore, small tax. So, we're going to see an acceleration of immediate consumption versus future consumption in the upcoming quarters. So, that's one. Regarding pricing, as I shared earlier, we actually started taking price as well. In April already, we took action in Türkiye, for example, as well as surgically in some of the other markets. So, to answer your question, it's going to be a combination of both. It's going to be both pushing immediate consumption as well as being surgical on taking pricing where we need.

Çiçek Uşaklıgil Özgüneş:

On top of the fact that, as we said before, lower discounts, because first quarter discounts were higher than average. Because of Ramadan, we wanted to give the boost, just to be ahead of Ramadan. Now, Ramadan is over, then we can continue with our regular pace of discounts, trade promotions, and that will result in higher net sales revenue as well.

Hanzade Kılıçkiran:

Okay. I mean, thank you very much. I think that is clear. But on the cost side, I mean, I totally understand the base impact on the raw material cost coming from last year. But do you also see a, I mean, cost decline versus inflation in the rest of the year? Because you already had your cost. So, your cost base shouldn't reflect the current low prices, I presume, should be higher compared to last year, right?

Çiçek Uşaklıgil Özgüneş:

You mean the commodities prices right now are lower? We are not utilizing or leveraging the opportunity? Is that what you mean?

Hanzade Kılıçkiran:

So, I mean, yes, that is clearly. So, you are going to benefit from this low raw material prices next year rather than this year, I think, because of the hedging. But since you already had your cost base in the beginning of the year, how is your contract? I mean, is your raw material cost higher than inflation or lower than inflation in the rest of the year? Because you know your cost base, right?

Çiçek Uşaklıgil Özgüneş:

Yes, we know the majority of our cost base. As you know, cost and trade discounts as percentage of net sales revenue for us, so it is visible. For sugar prices, as we indicated at the beginning of the year, we are not looking at a better cost environment compared to last year.

We guided for pressures on margins, slight pressures on margins, that is coming from gross margin. Slight pressure on EBIT margin, that was our guidance, that was coming from gross margin because the cost base of 2024 overall was lower than the expected cost base of 2025. This is mostly coming from higher sugar prices, both in Türkiye and Pakistan and Central Asian operations. This is going just in line with our expectations.

So, don't misunderstand us, please. We are not saying that we will be looking at lower cost base compared to last year. What we are saying is that the second, third and fourth quarters will balance out the first quarter's deviation, so the yearly decline in the margin will be limited, much, much less than what you're seeing right now. And that is totally because of the very low base of last year. The difference is very reflected on the current results because it's such a small quarter. If this low base was in the third quarter of last year, in the third quarter of this year, you wouldn't see such a big impact because it's a very large quarter to absorb the swings.

First quarter is the lowest quarter. It is more difficult for them to absorb the swings in the cost base. And on top, as Karim also mentioned with numbers, we are looking at an exceptional low cost base of 2024. So, to answer your question, the current commodity environment will be able to benefit in 2026. We only have some open positions for the fourth quarter of this year. But except for sugar, we also have limited increase in our other packaging items. They are all in hard currency. We hedged aluminum and resin, they are in hard currency. The hard currency increase was limited and, you know, more or less in line with U.S. inflation, let me put it that way. But we were also being careful in terms of the FX component of it.

Right now, FX is also going slightly better than our expectations, as I explained in the previous question. So, we may have some benefits from that as well. But we will be disciplined in taking prices in second, third, and fourth quarter. So, the gradual impact left for the cost base will be less than the additional price increases that we are taking. But overall, for the full year, if you look at the end of 2025, when you go and look back, you will see that our cost base increase is slightly above our net sales revenue increase, resulting in flat situation gross margin. That is the statement that we are giving since the start of the year. And we haven't changed that. We know our cost base. We are confident about the pricing and the RGM actions we can take for the remaining of the year. But if anything changes, if an unforeseen event happens, that would deteriorate the affordability of people even further. Then, of course, we will revisit. But we don't see it right now.

Hanzade Kılıçkiran:

All right. Okay. Clear. Thank you very much.

Moderator:

Thank you. Our next question is from Evgeniya Bystrova from Barclays. Your line is now open. Please go ahead.

Evgeniya Bystrova:

Hi. Hello. Thank you very much for the presentation and for all the detailed answers during the Q&A. Actually, most of my questions were answered, but maybe one final one. What is your expectation in terms of CapEx this year? What are the key projects that you're investing? And where are you seeing your free cash flow by the end of the year or during the full year? Thank you.

Çiçek Uşaklıgil Özgüneş:

We have a percentage of capex to net sales just like last year. Last year it was around 8% levels. This year we expect it to stay around those levels more or less the same, like high single digits as a percentage of this year. This is the result of our continuous investments. As Karim always mentions, investing ahead of demand. So, we are opening a new plant in Azerbaijan. We opened a plant in Uzbekistan. We have a new plant coming in in Iraq, Baghdad. So, all those things. Some of the CapEx was accrued last year, spent last year. Some are being spent, paid out, cashed out this year. So, these are impacting the deviation. By deviation, I mean from our long-term average. Because if you look at the years, the last five years before 2024, our average CapEx ratio was around 6.7%. Now, in 1Q25 it has increased to around 8% levels. This temporary increase is because of the additional investments that we are making. But on the long term, it will come to its levels of around, you know, again, 6-7%, which is a sustainable level for a frontier and emerging market bottler like us, which continuously keeps growing the top line. So, that is the CapEx.

With that CapEx, we are obviously looking at an improved EBITDA in absolute terms, although with a slight pressure on margins. So, positive growth in EBITDA, controlled CapEx, and, you know, there will continue to be a pressure on interest rates because we are still very reliant on local currency borrowings, which results in higher interest expenses. But this is our risk management strategy. But we will be looking to deleverage that as well going forward. So, overall, free cash flow growth will be limited. But we are confident that we will generate positive free cash flow without inflation adjustments. With inflation adjustments, we don't really follow or we don't really have a, you know, a budget that we can guide you with on free cash flow. But from a non-inflation adjusted basis, given that how much we know how much we will spend on CapEx and more or less the estimation on EBITDA, we can say that we will be looking at absolute growth in the free cash flow.

Evgeniya Bystrova:

Thank you very much. And the increased or heavy CapEx period, how long will it last this year or you're also expecting it to continue into next year?

Çiçek Uşaklıgil Özgüneş:

Next year it will be lower. And by 2027, it will be totally in line with the previous five-year numbers.

Evgeniya Bystrova:

Thank you.

Çiçek Uşaklıgil Özgüneş:

Sure.

Moderator:

Thank you very much. Our next question is from Bernard Griesel from Steyn Capital Management. Is there a price differential between you and your competitors in Türkiye? And

is that either that your products are now priced below some competitors or is the price premium lower? And if so, how does it compare to the historic premiums? I would assume you took back some market share with the above-delayed pricing. And also, can you give us more color on the market share moves in Türkiye, but also beyond Türkiye?

Karim Yahi:

Bernard, thank you for the question. So regarding price, again, because we are very dynamic in the way we price, and again, when we look at price, we look at net price, meaning what's happening on the shelves as well as the trade discount we offer in order to help growth in the store. When you look at the net dynamically, right now, there is like at par with competition. So there's not a big gap. But again, very dynamic. Ramadan was the key occasion in the first quarter, and we wanted to capture it. So I'm not going to repeat everything I said, but we pushed as we needed to, so that we can actually gain volume and gain shares. So which is going to connect now to the second part of your question, what's happening on the share side. We typically track leadership ratio, because everything is relative, and what matters to us is more leadership ratio. And right now, in Türkiye, for example, our leadership ratio versus the next competitor is 3x. So healthy. I'm talking here, non-alcoholic ready to drink, overall in value. We can split it for you in sparkling and etc., etc. My team will be happy to talk to you in more detail about that, but that's the overall measurement for us. And in the other countries, same thing, same discipline. We measure leadership ratio. And in Pakistan, we are 1.1 versus the next in line. In Kazakhstan, we are 3.4 versus the next in line. In Uzbekistan, we are 2.1 versus next in line. And in Iraq, we are 0.6 versus the next in line. But we have now invested in Baghdad (Iraq) with a new greenfield. So we have increased capacity, and we have a plan to use this capacity so that we can grow the business beyond the historical trajectory. So I hope I answered your question, Bernard.

Moderator:

Thank you. Our next question is from Mehmet İzdas from Azimut Portfoy. Can we learn the reason why the company was excluded from the participation index? You were not supposed to quit due to your financials. Can you give us some information?

Çiçek Uşaklıgil Özgüneş:

Well, the criteria for inclusion in the participation index is determined by Borsa Istanbul. And within their framework, they are not disclosing why a company is included or excluded. But there could be one reason I am thinking about, but this is my guess because the Borsa Istanbul is not confirming this, is because there is a criteria of having an interest rate. The total interest you pay on your debt should not exceed a certain percentage of your total assets. And since right now we are going through the first quarter, which I explained earlier, is the quarter where we invest heavily on capex with lower incomes, therefore rely on working capital loss probably, the high interest expenses result in us being excluded. But as I said, this is my guess, because we called Borsa Istanbul to ask why we were excluded and they didn't confirm. So I don't want to speculate. But as for the criteria, which is also publicly available, this is the only thing we can think of.

Moderator:

Thank you very much. Just a reminder, if you'd like to ask a question, please press star two on your phone. And if you're dialed in by the web, you can type your question in the box provided or request to ask a voice question. We'll give a few more moments. Okay, looks like we have a question from Vridhi Vera from Goldman Sachs. Your line is now open. Go ahead.

Vridhi Vera:

Hi, thanks for the call. I wanted to understand a little more about the working capital movement. I believe this quarter there was a large working capital buildup. Is this like seasonal? And how do you expect it to evolve in the remainder of the year? Thank you.

Çiçek Uşaklıgil Özgüneş:

Yes, it's seasonal. We also didn't share a guidance for working capital, but obviously we have internal budgets and we don't see any deviation for the full year for the average working capital. The reason why it's, you know, seasonally, temporarily moves compared to last year because of trade-promos for pushing for volumes. As I said, we had a great volume in terms of volume growth, as Karim also mentioned. That resulted in higher DSO. That's one reason.

And the second one is that in order to conclude our procurement or, you know, pre-buy contracts, we had some advanced payments to certain suppliers, especially on the sugar side in Türkiye and Uzbekistan, etc. And that came at the end of, you know, at the end of March. That's why it also impacted our working capital. So these are the primary reasons why we are seeing a temporary deviation, but overall we expect it to normalize.

Vridhi Vera:

Thank you.

Çiçek Uşaklıgil Özgüneş:

Sure.

Moderator:

Thank you very much. With this, we would like to thank everyone for the participation today. I will now be passing the line for the CCI team for the closing remarks.

Karim Yahi:

Thank you. Well, thank you very much for today. You see that Q1 was a quarter marked by a strong focus on volume growth. You see that the margin contraction has been caused mostly by the beneficial cost base from the first quarter of 2024. And we have a plan that will generate our guidance for the remaining of the year in 2025. If you need further information, please reach out to our team. I would be happy as well to answer questions that you may have.

Thank you for your interest in CCI. And I hope that you will continue in CCI. See you soon.

Moderator:

This concludes the call for today. Thank you and have a nice day.