Arçelik A.Ş. Third Quarter 2022 Financial Results Conference Call

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Conductors:

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Conference Call Conducted by Chorus Call Hellas

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OPERATOR: Ladies and Gentlemen, thank you for standing by. I am Popi your Chorus Call operator. Welcome and thank you for joining the Arçelik conference call and Live Webcast to present and discuss the Third Quarter 2022 Financial Results.

At this time, I would like to turn the conference over to Mr. Özkan Çimen, Chief Financial Officer & Mr. Öktem Söylemez, Investor Relations Lead.

Mr. Çimen, you may now proceed.

ÇIMEN Ö: Thank you. Good morning and good afternoon, ladies and gentlemen. Welcome to our Third Quarter Results Webcast. I am with Öktem Söylemez, our Investor Relations Lead. Before we start discussing our operational and financial results, I would like to take this opportunity to thank all of our employees for their efforts in these challenging times.

So I will start with the highlights of the Third Quarter. We have generated 34.3 billion Turkish lira revenue in the Third Quarter, registering 89% year-on-year and 6% quarterly growth. In a declining continued demand area, the main drivers of the growth were price increases and Turkish lira depreciation.

As the macroeconomic environment gets worse every month with inflationary pressure, consumer demand in Turkey and in other regions have further declined. Strong base of the last 2 years, changing consumer spending priorities were among other important factors of contraction of the demand.

And despite declined gross margin in Q3, we posted 8.7% EBITDA margin in the Third Quarter, with a margin improvement of 125 basis points on a quarterly basis, which was as a result of improved OPEX to sales ratio. Compared to a year ago, the cost pressure was still significant, and EBITDA margin has contracted by 107 basis points. Net working capital to sales ratio decreased to 26.3% as of Third Quarter compared to 28.3% as of Second Quarter, mainly due to strong collection during this quarter.

The leverage as of September 2022 decreased to 2.68 times, reflecting around 0.5 times improvement, which is backed by free cash generation and higher EBITDA contribution, which as a result of being translation from higher average exchange rates compared to second quarter. Excluding the impact of shares buyback, the total impact on the leverage would have been 0.29 times, so...which will take us to 2.38 times.

If we continue with the next slide; following a triple-digit annual net sales growth in the First and Second Quarter, we have registered another solid net sales growth of 89% in this quarter. And it's supported by price increases and positive FX conversion impact, our net sales have reached to 34.3 billion despite falling consumer demand.

On a quarterly basis, we have delivered 6% revenue growth on the back of continued price increases and Turkish lira depreciation. Strong price increases on a yearly basis and cheaper raw material prices were main drivers of margin expansion, despite lower capacity utilization rates due to falling demand.

On a quarterly basis, consolidated gross margin was down by 83 basis points, reflecting a significant depreciation of euro against dollar. And minimum wage increase which is putting pressure on the costs and increased energy costs despite the eased raw material costs.

On the right-hand side, you can see consolidated EBITDA margin figures. In the Third Quarter of 2022, EBITDA margin was 8.7%, up by 125 points compared to previous quarter, driven by lower marketing expenses and logistics costs. However, on a yearly basis, EBITDA margin was down by 110 basis points, which is reflecting significantly higher logistic costs.

Continuing to the next slides, when we look at the domestic markets following 8% contraction in the first 6 months of the year, we saw better wholesale market in Turkey in July and August period. In the first 8 months of the year, the contraction in Turkish MDA6 market was slowed down to 6% on a yearly basis.

Our performance were also improved compared to previous quarters and the units were flattish in July-August period on a cumulative basis year-on-year, which decelerated the contraction to 10% in the first 8 months of the year.

Despite relatively better wholesale performance, sellouts were significantly weakened in both July and August. And in the first 6 months of 2022, the consumer demand was up by 2.5% on a yearly basis, reflecting the impact of pull-forward demand. Starting from June, consumers changing spending priorities such as vacation, social gatherings, increasing trend in cost of living and high base led significant contraction in the sellouts. For all those reasons, sellouts in the first 8 months were down by 4.3% on a yearly basis.

Growth in the first 6 months turned into contraction in July and August in A/C markets due to strong base impact on both quarterly and yearly basis. In the first 8 months of the year, A/C market was down by 8%, while we have outperformed the market with 11% on an annual basis. When we look at the TV sales, TV sellouts were down by 4%, while our units were down by 5% compared to a year ago in the first 8 months of the year.

Domestic revenue in the Third Quarter was 10.1 billion Turkish lira, which is registering 88% yearly and 4% quarterly growth. And the growth was mainly driven by price increases despite declining units. The share of domestic market in the total business is 30%, which has remained flat on both yearly and quarterly basis.

When we look at the European market in the next slide. In the Third Quarter, the share of Europe region in total revenue was 42%, which is flattish compared to year ago. In Western Europe, consumer demand declined by low-teens percent on a yearly basis in both July and August as a result of double-digit contraction in the major markets like Germany, Great Britain and France. Together with high base impact of last 2 year, the declining purchasing power and changing spending priorities of consumers were the key factors behind this contraction.

However, when we look at the value terms, which is a reflection of price increases to offset the cost inflation and higher share of premium segments, the markets remained flattish on a yearly basis in the first 8 months of the year. Having 25% share in total revenue, our sales were down by 14% in euro terms, on a yearly basis due to lower units.

In Eastern Europe, the market continued to shrink significantly in July and August, mainly as a result of accelerated contraction in major markets. However, in value terms, we see the market grew significantly. Having 70% share in total revenue, our sales were up by around 35% on a yearly basis in euro terms. And on an organic basis, revenue growth was 30%. In total, Europe, lower units were offset by the pricing initiatives, and we have posted 1% annual revenue growth in euro terms, in this quarter.

The next slide, the revenues from Africa and Middle East region, which is accounting for around 9% of our consolidated sales in Q3 grew by 48% in euro terms, with strong revenue growth mainly driven by significantly higher Middle East revenues.

Defy in South Africa, units sold in the domestic market remained flat on an annual basis in the Third Quarter. However, on a quarterly basis, cycling a low base of the previous quarter due to the flood disaster, units grow at mid single-digit percent, and

Defy's export units were contracted at mid to high single-digits percent on a yearly basis and grew at low-teens on a quarterly basis. Defy posted around 16% annual revenue growth in euro terms, mainly driven by price increases and...both prices increased and growth resulted in around 11% revenue in euro terms. We have been able to increase our market share with Defy in unit terms and continues our leadership position.

And revenue from Beko Egypt were up by 48% on a yearly basis in euro terms, thanks to mainly high dishwasher and A/C sales and price increases. However, on a quarterly basis, the import regulation imposed by the government is negatively impacting the sales, and revenue fell by 15% in euro terms.

Revenues from APAC region, which generated 18% of our consolidated revenue, were down by 2% on a yearly basis in the Third Quarter in euro terms. Pakistan, record high level of monsoon rains that followed by flood disaster, high inflation and deteriorated purchasing power reflected onto the consumer demand.

As a result of significantly low units, net sales were down by 48% on a quarterly basis in local currency terms and around 52% in euro terms. On a yearly basis, mainly supported by price increases, net sales grew by 9% in local currency terms. And in euro terms, net sales contracted by around 7% on a yearly basis due to depreciated Pakistan rupee currency. Higher A/C, washing machine and SDA sales in Bangladesh in the Third Quarter resulted around 13% annual revenue growth in Taka terms in euro terms, the growth is 17%.

We continue with the next slide, raw material price index. In this quarter, both metal and plastic raw material prices declined compared to a quarter ago mainly as a result of declining demand throughout the industries. The declining consumer demand for various industries has left production downturn that according put metal raw material demand down, and thus the decrease in metal raw materials continued in the Third Quarter. Likewise, plastic raw materials prices also declined in the quarter due to the shrunk of demand. Despite the fact that prices went down in this quarter compared to the pre-pandemic prices, the costs are still high. Going forward, demand and energy costs will be the important determinants of the index of raw material prices.

If we continue with the sales by slides, in Q3, Turkey sales grew by 87.5% organically on a yearly basis. And international sales grew by 89.3%. And out of this growth, 19.1% was organic, 68.6% was FX impact as a result of Turkish Lira depreciation and 1.6% was coming from our latest acquisition.

On the right-hand side, you can see our regional sales breakdown. Arçelik benefits from having enhanced operating geographies, Turkish share in total revenue remained same as 30%, while the share of Western Europe declined 25% from 30% compared to a year ago, and total Europe's share remained flat with 4% higher share of Eastern Europe in the Third Quarter of this year versus a year ago.

We continue with the summary of the financials. Here, you can see quarterly financials with yearly and quarterly comparison given on a consolidated basis. We have completed the Indesit acquisition at the end of August. And in terms of profit and loss statements, there is only 1 month of inorganic impact. Excluding this acquisition impact, growth was 88%. On a quarterly basis, Arçelik consolidated net sales increased by 6%. Organically, revenues grew by 5% compared to previous quarter.

Gross margin in the Third Quarter was up by 54 basis points on a yearly basis to 28.8%. And on a quarterly basis, gross margin was down by 83 points, mainly due to further declined euro/dollar parity, wage increase and higher energy costs, especially affected Q2 cost base.

EBITDA margin expanded by 125 basis points to 8.7% on a quarterly basis with the impact of effective OPEX management, and on a yearly basis, EBITDA margin was down by 110 basis points, which is reflecting significantly higher logistic costs. And excluding one-off items, EBITDA margin was 8.6% in the Third Quarter.

We have posted net income of 495 million Turkish lira in the Third Quarter. Net profit margin was 1.4%. Contraction of 251 basis points reflects the cost base on operations and higher financial expenses on a yearly basis. If we exclude the one-off items, net profit margin was 1.3%.

On the next slide, you will see our debt breakdown and the leverage ratio. Our net debt was decreased by 1.2 billion Turkish lira compared to Q2, mainly due to the increase in the cash position. And our cash in the balance sheet was increased by 5.5

billion Turkish lira, mainly coming from the positive free cash flow generation in this quarter, and also the contribution of cash coming from our latest acquisition.

As of Q3, we have 20.4 billion Turkish lira equivalent cash in our balance sheet, which is well diversified between currencies, 56% of our total cash is in hard currency, while Turkish lira share was 11%. As a result, our leverage was down by 0.47 times compared to Q2.

On the right-hand side, you can see our loan and bond portfolio. As of Q3, we have 46.4 billion Turkish lira equivalent debt. 28% of our total portfolio is in Turkish lira terms, while euro and dollar share was 33% and 22%, respectively. Our Turkish lira effective interest rate was 22.1%, up by 65 basis points compared to previous quarter end. We have financed our Turkish lira needs with issuing Turkish lira bond, which is used for our working capital requirement.

On the next slide, on the upper-left corner, you can see the bridge of EBITDA margin. As mentioned previously, due to higher OPEX sales ratio, mainly as a result of significantly higher logistic costs, consolidated EBITDA margin was contracted on a yearly basis. On the lower-left corner, you can see our CAPEX to sales ratio, which is 5.1% in this quarter. Our investments in Egypt and factories in Turkey were the main reason of the 170 basis points increase in the ratio. On the upper right-hand corner, net working capital sales ratio reflects a 26.3% in Q3 compared to 28.3% at the end of Q2. Finally, on the lower-right corner, you can see that our cash flow, where we delivered positive free cash flow of 2 billion Turkish lira in this quarter.

We continue with the next slides of the guidance. To reflect the recent changes we have made adjustments on our revenue, EBITDA margin and CAPEX guidance. Based on our most recent forecasts, we increased our Turkey sales growth expectation from around 70% to higher than 70% in Turkish lira terms, which is actually reflecting the pricing initiatives in the last quarter. We maintain our international sales growth guidance as higher than 20% in euro terms that incorporates the revenues from our recent acquisitions. We also maintain our consolidated net sales growth guidance as being more than 90% in Turkish lira terms.

As a result of further deteriorated inflation throughout the regions that is putting pressure on the demand and cost inflation, we have revised our EBITDA margin guidance to around 9.5% from around 10% for the end of this year. Our CAPEX guidance is updated to €260 million, including of our new investments in Bangladesh and Egypt.

So that was the final slide of my presentation, so we can go to the Q&A session.

Q&A

OPERATOR: The first question comes from the line of Demirtas Cemal with Ata Invest. Please go ahead.

DEMIRTAS C: Thank you for the presentation. My first question is rather about items before the operating line. I see much higher FX losses below the operating line in Third Quarter and you know, more than maybe compared to previous quarters, at least 300 more…300 million more FX losses there. And compared to Second Quarter, we see significant increase in that item and that hedging costs. I would like to understanding because that numbers, that put additional pressure on your bottom line, although your EBITDA is recovering. So I would like to understand, is it temporary related to Third Quarter because of your short position or other position? That's my first question. So what could be the trend in that? Was it just because of some volatility? That's my first question.

And the other question is about the trends in Fourth Quarter. How is the trends for the Fourth Quarter and the following year, I see some improvement in your working capital? How do you see the market conditions in both Turkey and international? Thank you.

ÇIMEN Ö: Thank you, Cemal Bey. And when we look at our financing expense, actually, there's...as you mentioned, there's a significant amount of FX flows impacting our costs. This is related to our position before hedging. So due to the regulations in Turkey our exports revenue should / needs to be converted to Turkish lira. So therefore, what we have done in the last quarter is selling our FX, which also contributed to a lower Turkish lira borrowing. So our composition of borrowing has changed, which has impacted the increased the net balance sheet position before hedging. And with the increased interest rate, it is almost with the same cost of hedging position versus getting a loan from…Turkish lira loan from the banks. So the increase you see in our P&L is actually the switch from interest cost to FX loss. So the impact will continue because unless our position before hedging is improved, we see an improvement compared to 2 months ago in our position…in FX position. I can say that unless the ratio of rates, in the interest rates decrease, there will be a similar cost of interest, which is partly constitutes of FX loss and partly Turkish lira loan interest. So this was related to interest.

DEMIRTAS C: And Özkan Bey, related to this question, was there anything about the euro/ dollar parity impacts in that, because there was a big movement in euro/ dollar in Third Quarter. Could we attribute some portion of that to that factor or it's general thing?

ÇIMEN Ö: Yes, not actually because we are also hedging euro/ dollar position in our balance sheet frequently. So the euro/ dollar impact is mainly affecting gross profits and OPEX line because of the material cost is partially with US dollar, which is a higher percentage of our US dollar revenue share. Therefore, the euro/ dollar parity, when we look at our sales breakdown is negatively impacting us because of the cost base. But in the interest line, it is not...it doesn't have an impact.

DEMIRTAS C: Thank you.

ÇIMEN Ö: Regarding the plans in this quarter, so far 2022 has been a year in which consumer confidence declined, economic and political environment causing consumers both to delay their purchasing decisions and shifting their purchasing preferences due to rising food and energy prices. And in addition to unfavorable market dynamics, we had to overcome with various other headwinds in the Third Quarter like continued increased cost, demand impact and the parity as we have mentioned. However, the price increases we have implemented and those major steps we are taking to improve our profitability has resulted in slight better results compared to previous quarter. And when we look at the Turkish MDA6 markets, which performed slightly better than in the July/ August period on a cumulative basis, registered 2% growth annually.

And this...the expectation for the coming months, because of the uncertainty in the market and...which is creating demand contraction, we expect it to continue both in Turkish market and, as well as, the international markets. But I can say the sell-out…when we look at the sell-out in Turkey is we can say that it is flattish. However, for the coming months, we...I can say that our growth will mainly come from price increases rather than quantity increases. And the global economic growth is forecasted to slow down to around 2% for next year. So this will definitely impact the demand to our industry, considering all the inflationary pressures and cost pressures that are still on the market.

DEMIRTAS C: Thank you Özkan Bey.

OPERATOR: The next question comes from the line of Kilickiran Hanzade with JP Morgan. Please go ahead.

KILICKIRAN H: Özkan Bey, thank you, very much for the presentation. And I have 3 questions, the first one is about your margins. You are expecting some sort of improvement in the Fourth Quarter. I wonder what you driving this margin improvement in the Fourth Quarter?

And the second one is; what is the duration on your existing cost contracts? So would it be reasonable to assume that material, for example, in raw material prices may come with a lag on your margins, because this was the case before and should be now reversal? I just wonder when you can feel this raw material decline on your margins?

And the third question is about your financing. So we will continue to finance the Turkish lira loan repayments to bond issuance? And what is the current interest rate in the market? Thank you.

ÇIMEN Ö: Thank you. For the margin side, we are expecting an improvement, as you highlighted in the Fourth Quarter, which we will be for a couple of reasons, and one of them being we have been increasing our sales prices for the end of month in September, which will be...we will see the impact in the last quarter.

And the other one is related to your second question of material prices. Actually, we have 3 months contract generally for metal raw materials. But for the chemical side, it's managed monthly. Therefore, we would be utilizing the fall…decrease in material costs in the coming months, especially the metal side. It has come in with a lag since we have 3 months contracts and also we have inventory in our balance sheet. And for the plastic side, we will be having the benefit earlier than compared to the metal prices.

So the third one of the improvement is related to our OPEX management, which we have been able to reduce, and we will continue to reduce as a percentage of sales. And all these 3 impacts combined will lead to a better margin in the last quarter compared to Q3.

Your question regarding the financing, we have been financing our Turkish lira needs with Turkish lira bond issuance, and we will continue to do so. The latest ratio is around 25% of the amount of issuance 2 billion Turkish lira.

KILICKIRAN H: Thank you very much. Can I make a follow-up on the margin performance. And so, for example, if the demand environment stays weak in the Fourth Quarter and you may not be able to reflect the prices, does it mean that actually, with no price action, the major margin improvement may come in the first quarter of next year actually, because of this contract duration? If no price with it.

ÇIMEN Ö: Yes, it will dependent on the…of course, the quantities. However, what we have assumed is that we have taken into account the demand in...for the last quarter which has already reflecting the shrinkage of demand in the market contraction of demand in the market. Therefore, I can say that we have already assumed decline in quantities while making our projections. However, if there is a, let's say, more contraction in demand, there will be side effects as the…because of the fixed costs, our profitability ratio might be impacted.

KILICKIRAN H: Okay. Thank you very much, Özkan Bey.

OPERATOR: The next question comes from the line of Demirak Kayahan with AK Investment. Please go ahead.

DEMIRAK K: Hi, thank you very much for the presentation. I have a follow-up on the financing cost and also another question. I mean if you include the hedging cost, what is the way to your interest rate on your FX loans, given the other hedges the US/ Euro you said?

And the other questions, the theme over the last quarter was that energy prices in Europe are quite high although this is on normalization. But also the freight costs from Shanghai, from China to Europe also is declining quite fast. Maybe you can just elaborate on those themes in terms of impact your…impact on your business. Are you more competitive in terms of making exports to Europe compared to European producers? Also, do you see more competition coming from the Asian place? Thank you very much.

SÖYLEMEZ Ö: I can answer the first question. Kayahan, hi. This is Öktem. For the Turkish lira loans, our effective interest rate as of 9 months of this year is around 22%. We have still a relatively lower interest rate loans in our total portfolio. But going forward, we expect this ratio to be increased at year-end. For the hard currency loans, for euro, it is around 3%, because we have issued a green bond last year, you know that. The interest rate for this green bond was 3%. We have also euro denominated loans and the effective interest rate for the euro denominated loans is around 2%. For dollar loans it is around 6%.

DEMIRAK K: And is there any additional cost coming from the hedging...using hedging instruments on the top of that implied interest rates. Or is it included in the 6%?

ÇIMEN Ö: As I explained, our net position, which is before hedging is around €300 million for Turkish subsidiary Arçelik. And when we want to hedge it, it is linked with the interest cost of getting loan from the bank almost. That means you can have seen that there's a 25% cost of hedging that open position. The cost of hedging is similar to getting a loan from the bank with that rate.

DEMIRAK K: Okay.

ÇIMEN Ö: Okay. Regarding your questions on energy prices and transformation costs, as we have been experiencing in all countries, the energy prices, especially the electricity rates have been going incredibly high, which is quite high impacting all our production costs, and it has been doubled compared to previous quarters. And there is no hedging mechanism to balance it. So therefore, we are seeing our total costs increasing around 1% and 2%, the impact of those energy prices. And we are taking pricing actions to balance those increase cost along with other increased costs.

Transportation cost, as you have mentioned, it is not that high as we have started this year. It has started to come down, and we are utilizing any lower rates. We are following up closely. Our teams are following up closely to make every opportunity possible to minimize our transportation costs, which most probably we will be seeing better rates for the next year. However, there is operational difficulties that we are facing, not only cost, but the operation is not that easy.

DEMIRAK K: Understood. In terms of the competition, for instance, the energy prices difference between Turkey and Europe, are you more competitive in making exports to Europe? Also do you see more competition from the Chinese or Asian players because as that the cost of shipping from Shanghai to Rotterdam quite significantly compared to the six months ago.

ÇIMEN Ö: I think your first question is related to whether we are experiencing the same energy cost increases in different factories and whether one of them you know, a less unfavorable condition compared to others. Not actually, because all countries that we have factories we have been seeing the same trend of increased energy prices, which is impacting almost the same ratio. And I'm not sure about the competition, whether they have a favorable backed up energy prices, which are subsidized by government. But as far as I know, the countries that we operate, there is no such incentive right now available.

DEMIRAK K: Okay, understood. Thank you.

OPERATOR: We have a follow-up question from the line of Demirtas Cemal with Ata Invest. Please go ahead.

DEMIRTAS C: Regarding your general administrative expenses, we see absolute decline versus Second Quarter, around 1.2 billion, in previous quarter, it was 1.5 billion. Were there any specific reasons behind that inorganic you know, or structural change? That's my first question.

And the second one is about the effective tax rate. You recorded some tax gain, should we expect a similar trend in the Fourth Quarter? Thank you.

ÇIMEN Ö: For the general and admin expenses, we can provide the breakdown later on. But what I can say is, we have been monitoring our expenses to reduce our OPEX base especially for the fixed cost side. So there are a lot of initiatives taken, because we are not only increasing our sales prices to improve our margin, but we are also effectively managing our OPEX and net working capital. So this is a reflection of that. But as I said, we will share the details of the breakdown of those costs after the call.

Effective tax rate in this quarter have been impacted with 3 major issues. One of them is that our tax assets; we have indexed to inflation. So there is a positive impact coming from that part. And also our new CAPEX is coming with additional incentives. So there is additional tax assets created with the CAPEXs. And also our R&D expenses is creating an opportunity to reduce our tax base. So therefore, we are expecting a very low tax base coming from those impacts, which we expect a single-digit by the end of this year.

DEMIRTAS C: Thank you. And maybe another question about the strategic perspective, you know, in the previous quarter Whirlpool had some announcements about their plans in Europe, in EMEA. And you had some transactions with them Whirlpool. Strategically, I'm sure it's early to talk about anything, but what's your perception about your competitors in that sense because they are making losses in the EMEA? It was a problematic one for them. And then during their presentation they were underlying some corporations or deals or anything in the region. I don't know how you positioned yourself to such you know, moves or strategic perspective or should we just ignore that kind of cooperation and you go organically? Thank you.

ÇIMEN Ö: Given the recent acquisitions that we have done with Whirlpool, and given the size of the business, it is normal Arçelik to be thought as one of the potential candidates. However, there is nothing that we can share, which is of material right now. We are following the Whirlpool's position. And as you said, there are a lot of overlapping countries. But there is nothing that I can comment right now.

DEMIRTAS C: Thank you.

OPERATOR: The next question comes from the line of Doshi Anjali with Nuveen. Please go ahead.

DOSHI A: Thank you so much for the call today. Most of my questions have been answered. Just have one with regard to your upcoming Eurobond maturity 500 million in April, next year. Can you talk about you know, what your options are to adjust that given just the current market conditions are generally unfavorable? How are you looking to address that? I mean, you had sufficient cash on the balance sheet, but I am curious if you are looking at refinancing options as well.

ÇIMEN Ö: Actually, we were considering to have another bond issuance at the beginning of this year, but after the economic conditions and the political environment, as you already followed the rates they have gone to around 10% of issuing a new bond. So therefore, we decided not to issue a new bond. However, we are considering of getting a syndication loan options. We are working on that, and partially with the available cash in our hands and partially with the loan that we're going to have in the first quarter of next year will be used for the refinancing of our bond.

DOSHI A: Okay. That's very helpful. Thank you. And then just one more question on the cost side. So I understand you know, from your points on the reduction in materials and chemical costs, as well as, some of the energy side as well that you'll have some improvement going forward with some bit of a lag given where the contracts are set up. But I am curious on the OPEX side in particular, given that the high inflationary environment in Turkey in many of the markets, are there you know, additional measures you are taking to adjust that piece rather than just the COGS, also the OPEX side?

ÇIMEN Ö: Yes, we are constantly reviewing our OPEX. And as you said, there are inflationary impacts or the impacts coming from the minimum wage increases which is impacting our cost base. But at the same time, we are also creating efficiencies in our operations which is reducing our cost base down. So they have a balancing factor or sometimes we are able to improve our OPEX as a percentage of sales in most of the countries that we are operating, we are looking at from the same perspective. There will be negative impact coming from inflationary pressures, but we will balance those with our OPEX management.

DOSHI A: Okay. Thank you so much.

OPERATOR: As a final reminder, to register for a question please press "*" and "1" on your telephone. The next question comes from the line of Martignoni Eleonora with M&G Investments. Please go ahead.

MARTIGNONI E: Hi, and thank you taking my questions. I have just one, please. Do you have a sense of what inventory is in the channel, not just at your company specifically, but through your distributors, et cetera? And if you have a sense of whether that needs correcting or not? Thank you.

ÇIMEN Ö: The inventory levels in the market is actually compared to the previous quarter is within the same level. So therefore, we do not see a major inventory problem in the channel right now. However, if we see further reductions in the quantitative and the decline of demand, that might be at a level which is higher than compared to previous quarters. So we are continuously monitoring not only our inventory, but also the inventory in the channel as well.

MARTIGNONI E: Thanks.

OPERATOR: The next question is a follow-up question from Demirtas Cemal with Ata Invest. Please go ahead.

DEMIRTAS C: Özkan Bey, the last one question about the inflation accounting issue. It's not very popular nowadays. But in this environment, it just did that IFRS 9 could be applied also in Turkey. What's your perspective on that, and you know, in IFRS, it might happen, but Turkish tax accounting is different. It might create some losses for the following years of the balance sheet when you look at the inflation impact. What's your perspective on that for the time being? Thank you.

ÇIMEN Ö: Thank you. As you know, our reporting framework is TFRS and public oversight accounting and auditing standards authority is responsible for that framework. The authority have to announce when to to implement the inflation accounting. However, the expectations regarding that is to implement it by the end of this year.

Regarding the impact, we are currently working on also with our consultants and with our team. However, as of now, we are not in a situation to mention any amount. For 2020, only the balance sheet will be restated according to inflation accounting to be the base. And for 2021 and 2022, both balance sheet and P&L will be prepared according to the inflationary accounting, if it was to be implemented as of year-end 2022.

DEMIRTAS C: Thank you.

OPERATOR: Ladies and gentlemen, there are no further questions at this time. I will now turn the conference over to Mr. Çimen for any closing comments. Thank you.

ÇIMEN Ö: Thank you. I would like to thank all of the participants for joining our Q3 earnings call. Thank you.