Coca-Cola Icecek

CONFERENCE CALL ON CCI'S RESULTS FOR THE 3Q OF 2024

Moderator:
Ladies and gentlemen, thank you for standing by and I would like to welcome you to Coca-Cola Icecek's conference call and live webcast to present and discuss 2024 Third Quarter Financial Operational Results. We are here with the management team and today's speakers are the CEO, Mr. Karim Yahi, and the CFO, Mr. Erdi Kurşunoğlu. 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 Mrs. Melda Öztoprak, Investor Relations Senior Manager. Madam, the floor is yours. Please go ahead.

Melda Öztoprak:
Good morning and good afternoon, ladies and gentlemen, and thank you for joining our third Quarter Results webcast. As the operator said, I'm here with our CEO, Karim Yahi, and CFO, Erdi Kursunoglu. 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 adviced 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, as usual.

In addition, in accordance with the decree of the Capital Market Board, our first quarter financials are reported using TAS-29, financial reporting in hyperinflationary economies. The financial figures in this presentation and all comparative amounts for previous years have been adjusted according to the changes in the general purchasing power of the Turkish lira in accordance with TAS-29 and are finally expressed in terms of the purchasing power of the Turkish lira as of September 30, 2024.

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

Also, our 2024 guidance is given on an organic basis and without any potential impact from the implementation of TAS-29.

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 Yahi:
Thank you, Melda. Good morning and good afternoon, everyone. Thank you for joining CCI's third quarter results' webcast.

We have just closed a challenging quarter, facing ongoing macroeconomic pressures, declining consumer purchasing power, and continuing spillover from the conflict in the Middle East. However, at CCI, we have stayed focused on what we can impact. By prioritizing our quality mix management and maintaining our execution standards, we have continued to create sustainable value for all our stakeholders.

Despite short-term challenges, our operating region continues to offer significant long-term opportunities, and we keep on investing, improving our execution, and creating positive results. We are confident about our strategic direction and the robust fundamentals in our operating country, where per capita consumption of commercial beverages is still very low, and therefore offers significant growth potential.

In the third quarter of 2024, CCI's consolidated volume was down by 9.2% compared to the previous year, reaching 438 million unit cases, while the decline in the number of transactions was relatively less. Despite this volume decline, we continue growing in smaller packages, in higher value channels and categories, all in line with our long-term strategy. We are also quite proud to see that robust performance of Iraq and Azerbaijan continues, and Kazakhstan gradually recovered from the strong base of previous periods.

In the third quarter of 2024, we made significant progress in diversifying our portfolio, with the stills category now accounting for 9.6% of total sales volume, up from 8.2% last year. Moreover, CCI's dedicated focus on quality mix and execution paved the way for a year-to-date market share expansion, as well as progress towards our long-term strategic aspiration. CCI's volume share in sparkling in Türkiye improved by 3.4 percentage points as of September versus December 2023. In addition, in Kazakhstan, our volume market share in sparkling category has increased by 18 basis points year-on-year as of September end, on a year-to-date trading basis versus the same period last year.

In the third quarter of 2024, we have recorded a consolidated revenue of 36.7 billion TL. This was coupled with 129 basis points expansion in gross profit margin and 10 basis points improvement in EBITDA margin year-on-year. Ultimately, we are proud to see that we have managed our margins within an acceptable range, given the volume pressures we have faced. And also delivered a nine-month EBIT margin of 16.3%, which is flat versus same period last year.

Last but not the least, we have broken new records in our financials in the third quarter. Accordingly, we have reported a $2.70 net sales revenue per unit case, marking the highest net sales revenue per unit case generation in USD terms within the third quarters of the last decade, excluding installation accounts.

Next slide, please.

In the third quarter of 2024, in our key regions, consumers and customers have been under pressure due to macroeconomic difficulties coupled with the impact of the ongoing conflict in the Middle East. Persistent high inflation, lack of minimum wage adjustments, and weakening consumer purchasing power have negatively impacted demand.

We have also noticed that weakening purchasing power has particularly affected our sparkling beverages, as they tend to be more discretionary vis-à-vis the stills beverages. As a result, while our sparkling volume decreased by 12% year-over-year, our stills volume showed good growth with a 6.8% year-over-year increase, highlighting the importance of portfolio diversification.

In this context, CCI has focused on the areas we can manage an impact. In addition to the improvements in category mix, immediate consumption packages continued its upward trajectory in the third quarter of 2024 as well, with a 307 basis points year-on-year increase, reaching 29.4% on top of 216 basis points year-on-year improvements recorded in the third quarter of 2023. From a channel perspective, share of our volume in traditional channels increased by 46 basis points year-on-year on top of 79 basis points increase realized in the third quarter of 2023.

Next slide, please.

In the third quarter of 2024, Türkiye saw a 12.2% year-over-year decline in volume, reaching 176 million units. High inflation has severely impacted consumers, with the official headline inflation index rising sevenfold since 2018. While we have observed reduction in retail trade confidence index, tourist arrivals also slowed to just 3% growth this past summer, a sharp decline from the 40% average growth seen in the previous two years. In addition, lack of minimum wage adjustment in July also negatively impacted our operation.

On the other hand, CCI's dedicated focus on quality mix and daily execution paved the way for a market share expansion, as well as progress towards our long-term strategic ambition to evolve with our consumers and customers. In the third quarter of 2024, the share of low and no sugar products in Türkiye's sparkling beverages grew by 90 basis points year-over-year, reaching 6.4%. Fuse Tea also continued its strong performance, expanding by 6.6% year-over-year, on top of a 22.9% increase in the third quarter of 2023. Additionally, the share of immediate consumption packages rose by 181 basis points. Last but not the least, effective execution and quality customer service resulted in a notable 3.4% increase in sparkling volume market share as of September versus December 2023.

In the end, we have realized a 29% year-over-year increase in net sales revenue and 47% improvement in net sales revenue per unit case, excluding inflation accounts. Note that this growth is behind inflation prevailing in the country and is mostly attributable to mixed management strategies rather than pricing actions, considering our deliberate choice of prudent pricing to remain affordable amid weakening purchasing power of our consumers.

Successful management of our cost base in Türkiye has supported profitability, and hence we have realized 550 basis points year-over-year improvement in gross profit margin and 153 basis points year-over-year EBITDA margin in the third quarter of 2024.

Next slide, please.

Excluding Pakistan, which is facing similar difficulties as Türkiye, our international operations saw a 1.3% year-over-year volume growth in the third quarter of 2024. When accounting for the 22.9% decline in Pakistan, total international volume reached 262 million unit cases, reflecting a 7.1% year-over-year decrease.

Iraq and Azerbaijan continued their strong growth momentum and recorded 6.7% and 6.2% year-over-year increase in the third quarter of 2024. Similarly, Kazakhstan gradually recovered from the high base of the previous year and stood flat versus the third quarter of 2024.

By category, the adult sparkling premium segment, including Schweppes, experienced a remarkable 30% year-over-year growth in the third quarter of 2024, driven by a strong focus in Kazakhstan and Azerbaijan. Additionally, the immediate consumption packages share in our international operations increased by 36 basis points year-on-year, building on a 383 basis points expansion on the third quarter of 2023.

In international operations, net sales revenue improved by 2.3%, while without the impact of inflation adjustment, 21.5% growth is recorded. Special focus on quality mix positively impacted net sales revenue in international operations, while due to macroeconomic challenges and our objective to remain affordable, price increases were either delayed or limited. Nevertheless, international operations delivered $2.5 net sales revenue per unit case, excluding inflationary accounting, up by 4.6% versus the same period last year.

On the other hand, we have recorded 458 basis points EBITDA margin contraction year-on-year, mostly due to the limited price increases and the impact of limited scale on our fixed costs.

Next slide, please.

Among our largest international markets, Kazakhstan's sales volume was flattish year-on-year. In the previous quarters, we have been impacted by the high rates of 2023, as we used to build summer stocking and had experienced an increase in the consumer base with the inflow of people coming from neighboring countries. As a solid proof of our dedication to investing ahead of demand and building per capita consumption growth, we have opened our newest factory this year. And thanks to this new factory, summer stocking will be ended and factory execution to all regions of Kazakhstan will be enabled. As such, we have observed 117 basis points year-on-year increase in on-premise channel share, and also our volume market share in sparkling category has increased by 18 basis points year-on-year as of September end on a year-to-date trading basis versus same period last year.

After experiencing a 26.7% year-on-year volume growth in the third quarter of 2023, Uzbekistan's sales volume declined by 6.5% in the third quarter of 2024. This drop can be attributed to the high base from last year and the reduced consumer purchasing power following the introduction of the excise tax on April 1st of this year. However, improved execution in the field has yielded strong results with cooler coverage rising to 82.4% from 75% a year ago. Additionally, the share of the on-premise channel grew by 108 basis points year-over-year reaching 13.2%.

Pakistan continues to experience macroeconomic challenges. With the IMF package deal yet to be finalized, new taxation on salaries and consumer confidence remaining low. To address these difficulties, we have focused on making our products more affordable through returnable glass bottles while implementing other revenue growth management actions. This plan has led to a 365 basis point increase in our immediate consumption share and a 69 basis point rise in the on-premise channel share year-on-year. The share of returnable glass bottles in sparkling beverages also increased by 179 basis points year-on-year.

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

Erdi Kurşunoğlu:
Thank you, Karim. Hello, everyone. And thank you once again for joining our webcast.

In the third quarter, we have delivered 36.7 billion Turkish Lira net sales revenue, which I will call NSR from now on, with 9.3% year-on-year decline, mirroring our volume performance in the quarter. Excluding the impact of inflation accounting, NSR reached 39.6 billion with 24.8% year-on-year growth, thanks to our continued focus on quality mix.

Our good focus on cost management has continued to support our gross margin positively, and we have recorded 129 basis points year-on-year increase in gross margin in the third quarter of 2024. On the flip side, lack of sufficient scale in volume impacted our OPEX margin, as approximately 40% of our OPEX is composed of fixed expenses. Consequently, we have delivered 17.6% EBIT margin in the third quarter and 16.3% cumulative net income this year, both historically remarkable figures with almost flat year-on-year margin performance.

Lastly, our net income was 5.2 billion Turkish Lira in the third quarter, despite a much lower monetary gain compared to the third quarter of 2023, and the inflation coefficient was higher in the third quarter of 2023 versus this year, which created a significantly bearish cycle.

And excluding inflation accounting, our net income in the third quarter reached 4.4 billion Turkish Lira with 2.1% year-on-year growth.

Next slide, please.

On a per-unit case basis, our NSR was flat both in quarter 3 and year-to-date compared to last year, and in quarter 3 it reached 83.8 Turkish Lira due to the deliberate choice of crude and price adjustments we made, and we have been mindful of reduced purchasing power of our consumers.

Without the impact of inflation accounting, NSR/uc growth realized as 37.4% year-on-year thanks to effective mixed management actions, which includes higher share of smaller packs and portfolio diversification with increased presence of skilled category. In dollar terms, we have delivered 10-year high NSR/uc with $2.7 and with 9.9% year-on-year growth.

Thanks to proactive and smart procurement measures, we managed to contain COGS/uc well with a 2.1% year-on-year decline in the third quarter of 2024, and we successfully kept COGS/uc growth below NSR/uc growth. On the other hand, excluding inflation accounting, COGS/uc increase was similar to NSR/uc increase year-over-year.

Nevertheless, EBIT/uc is slightly down in quarter 3 by 5.4% in TL terms, reflecting the impact of limited economies of scale during the quarter. And excluding the impact of inflation accounting, our EBIT/uc growth in the third quarter became 22.2% thanks to our good OPEX management, and this coupled with the first half successful COGS performance helped us to reach a 9-month EBIT/uc of $0.5, which is the highest USD EBIT/uc level in the 9 months of the last decade.

Next slide, please.

We continued to win with our proactive approach in procurement, which created a significant support to our improved gross margin during 2024.

As 2024 is almost over now, and as we have almost 100% visibility on the costs for this year, we increased our focus on the commodity hedging initiatives for 2025.

In markets where sugar can be hedged, namely Iraq and Jordan, we covered 69% of our sugar need for 2025. And with the pre-buys in other markets, our total sugar coverage corresponds to 6% for next year as of the end of the third quarter. For aluminium and resin, we already have 40% and 26% coverage respectively for 2025.

As per current market conditions, we are comfortable with our hedge positions and coverage, but we will continue to act diligently on this and will continue to monitor market opportunities.

Next slide, please.

While our consolidated EBIT margin is slightly down by 98 basis points year-on-year in the third quarter, on a 9-month cumulative basis, we have delivered a flat-ish EBIT margin year-on-year.

Our operating income growth has been mainly impacted by volume development and our prudency in track initiatives, considering the limitations in consumers' purchasing power.

On a positive note, we managed to curb raw material cost significantly and realize 129 basis points gross profit margin improvement, as mentioned earlier.

And lastly, excluding inpatient accounting, our EBIT grew by 11% year-on-year.

On to next slide, please.

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

Our net debt was $722 million end of quarter 3, which is only 1.0 of our EBITDA. This is slightly up from 0.8x end of 2023 due to Bangladesh-Anadolu-Etap-Pakistan acquisitions this year.

We have a long FX position after net investment hedge this quarter at positive $26 million level.

During third quarter, we paid back our 2024 eurobond of $300 million, which matured in September. And with that, now our average maturity increased to 3.2 years. This creates an additional comfort zone to manage and plan our liquidity in the globally volatile monetary conditions.

Currently, we do not have a plan to issue another eurobond in short-term, as Turkish lira bonds are sufficient to cater our short-term financing needs. However, we are constantly monitoring the market, and in case there is any opportunity to maintain a healthy balance sheet and strong liquidity position, we may reconsider.

Now back to Karim for his closing remarks, and thank you.

Karim Yahi:
Thank you, Erdi.

For the closing remarks, I would like to remind you of our playbook, which is our formula for winning in our markets.

After covering investing ahead of demand and route-to-market improvement and distributed development in the previous webcast, available on our investor relations website, today I would like to share more about revenue growth management.

We often receive the question of either if we are pricing too much or if we are missing out any opportunity in pricing. Similarly, pricing is sometimes perceived as the first item that comes up to mind when we discuss revenue growth.

At CCI, we see things differently. Building upon the development in behavioral economics, neuromarketing, and the correlations between macroeconomic factors and consumer preferences, we have built a strong revenue growth management capability in-house. For us, revenue growth management is not only about pricing. In fact, pricing is the last recourse when creating revenue growth plans. Volume growth, mixed management, trade, promo optimization, and finally pricing are the four levers of CCI's revenue growth management capability.

For the first item, volume growth, CCI is well-positioned to capture growth potential in our country. Again, our country, on average, has less per capita non-alcoholic ready-to-drink beverage consumption than most of the emerging markets. Therefore, representing volume growth headroom for the future. In addition, our countries also carry a natural hedge among each other as some are oil importers while others are oil exporters. And in order to capture the volume growth potential, together with our colleagues at Coca-Cola Company, we work on opportunity mapping to identify and prioritize the growth potential of our market.

Second, mixed management. We are optimizing the occasion, brand, package, price, channel choices so that we can offer the most value-enhancing SKU in the right channel, at the right price, serving the right occasion with the right brand. Our constant focus on growing on-premise channels, immediate consumption shares, and diversifying portfolio categories are the clear results of our indispensable focus on mixed management.

Third, trade promo optimization. In order to incentivize sales growth, we frequently invest in promotions in our customers. In order to create win-win business cases. Relying on big data and artificial intelligence, we detect the best return on investment delivering promotional activities and optimize our promotional spending while enhancing returns.

Finally, value-driven pricing. We are thoroughly analyzing consumers' purchasing power, macroeconomic conditions, including real food and beverage inflation, and consumers' willingness to pay for certain brands thanks to price elasticity analysis through consumer conjoint studies. As we are market leaders in most of our operating regions, we are aware of our responsibility when it comes to pricing decisions.

The interdependence and dynamic nature of revenue management between these four levers are key for us in order to unlock sustainable revenue growth. Thanks to our revenue growth management capability, we have successfully delivered $2.70 net sales revenue per unit case as of the third quarter of 2024, up from $1.67 recorded six years ago. And this quarterly performance of $2.70 net sales revenue per unit case is above the cost inflation we have recorded in dollars and has paved the way to create the good margin performance we have delivered in the third quarter.

Next slide, please.

Finally, we would like to share our view on the remainder of the year.

Q3 2024 is confirming the persistent nature of high inflation, the spillover of the ongoing conflict in the Middle East, the corresponding prolonged dent on consumer confidence, as well as weakening purchasing power in our key operating regions.

Accordingly, we are revising our full year sales volume guidance from flat to low single digit growth to low to mid single digit volume decline. We are also adjusting our FX neutral net sales revenue growth guidance from low 30s % growth to high 10s to low 20s % growth. However, we are maintaining our EBIT margin guidance at slight decline to flat compared to last year, supported by timely hedging and our commitment to strict OPEC management.

Within this unprecedented challenging context, despite volume being under pressure, we have strengthened our fundamentals by increasing competitiveness and making progress towards our long-term strategic aspirations by accelerating small packages, diversifying our beverages portfolio and growing faster in traditional trade and on premise channels. Our relentless focus on quality revenue growth and cost control have both contributed to manage margin within an acceptable range.

The past quarter is a reminder of the volatile nature of our operating country. Yet, CCI has once again stepped up to the challenge to focus on the fundamentals of our business and strengthen our competitive advantage in order to capture the significant long-term growth and value creation opportunity of our low per capita market. Despite the challenges we face, our team have achieved remarkable improvement in market share and enhanced our quality mix. We are confident in our ability to drive even greater success in the future.

Now, we will be happy to answer your questions. Dear agents, over to you.

Moderator:
Thank you very much for the presentation. We will now be moving to the Q&A part of the call. If you are dialed in via the telephone, I would like to ask a voice question. Please press star 2, that's star 2 on your keypad and wait for your name to be called. If you are dialed in via the web, you may also ask a voice or text question. We will give a moment now for any questions to come through. Perhaps we can start with the two text questions.

The first text question is from Mr. Harry Woo. Given the very high interest rate environment in Türkiye, can management discuss current debt levels? Why not allocate capital to debt repayment versus CAPEX, particularly in this weak consumer environment?

Erdi Kurşunoğlu:
Thank you for the question. Yes, we are aware of Turkish Lira borrowing costs, which are high at the moment, but that's with an expectation to go down and that's why when we do it, we do it selectively and on our TL, Turkish Lira reference basis, as we expect rates to go down. And on the portion of our long-term debt, we have very competitive rates. So that is how we manage overall our position. And as for CAPEX versus debt repayment, as you might have seen, we have already decreased our gross debt in the quarter by approximately $140 million, which is a significant improvement quarter over quarter, being considerate of the situation.

Moderator:
Okay, thank you very much. Our next question comes from Mr. Ferruh Isparta from Ata Portfoy. How much appetite do you have for inorganic growth at this point? Are you focused on organic growth in markets you currently operate in? Are acquisitions possible in nearby important markets like India?

Karim Yahi:
Thank you for the question. As you know, we have recently acquired Bangladesh and our first focus right now is to integrate Bangladesh. The integration process is going well, despite the fact that, again, Bangladesh has experienced some significant headwinds since acquisition. Just to remind everyone, a new tax was imposed right after our acquisition. There was a regime change, a government change with a local unrest. And unfortunately, this has been then coupled with a flood. So all this has not stopped our appetite for integrating Bangladesh well. We are focused right now on the first phase, which is focusing on the route to market, focusing on implementing our distributor model, and focusing on creating the right capability to grow the business further.

Moderator:
Okay, thank you very much for the answer. We have the next question. It comes from Mr. Gustavo Campos from Jefferies. Your line is open. Please go ahead.

Gustavo Campos:
Hello, can you hear me?

Moderator:
Yes, please go ahead.

Gustavo Campos:
Okay, thank you. I had a few questions, and thank you for the presentation. Is there any expectation on performance in Pakistan to improve? Is there a timeline or a view there on what's going to drive performance improvement there? Thank you. That's my first question.

Karim Yahi:
Thank you for the question. Look, Pakistan is right now still in the process of context going towards improvement. Having said that, as you may know, the IMF deal has been signed, but the impact has not been felt yet into the market. So that's number one. Number two, the local environment still remains under pressure when you think about the level of poverty that has actually significantly increased, unfortunately, during the year 2024, and the increased taxes that have been imposed on salaries during 2024. So when you combine all this, right now I think that Pakistan's overall macroeconomic and social context will improve. But right now it is in the process of improving, but we haven't seen yet the economic growth that will enable growth in our business rate. Our focus is really on maintaining affordability. So that's why we're focusing on returnable glass, for instance, that has been growing faster than the rest of the portfolio. And catching the opportunities that make sense for us strategically for the long term. So continuing to push on on-premise, and again, glass bottles on-premise, and pushing consumption to continue to remain affordable and to continue to capture the opportunities for channels growing faster right now in the economy.

Gustavo Campos:
Thank you very much. Very clear and very helpful. My second question was more towards the strategy in Türkiye. Of course, the inflationary environment has been very challenging there. And

you mentioned that repricing, as far as the trend and the strategy that you have implemented, it has been kind of like the last part of this equation, right? So just trying to understand better from here, is there a preference to prioritize volume growth as opposed to repricing moving forward? Or are you just going to keep trying to find this optimal balance between the two? Second question. Thank you.

Karim Yahi:
No, thank you. Great question. And again, as I said earlier, as CCI, when we implement revenue growth management, pricing is the last report. That's the one that we go to after having explored everything that we think we can do. Mixed management, trade optimization, SKU rationalization, and then we look at pricing. Why? Because there are other dimensions there. There is consumer willingness to pay. There are all the dimensions of disposable income coming into picture, etc. Now, right now, our focus in Türkiye is to continue to create, to strengthen our competitiveness in the market. So as you have seen, we have actually regained more than three percentage points of share in market over the past few months, which is very good. We continue to focus on that. We continue to be affordable, but balance the equation so that we can, on one side, offer affordability through entry-level pack on one side of the spectrum, be affordable on the other side of the spectrum with the high future consumption occasions and managing in between. So it's a balancing act. There is no secret formula there. It's really a balancing act. But again, being competitive in the market, being affordable for consumers, protecting key price points.

Gustavo Campos:
Perfect. Thanks a lot. And then my last question would be on your greenfield projects in Kazakhstan and Uzbekistan. Maybe you commented this already, but if you could just clarify for me, is there like a percentage of completion on these projects? And what is the expected CAPEX as a percentage of sales for next year? That's my last question. Thanks a lot.

Karim Yahi:
Great question. And I'm happy to report that both new greenfields in Kazakhstan and Uzbekistan are already operational. So we integrated them a few months ago, and they are already working. Right now, as of CAPEX, the percentage of revenue, we will come back to everyone when we share guidance. But right now, both greenfields are already operational.

Gustavo Campos:
Perfect. Thanks. And my follow-up was, where do you see CAPEX as a percentage of sales as far as 2025? Do you think it's going to stay in line with the average? Or could we see perhaps like an increase in discretionary investments? Thanks again.

Karim Yahi:
So, look, we don't disclose this as early as now. So we come back at the beginning of the year on our guidance on this. But overall, I would say that we have right now good capacity to face growth and aspiration for 2025.

Gustavo Campos:
No worries. I was just trying my luck, but I appreciate all the color and the details. Thanks again.

Karim Yahi:
Thank you.

Moderator:
Okay, thank you very much. We have a question from Baris Senol from Oyak Asset Management. Thank you for the presentation. Can you give us a little more color on the 2025 outlook? Do you expect further margin pressure going forward?

Karim Yahi:
So, two things there. Thank you for the question. First, context will be challenging. Now, having said that, within this context, we will be focused on creating quality growth and sustainable value for our shareholders, our stakeholders, our consumers, our customers, the communities we serve and our people. But right now, we don't have any guidance to share right now. We will come back at the beginning of 2025 to share it. But we are working actually right now with our teams to create our plans, our business plan for 2025, and we will update everyone in due course at the beginning of 2025. But again, our objective is to recreate growth and continue to create sustainable value for all our stakeholders.

Moderator:
Okay, thank you very much. Our next question comes from Mr. Amir Chomaev from Bulls Yatirim. Consumer's behavior experienced significant changes today. So, what are your expectations for products mix and how is it going to affect your financials?

Karim Yahi:
Thank you. Great question. Our promise to ourselves and to the market is that we will evolve with consumers. So, as consumers look for more convenience, as consumers look for more choice, as consumers evolve, we want to evolve with them. So, what does it mean? It means from a product standpoint, you see that consumers, all of us, we aspire to have more choice. So, and that's why, for instance, you see that we are pushing, for example, the no to low sugar beverages like Coca-Cola Zero, for example. On the other side, you see that consumers also aspire to have more stills beverages. So, that's why, for example, we have Fuse Tea, for example, that we are growing and offering in our market. So, that's really from a product standpoint. Then you see the convenience that comes with it is the fact that consumers also want to have more choices in terms of packaging. So, that's why we also want to go with consumers and offer them more convenience in packaging. So, hence our focus on small packs and their premium consumption. And then, last but not the least, as consumers in our market, again, low per capita market, as consumers evolve, as urbanization evolves, grows, consumers also aspire to go more to restaurants, for example. So, and therefore, the on-premise channel is important for us, and we grow within on-premise channel, and that is why it is also an important area of strategic focus for us. So, again, we evolve with consumers. We offer to consumers more diversification in terms of portfolio, so products. We offer to consumers more choice in terms of small packs versus big packs to help them in their

aspiration for convenience. And last but not the least, we evolve with consumers as they go more to restaurants, etc, and we grow our sharing on-premise. So, we evolve with the changing demands from consumers in our region.

Moderator:
Okay, thank you very much. Our next question comes from Arda from Pilea Invest. Thank you for the presentation. Pakistan presents significant long-term potential. Could you share how we should think about volume growth on a consolidated basis over the few years, particularly considering both the challenges and opportunities in the market?

Karim Yahi:
Great question. Look, Pakistan, you know, has an industry per capita of 134, right? Our average, you know, at CCI is 407, and emerging markets average is 493, right? So, completely agree with you. Significant opportunity as an industry. Now, our per capita within Pakistan, within the industry of 134 is 36, right? So, significant opportunity for us. So, it is the land, one of our countries for growth opportunity because of its low per capita. Now, looking into the future, you know, I think that over time, if you look at the past 15 years, you know, if the past is an indication of what the future could look like, you know, I would look at the Pakistan, you know, volume growth for the past 15 years, right, and think about, you know, the future. And again, in the spirit of having the past being a good indicator for the future, again, considering the low per capita of Pakistan.

Moderator:
Okay. Thank you very much for that. Next question is from Mr. Maxim Nekrasov from Citi. The question is about Türkiye. You mentioned about three percentage point market share gain in Türkiye this year. Where do you see the gains coming from?

Karim Yahi:
Thank you for the question. Yes. So, very proud of what the team in Türkiye has delivered. So, we have gained 3.4 percentage point market share in sparkling in September 2024 versus December 2023. Where it comes from is, you know, three things, you know, really. So, one, we have been very, very cautious about pricing. Again, we focus on maintaining key price points for entry level pack as well as for future consumption pack. So, the highest selling SKUs, we have worked to protect them. So, in order to remain affordable within the context of the high inflationary context of Türkiye. So, that's one. So, very, very cautious about pricing. Number two, very strong focus on mix management, right? Clearly, you know, targeting on premise, targeting traditional trend to capture growth opportunities. And number three, clearly, you know, very strong execution with the teams doing a remarkable job at going to the customer. Again, explaining our value proposition and looking for win-win solutions to grow the business. And last but not the least, obviously, again, immediate consumption or small packages. Small packages are growing versus prior year. So, again, when you combine all this, you have the 3.4 market share gain in Sparkling in Türkiye.

Moderator:
Okay, thank you very much. Just to remind you once again, star two for any questions, star two.

You may also ask a voice or text question if you are dialed in via the web. We'll give another minute or so for any additional follow-up questions to come through. Okay, thank you. We have a question from Hanzade Kılıçkıran from JP Morgan. Please go ahead. Your line is open.

Hanzade Kılıçkıran:
Sorry, is it me?

Moderator:
Yes, please go ahead.

Hanzade Kılıçkıran:
All right. Okay, sorry. I couldn't hear my name. I would like to make a follow-up on the cost side because we noticed that you had significant improvement, particularly in Türkiye, thanks to your favorable cost contracts. But going into 2025, do you still see opportunity to keep this favorable cost base? And how does the currency look like in your contracts? And the second question is that you highlighted about a shift to immediate consumption, changing product mix as a key highlight for revenue management, which is very positive. However, we cannot still see this in NSR per unit case because this shift is supposed to improve your NSR per unit case in real terms as well, but we can't observe it. And I just wonder if there is opportunity for you to improve this next week as the consumption headwinds is. Thank you.

Karim Yahi:
I'm glad to thank you for the question. I'm going to take the revenue growth management question, and then my colleague Erdi, our CFO, will take the cost question. So, yes, immediate consumption improvement, you do not see it in volume unit cases because, relatively speaking, we're talking about the small pack versus the big pack. So, therefore, you're not going to see it in the total volumetric performance. That is correct. Having said that, you see it impacts into the net sales revenue per unit case growth. And that is where, really, you find the impact financially there. For instance, in Q3, in other terms, to make things comparable and easy, overall, we have generated $2.70 net revenue per unit case. That was the highest in the past 10 years. And that is 9.9% above last year in USD terms. And that is above also cost of goods sold per unit case inflation. So, you see it financially in the NSR per unit case or the NSR per bottle, if you wish. And you see it in our ability to recruit more consumers and to basically create the right base to continue recruiting consumers in the future and to continue to create positive net revenue per unit case and margin improvement in the future. Now, I'm going to turn over to my colleague Erdi for the cost question.

Erdi Kurşunoğlu:
Thank you. It's about 2025 COGS. As Karim mentioned, we are in the planning phase at the moment. But in terms of levels, it looks favourable for now. But again, early to comment. And we will have more clarity in the coming months up until the beginning of the new year. We have indicated our coverages. And at the moment, based on the coverages we have secured, again, I can make that we have a favourable outlook. Carefully optimistic outlook for next year. But thank you for the question. It is very important for us.

Hanzade Kılıçkıran:
Thank you very much. I just want to make a follow-up on the NSR per unit case in USD terms. I mean, we know that the dollar increase is largely because of the limited Turkish Lira depreciation. So, do you think that in 2025 or in the next few years, this dollar amount can be maintained also in US dollar terms if there is going to be an FX move or something like this? So, that's what I'm trying to understand. Because particularly against the inflation, we don't see the improvement. But in dollar terms, obviously, there is a substantial improvement thanks to limited Turkish Lira depreciation. And do you think that this dollar achievement or Turkish Lira achievement? I'm trying to understand the trend here.

Karim Yahi:
Thank you. Good question. Look, we are working on our business plan right now. So, we are working to look at the effect of currency and inflation for next year. So, it's a little bit early to comment on 2025. Having said that, when you benchmark us versus other bottlers on net sales revenue per unit case, we have always indicated that the 2.5 dollars per unit case range is a good range. Having said that, there is always some opportunity. As right now, we have 2.7 dollars per unit case. And some of our bottler peers are more in the 4 to 5 dollars per unit case. So, we are working on our target for next year. We are putting all this together. But again, I think the best way would be to benchmark us versus other bottlers and looking at the other bottlers that have similar GDP per capita. But again, we want to be careful about remaining affordable to create volume growth. And then again, working on all the other levers on mixed management, on SKUs, on package mix, on category mix, on channel mix, on trade promotions, in order to create net revenue per unit case without necessarily touching prices. But again, we have always indicated that the 2.5 dollars per unit case is a good number. Right now, we are at 2.7 dollars. So, we are into this range that is for us a good range.

Hanzade Kılıçkıran:
And thank you very much. This is a great insight.

Karim Yahi:
Thank you.

Moderator:
Okay. Thank you very much. Just once again, a reminder for any additional questions, that's star two. For any additional questions, you may also ask a voice or follow-up text question if you are dialed in via the web. Thank you. Thank you. We have a question from Ms. Evgenia Bistrova from Barclays. Please go ahead.

Evgenia Bistrova:
Yes. Hello. Thank you very much. Sorry if I repeat the question. I was a little bit late to the call. Could you please provide more color in terms of your CAPEX expectation for the full year because it's still elevated during nine months? And also, what are your expectations for next year? Thank you.

Karim Yahi:
Thank you for the question. We did cover some of it earlier on. So, look, this year, because of the new greenfield that we have opened, namely our new greenfield in Kazakhstan and our new greenfield in Uzbekistan, yes, our CAPEX over revenue in 2024 looks a little bit higher at high single digit over revenue versus the overall average that we would have. So, it means that, yes, right now, we don't think that next year is going to repeat itself. So, it's going to come back to the more average of what we typically have over like 10 years. But we will come back to everyone in early 2025 with more precise guidance on CAPEX over revenue as well as the rest of the business.

Evgenia Bistrova:
Okay. Thank you very much. So, again, apologies if you covered this before, but could you please provide a breakdown of your international EBITDA between maybe Pakistan and Kazakhstan?

Erdi Kurşunoğlu:
Thank you for the question, but we don't disclose country-based profitability. And thank you for your understanding.

Evgenia Bistrova:
Sure. Thank you.

Moderator:
Okay. Thank you very much. We will leave another minute or so for any additional questions to come through. Okay. It looks like that's all we have time for. I'll be passing the line back to the CCI team for the concluding remarks.

Melda Öztoprak:
Thank you very much, everyone, for joining our webcast. Goodbye.

Moderator:
Thank you very much. This concludes today's conference call. We'll now be closing all the lines. Thank you and goodbye.