Arçelik A.Ş. First Quarter 2025 Financial Results Conference Call

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Conductors:

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Ms. Mine Şule Yazgan, Finance & ERM Executive Director

Mrs. Delal Alver, Capital Market Compliance Senior Lead

Mr. Sezer Ercan, Investor Relations Senior Lead

Conference Call Conducted by Chorus Call Hellas

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OPERATOR: Ladies and Gentlemen, thank you for standing by. I am Konstantinos your Chorus Call operator. Welcome and thank you for joining the Arçelik conference call and Live Webcast to present and discuss the First Quarter 2025 Financial Results.

At this time, I would like to turn the conference over to Mr. Barıs Alparslan, Chief Financial Officer, Mrs. Mine Şule Yazgan, Finance & ERM Executive Director, Mrs. Delal Alver, Capital Market Compliance Senior Lead and Mr. Sezer Ercan, Investor Relations Senior Lead

Mr. Alparslan you may now proceed.

ALPARSLAN B: Good morning and good afternoon, ladies and gentlemen. Welcome to our First Quarter 2025 Financial Results Webcast. This presentation contains the company's financial information prepared according to TFRS by application of IAS 29 Inflation Accounting Provisions.

Here are the highlights of the First Quarter. We generated TRY109.1 billion revenues with a gross margin of 28.7% in the First Quarter, reflecting a 9.3% sales growth year-on-year in real terms, mostly due to Europe and MENA acquisitions.

In Türkiye, we observed a slowdown in demand due to high base effect of same period last year, while international demand remained weak except in Africa, Bangladesh, and Pakistan.

Our opex over sales ratio is 27.7% in the First Quarter, which implies an increase of 1.3 points year-on-year, predominantly caused by increasing personnel, marketing, and selling expenses after EMEA transactions.

We have recorded a weaker EBITDA compared to last year, with a margin of 5.3% for the period. Please note that our EBITDA adjustment excludes one-off transaction expenses regarding Europe and MENA transactions.

Our net working capital over sales ratio is 20.2%, reflecting a further improvement compared to the year-end. Our leverage is 5x as of the First Quarter due to growing debt resulting from Turkish lira depreciation and weaker EBITDA year-on-year. Note that we have not equally utilized early collection tools as we used at year-end.

We have provided the breakdown of net monetary position for the First Quarter results in detail in our financial report. According to the breakdown of net monetary position, adjusting for the monetary gain on inventories, our adjusted EBITDA margin would have been 180 bps higher in the First Quarter.

With the adjustment for the monetary gain on inventories, leverage would have been 4.06x. Note that we added net monetary position gains on inventories to adjusted EBITDA, taking account of the inventory turnover days.

In Q1, our consolidated revenues grew by 9.3% year-on-year in real terms due to inorganic growth. Local sales slowed down due to high base effect and international demand remained weak.

Our gross profit margin for the First Quarter was 28.7%. Despite slightly lower raw material costs, gross margin was roughly 1 point weaker due to lower capacity utilization after the transactions, pricing pressure and intensified competition.

Lower gross profitability and higher opex resulted in a lower adjusted EBITDA margin of 5.3% in Q1, which implies a significant improvement compared to the previous quarter.

In the First Quarter, domestic sales increased by 8.8% in euro terms, backed by a slight volume and price-product mix impact. However, real figures in Turkish lira reflect 11.6% decrease in domestic sales year-on-year. This is simply because the growth in CPI for the period was substantially greater than the change in the FX rate.

In the same period, international sales revenue increased substantially by 53.7% in euro terms with the key contribution of acquired EMEA operations.

Inorganic growth contributed to consolidated sales around EUR643 million in the First Quarter. Organic sales volume decreased slightly as the challenging pricing environment in international markets remained unchanged.

Figures in Turkish lira show 24.8% growth in international sales revenue in real terms. On the right-hand side, you can see our regional sales breakdown. Türkiye's share in total revenues declined to 34% in the First Quarter, almost with a 10-point decrease.

Europe constitutes 47% of consolidated revenues in the First Quarter versus 34% in the same period last year. Western Europe's share in total revenues jumped to 33%

from 21%, whereas CIS and Eastern Europe markets slightly increased to 14%.

Revenues generated in APAC region dropped to 10% from 13% in the same period last year. Share of Africa and Middle East region remained the same at around 8% of consolidated revenues.

In Türkiye, MDA6 demand was weak in the First Quarter. Our sales volume decreased by 14.5% in line with the market in the first two months of the year, after substantial growth figures for the same period last year.

Pull-forward demand before last year's municipality elections due to expectations of a sudden depreciation in Turkish lira is the main driver of the high base effect.

Also, limitations for credit card instalments were not in place yet back in the First Quarter last year. In AC segment, retail data reflects a growth over 10% in the market, while we underperformed with a flattish retail volume. However, our AC wholesales point out a robust demand in the First Quarter with a 35% growth.

Our retail TV sales volume decreased by 7.5% compared to last year, which implies a slight underperformance compared to the market figures in the same period.

As a result of weaker MDA6 demand, strong AC wholesale volume and declining TV sales, we generated TRY37.5 billion revenues in Türkiye, reflecting an 11.6% decrease in sales revenue in real terms as per the inflation accounting. Overall, share of the domestic sales corresponds to 34% of consolidated revenues in the First Quarter of 2025.

Consumer demand recovery in Western Europe continued in the First Quarter. Sales volume growth in the market was 1.6% in the first two months of the year, while growth in euro terms was slightly lower in the same period.

In key markets such as UK, Italy, Spain, Belgium, Netherlands, and Austria, solid volume growth has been observed in the period. However, slowdown continued in France, while figures pointed out to a decline in Germany as well.

Having 33% share in total sales revenue in Western Europe, Beko preserved the market leadership despite the underperformance in the period. Meanwhile, in Eastern Europe, demand growth remained solid.

Sales volume in the first two months grew by 3.4%, where Beko underperformed the market. Beko has managed to preserve its strong market leadership in Eastern Europe, which constitutes 14% of its consolidated revenues.

Overall, 47% of consolidated revenues has been generated in Europe, with an 84% increase in the First Quarter year-on-year due to the acquired European operations.

The revenues generated in Africa and Middle East region constitute 8% of consolidated sales in the First Quarter. Sales revenue in the region grew by almost 20%, mainly due to solid growth in African markets.

In Africa, Defy’s sales revenue growth exceeded 11% in euro terms, whereas sales volume growth was almost 5% in the First Quarter. Demand in South African Customs

Union was robust, unlike Sub-Saharan export markets compared to the same period last year.

As another key market in the region, demand in Egypt was significantly weaker in the First Quarter due to market instability and currency fluctuations.

Compared to the same quarter last year, sales figures for Beko Egypt reflect a significant decrease, both in volume and USD terms, exceeding 26% and 60%, respectively.

On the other hand, with 10% stake in consolidated revenues, APAC region has pointed out to a slight recovery, with 4% sales growth in euro terms, despite the remaining challenges in the home appliances landscape.

Substantial growth in Pakistan, Taiwan and Bangladesh contributed to the recovery, unlike China, where demand was substantially poor. Rapid growth and increasing market share in India have also significantly contributed to the performance.

In Pakistan, Dawlance’s sales revenue pointed out to a robust growth, both in euro terms and sales volume in the period, corresponding to roughly 15% and 10% growth, respectively. In Bangladesh, Singer’s revenue growth was over 30% in euro terms compared to last year, where growth in sales volume was slightly lower.

Due to weaker demand, slowdown in global growth, ample capacities and lower energy costs, raw material prices are declining both on metal and plastic side in the First Quarter. Prices are lower both year-on-year and compared to 2024 average.

On the metal side, prices are expected to increase gradually in the upcoming quarters, however, we anticipate a slightly lower yearly average. Similarly, on the plastic side, we expect a slightly decreasing average through the rest of the year.

With that, I pass on to Mine.

YAZGAN M: Thank you, Barış Bey. Here is the summary of our First Quarter 2025 financial results as per inflation accounting, both in yearly and quarterly comparisons.

Our consolidated revenues were TRY109.1 billion in the First Quarter, reflecting 9% growth year-on-year, albeit 8% decline quarterly. Despite the 1-point weaker margin on a yearly basis, gross profitability improved quarterly by 1.8 points.

On a yearly basis, our operating profit was substantially weaker in the First Quarter due to the lower gross margin and growing opex. Operating margin declined by 3.4 points year-on-year, however, it has slightly improved compared to the previous quarter by almost half a point.

Net financial expenses have significantly decreased by 8% year-on-year. There is a substantial improvement with a 23% decrease compared to the previous quarter. We have boosted a net monetary position of TRY4.3 billion in the First Quarter, implying a 32% decrease year-on-year on the back of decreasing inflation rate.

However, monetary gain has increased by 8% compared to the previous quarter due to higher inflation within the First Quarter. Please note that monetary gain, profit before tax and net income figures for the fourth quarter 2024 are restated due to reclassification of net monetary gains arising from the indexing of shares of foreign subsidiaries by the parent company. You may see the recalculated figures on this table for a comparable basis.

Consequently, we posted approximately negative TRY1 billion profit before tax and TRY2 billion net loss before minority in the First Quarter, corresponding to minus 1.8 margin for the period. Finally, with a margin of 5.3%, we recorded an adjusted EBITDA of TRY5.8 billion in the First Quarter of 2025. We have excluded transaction-related one-off expenses amounting to TRY61 million due to adjustment.

The corresponding amount for the same quarter last year was TRY112 million. Our adjusted EBITDA figure shows a significant improvement of 0.8 points compared to the previous quarter. As of First Quarter end, with an increase of TRY19.5 billion in net debt and liquid adjusted EBITDA, our leverage is roughly five times.

Note that we have not utilized early collection tools in the same amount as we did at year-end. Corresponding amount at the year-end, which was a covenant test period, was roughly around EUR510 million, including interest. In the First Quarter, the real net figure is below EUR350 million. However, with the adjustment for the monetary gain on inventories, leverage would have been 4.06 times as of First Quarter end.

As mentioned in the previous calls, we anticipate intrinsic improvements on the leverage side as the better operational performance starts to support EBITDA throughout the year. You may find the details regarding our debt currency breakdown and effective interest rates of our loan and bond portfolio on the figure at the right-hand side, with a total borrowing amount of TRY158.6 billion and an average duration of 1.75 years.

Our average effective Turkish Lira, Euro, and USD funding rates, including loans and bonds, are 40.9%, 5.2% and 8.3% respectively. On the bottom left-hand side, you may see our cash currency breakdown for the amount of EUR1.1 billion as of end of March. With well-diversified cash holdings among currencies, our cash and cash equivalents were TRY43.9 billion, whereas 19% of our total cash is in Euro, 22% is in USC and 26% in Turkish Lira.

Euro-denominated borrowings constitute 44% of our total borrowings, while USD and Turkish Lira-denominated borrowings correspond to 19% and 23% respectively of our total borrowings. On the debt maturity profile, our long-term borrowings correspond to the half of our total borrowings as of the recent. When we exclude our notional cash flow utilization, the share of long-term loans exceeds 55%.

However, as we secured the ECA loan of EUR125 million with a 10-year maturity and 5-year average duration in April, and we are getting prepared to have another EUR100 million loan from IFC with a 5-year maturity and 2-year average duration, a further maturity extension can be expected in the next quarter.

On the upper left corner, you may find our adjusted EBITDA margin bridge. Narrowing gross margin and increasing OPEX were the main drivers of a significantly lower margin of 5.3% in the First Quarter. The change in D&A had a positive impact over the yearly EBITDA margin, while one-off adjustments had a slightly negative impact on calculations since transaction-related one-off items were higher in the same period last year.

On the upper right corner, you may see the improvement in our networking capital-to-sales ratio. As of the First Quarter 2025, net working capital to sales ratio was 20.2% in comparison with 2024 in figure and 20.9% on a rolling basis. Quick wins from acquired operations continued to support the networking capital management further.

On the lower left corner, you can see our OPEX-to-sales ratio of 3% as of the First Quarter, which implies approximately 1 point decrease year-on-year as a result of completed major investments and a tight policy on capital expenditures. Finally, at the lower right corner, you may see our free cash flow figures.

Due to weak cash from operations, we have generated a negative free cash flow of approximately TRY12.9 billion during the period versus a positive amount of TRY4.3 billion EUR during the same quarter last year. As mentioned in previous calls, we are anticipating a positive cash generation by the end of this year.

So, I'll leave the ground to Barış Bey to walk us through our guidance.

ALPARSLAN B: So, here you may see our previously shared 2025 guidance based on our forecast and expectations for the year. We are closely monitoring the recent macro environment both in Türkiye and globally. We have not updated our guidance at this point. However, a major policy change in Türkiye or further global uncertainties could cause a change in our base case assumptions in the next series.

We are keeping our 2025 guidance of flattish domestic sales in real terms, 15% growth in international revenues in euro terms. Having 5.3% EBITDA margin in the First Quarter in line with our budgeted figures; on top of market expectations for the rest of the year, easing raw material costs, positive impact of euro dollar parity, diminishing dilutive impact of inflation accounting on the EBITDA margin and synergies to kick in, we keep our 6.5% EBITDA margin guidance at this point.

We also keep our guidance for our net working capital over sales ratio below 20% with further improvement potential and EUR300 million of capex for the year 2025. As we have disclosed in the previous quarters, we estimate savings of approximately EUR140 million by eliminating roughly 2,000 office positions across our global operations within three years' time.

Here you may see the recent updates and figures realized in the First Quarter of 2025. So far, we have slightly exceeded half of the planned roll in the nation. So, we can switch to the Q&A session. Thank you very much.

OPERATOR: The first question comes from the line of Bystrova, Evgeniya with Barclays. Please, go ahead.

BYSTROVA E: Hello, good evening. Thank you very much for the presentation. I have several questions. My first question is regarding the competitive landscape in Europe. Could you please provide an update in terms of what you are seeing at the moment, in the First Quarter, what's your outlook for the rest of the year?

Do you expect maybe a risk of increased competition from Asian players? Also, not only in Europe, but also in other regions where you operate, for example, in MENA or APAC.

Then my second question, I couldn't hear properly during the presentation, you mentioned something about adjustment to your net debt figures, something about early collections. I think you mentioned EUR110 million of early collections in Q4. If you could just please repeat that, that would be very helpful.

My final question is regarding your synergy savings. Could you please provide an update in terms of how many savings you have already generated at this point from the total program? Thank you.

ALPARSLAN B: Sure. Let me start with the competitive landscape in Europe and in some of the regions. So, our outlook for the European market since our last call remains the same throughout the year. ECB's actions have already started to stimulate consumer demand, especially in some regions.

In 2025, having inflation slowed down and backed by the low base effect in Europe, we expect growth in sales volume similar to 2024. But, of course, pricing pressure and intensified competition in the region will put continued pressure on growth in Europe terms, as it has already been for the last quarters, especially on the back of the tie wars between the US and China.

Of course, the excess supply coming from China contains the danger to impact both Europe and APAC regions, relatively more, especially for trade brands, the entry-level brand, this danger is much more imminent. Having said that, this is not a new phenomenon. So, we have been preparing for this, especially on the back of our wide brand continuum.

So, as we have communicated earlier, we are trying to, and we have been relatively successful in that manner, elevating Beko brand in terms of price uplift, as well as utilizing new brands such as Whirlpool and Bauknecht in some regions, more and more.

So, that's why the pricing pressure, the pressure on the gross margin in Europe continues, but especially in some regions like Northern Europe or France, but in regions such as Eastern Europe and Southern Europe, the growth momentum continues on the back of declining inflation and interest rates.

So, this is for the first question. The second question was related to the adjustment to early collections. So, the main reason of that reference was that as compared to the end of last year, we did not utilize as much as early collections or factoring to convert our receivables to cash.

So, that's why that had a relative impact on the net debt EBITDA leverage metric and our nominal net debt figure. So, we tried to give you the numbers and the difference between EUR500 million that was utilized around the last year versus EUR350 million for that period. So, that capacity is going to continue to change.

And also -- so, that was the main reason of our reference to the early collections. And the last question was related to the synergy savings. We've communicated earlier our expectation for this year, which is around EUR100 to EUR150 million of synergies to kick in in the finances, both in gross margin and on the opex side.

So, with the impact on the EBITDA overall. So, so far, the synergy that we're calculating this on a regular basis, that is in the financials, based on our calculations, is around EUR25 million for the First Quarter of 2025. I hope that answers your question.

BYSTROVA E: Sorry, you said EUR25 million.

ALPARSLAN B: Yes, EUR25 million.

BYSTROVA E: Out of the 100, 150?

ALPARSLAN B: Yes, yes, yes.

OPERATOR: The next question comes from the line of Kirner Marko with Valiant. Please go ahead.

KIRNER M: I have two questions. The first question is just a housekeeping question. You mentioned on the last earnings calls that you had covenants, bank covenants at 3.5 times leverage, which I think you didn't reach last quarter, but like this quarter, you're above it.

So, I was just wondering if you expect to, if you already had started discussions, or if you expected to start discussions around that going forward?

ALPARSLAN B: So, first of all, the covenant level is 3.8 times, not 3.5 times. And our covenants are subject to semiannual testing. So, this quarter, we're not subject to testing. It will be tested in the half-year results and the year-end results. And we have a six-month month of cure period. There are some additional details in the loan documentation, but as we predict throughout the year, both in line with the synergies to kick in.

And in line with the EBITDA ramp-up, and in line with the starting of the collection period and high season, especially on the second and third quarter, we expect to remain in line with the covenants towards the year-end, especially so the second half of the year.

And we are communicating the two sets of leverage metrics here, as you've noticed for the first time. And the reason of that is the definition of the covenant metric has been reported in the past, in the sense that it was pre-inflation accounting period.

And that's why, just to educate the creditors and the investor community, we are producing and providing both leverage metrics, both as it relates to inflation adjusted figures, and after eliminating the adjustments related to inventory gains, which are recorded under the monetary gain and loss position.

So that was the essence of the adjustment that we put on the presentation for this time.

KIRNER M: Okay, understood. Thank you so much. And then the second question is, you sort of burned net debt in Euro terms, increased by about 400 million, right? So I'm just wondering, how much cash do you need to run the business? And do you have any, beyond the cash on balance sheet, do you have any unborn facilities or something like that?

ALPARSLAN B: Yes, of course. We have supply chain facilities, we have overdraft facilities, and I think the cash at hand right now, which is close to a billion Euros, is more than enough to run the liquidity. So, as I said, for Arçelik in particular, the impact of the accounting EBITDA, especially for the inflation accounting, is profound.

So that's why, while trying to decipher the liquidity position of Arçelik, keep an eye on the cash level, as well as look at the seasonality. So, it should be evaluated throughout the given year. On a quarterly basis, it might swing due to the early collections, fastings, or liquidity tools that we're using.

As well as the EBITDA ramp up that we're expecting on the back of a high turnaround situation here.

KIRNER M: Okay, thank you so much. I'll jump back in the queue.

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

DEMIRTAS C: My first question is related to domestic demand side. As we follow from the markets, March was a little bit weak, but April, I would like to ask about April. How does the outlook look at the current market conditions, the recent developments?

And do you see any downside risk to your domestic market estimates and the pricing environment? Could you maybe add some further elements to that? That's my first question.

ALPARSLAN B: Okay. So first of all, for Türkiye, the domestic demand, this quarter should be read in conjunction with the same quarter of last year in the sense that, as you know, last year, due to municipality elections, there was a put forward demand. So it was a very high base here.

And right now, we do not foresee a significant change in the output that were provided. And as you know, the periods of sudden depreciation in Turkish lira, sometimes there's even stimulation impact on the dealer's side. So people on the back of expected price increases, they are triggered in terms of the procurement decisions.

And we see that in the April figures, that reflects the acceleration in demand. So there are some balancing factors. Having said that, on the back of high interest rates and diminishing expendable household income and limited monthly installment availability, which is still continuing, they remain to be the main headwinds.

And considering the failing high base impact in the Second Quarter that I just mentioned, we honestly keep our positive view for the second half of the year, in particular, for September, October, November, to be more precise.

And on the pricing side, as we've communicated earlier, we are evaluating market conditions on a monthly basis, as part of our strategic pricing initiatives, as usual. And we expect price increases in the local market in line with the inflation figures.

DEMIRTAS C: And the other questions about the readjustments or, you know, I don't know, I call it also, whether it's a correction or not, but I see that in last year's numbers, you made a change in the monetary gain, you know, figure. And I see that in the presentation, but I really couldn't understand the justification behind that, because this company, you know, the acquisitions impact was not there already.

And there's no change in all other items. But there is only one change in the monetary gain, it changed the whole picture. And I don't know, I don't see it in the footnotes, maybe I'm missing it. So, I'm trying to understand why only one item changed in last year's First Quarter.

And I think your Full Year number also changed, because for the fourth quarter, I see 7.7 billion, you know, from the past. But when you put your number, adjusted number, four quarter net income is much lower.

So, could you further give more detail about this monetary gain thing change, because all other items are same for the First Quarter 2024. And there's only one. And you justify with the acquisition, but at that point, the acquisition was not there.

So, maybe if you further elaborate, we can better understand the last year figures, because it would be helpful for us if it's possible to give Full Year restate the numbers, so that we can base our estimates on those last year's figure, because otherwise each quarter will be more difficult for us.

And related to that, you have the minority interest figures. Again, I see a lower minority interest, does it mean that you are making less loss in the European operations, you just include it in your financials.

And I see higher tax expenses if I'm not mistaking, I see higher income tax expenses. What are the reasons behind those changes? Because when we look at the overall numbers, there's not much surprise. But when we get into the bottom line could get closer to the bottom line, we see deviation.

So, these factors will be to clarify those figures will be helpful for us for the future expectations? Thank you.

ALPARSLAN B: So, for your first question, actually, in our 2024 Full Year webcast, we provided a detailed explanation. When if you look at 2024 audit report, under Audit Note 2, you will see the impact, we actually did a public disclosure in that regard as well that was related to one-off of impact where we have changed or transferred the amount under the equity.

So, with no change actually, especially for for the number that is pertaining to 2024, that was the that was an annual impact. Right now, it is being distributed to each month. And that is the reason of the change that you see in the restated numbers for 2024.

For 2025, you're not going to see such a one-off impact. So, for your modeling or projection purposes, you do not have to worry for this. And that's one thing it was related to foreign subsidiaries, the indexation where it was recorded on the CTA and on the P&L etcetera.

So, that's why when you if you check the disclosure notes for in 2024, under the equity movement table, you will see the explanation. Can I get your last question again, please?

DEMIRTAS C: There was two parts. The one was related to tax expenses in this quarter one can expect and the other one is related to minority interest rate?

ALPARSLAN B: Okay. On the tax expenses side, there are some subsidiaries we have, which have recorded net profits of paying taxes. And for some subsidiaries that we have and that includes local subsidiaries as well, we do not -- we're not able to utilize our deferred tax assets, given the net loss for the period.

We are continuously evaluating that within the context of tax planning as well, how to utilize all incentives and not pay tax. But for this quarter, there has been a -- we have not been able to utilize our deferred tax assets. So that’s the reason. And the reason for minority interest is mainly coming from Beko Europe. As you know, it was not consulted.

DEMIRTAS C: For this year, we see lower losses, minority interest in this quarter, compared to maybe the previous ones. Maybe because of changes, it might not be comparable. So, in real terms, do we see any decline in the loss in the acquisition acquired Beko Europe or the merger side?

Do you see -- does it mean that this minority interest is lower loss? Does it mean that you made less loss in the European operations?

ALPARSLAN B: Are you comparing this to the First Quarter of last year or the previous quarter?

DEMIRTAS C: I'm comparing with the fourth quarter, but maybe that fourth quarter needs also further adjustments.

ALPARSLAN B: As far as I can see, it's mainly from Beko Europe, as you rightly pointed out, with the improvement in the financials, we do report less loss on a quarterly basis. But again, I mean, it's not fair to compare last quarter versus the First Quarter of a given year.

But if you compare it with the First Quarter of last year, probably it should be higher in terms of loss. But let us check that again. But as far as I can see, it's related to the Beko Europe operations, an improvement in net loss there.

DEMIRTAS C: And again, related to -- do you see in European markets, do you see additional competition? It was already asked at the beginning of the meeting, but I would like to ask it again, maybe related to tariffs. Do you expect any impact on you if the tariffs changes?

Do you expect any positive impact on that? And the recent appreciation of Euro, do you see material positive impact in the Second Quarter?

ALPARSLAN B: Yes. I also checked the individual line items as it pertains to your last question. Actually, obviously, the restructuring costs were accumulated in the last quarter for Beko Europe. So that was one of the reasons. And the second reason is, again, improvement on a quarterly basis.

Coming back to your -- I understand it's related to the parity right now. Is it correct? So you're asking the impact of Euro?

DEMIRTAS C: Yes.

ALPARSLAN B: Yes, of course, it has positive impact on our operations in terms of, especially on the gross margin, given on the raw material or cost of goods sold side, USD is much more predominant than the Euro on the revenue side. And we do have lot of calculations, especially on the impact or positive impact of the parity on our gross margin.

We can take it offline to educate you more. But we are -- especially in March, it has just started to kick in. So on an average basis, we do not see much impact. But starting from April, given the parity is much higher than we anticipated and budgeted at the outset of the year, there will be visible impact on the gross margin throughout the remaining of the year, assuming that it will remain flat around those levels.

DEMIRTAS C: Thank you.

ALPARSLAN B: You're welcome.

OPERATOR: The next question comes from the line of Campos Gustavo with Jefferies. Please go ahead.

CAMPOS G: Hello. Can you hear me?

ALPARSLAN B: Yes, very well.

CAMPOS G: Thank you very much. And thank you for the presentation. I have a few questions from my side. I'd like to start with working capital. If you wouldn't mind, I would like to understand better what dynamic happened with regards to receivables, particularly if you could elaborate if there's a particular trend on the customers that are owning this money to you.

And if you are planning to perhaps factor or monetize some of these receivables, if needed, how do you see expectations like do you see this reversing? Is this seasonal? That would be my first question? Thank you.

ALPARSLAN B: Sure. If you decompose the change in networking capital, which is the main culprit behind the increased leverage here today within the First Quarter. So on the receivable side, as you know, to stimulate consumer demand, especially on the Türkiye side, we have extended terms.

So there are two reasons. One, on Türkiye side, it is providing extra maturity for the dealers on the receivable side to be able to stimulate sales and enhance volume. On the Europe side, it's much more flexible in terms of early discount and factoring opportunities.

But especially towards the half-year end or year end, we are able to find and utilize much higher capacity. And every quarter, also to align and adjust our liquidity position, we're utilizing these tools. As we mentioned, we also provided the numbers.

At the end of last year, the number was much higher in terms of generating liquidity position here. And most importantly, as you know, we are in terms as part of the cross-sourcing initiatives, we are defining lots of new products in line with our new branding range to the system.

And the First Quarter of the year is usually the preparation year and the period of the inventory buildup.

As we start the season, especially on the cooling season, the inventory buildup is much more visible. Throughout the rest of the month, especially on the Q2 and Q3, where especially the high season in Europe, the change in networking capital will be much more positive and mostly eliminating the negativity within the First Quarter, unless there's a huge showstopper, especially due to a macro slowdown in global demand, etc.

But in normal course of business, and in line with our production plans, which are already set for the rest of the year, and our supply chain initiatives, we see normalization in our networking capital level.

When we look at the capex, for instance, we do not see any deviation. We're well below the budget year to date. So, the main culprit has been related to the networking capital, as you also rightly pointed out, receivables and inventories mostly.

CAMPOS G: Understood. Thank you very much. So, the expectation is for some normalization in both inventories and receivables.

ALPARSLAN B: You might see some swings on the receivable side due to the utilization of liquidity instruments, as I pointed out. But towards the year-end, these things are usually normalized on the back of higher capacity and collection efforts.

CAMPOS G: Thank you. That's very helpful. My second question is around free cash flow. I believe during the call you mentioned you had expectations of positive free cash flow generation. I understand that this will be partly driven by the cost optimizations and synergies you're planning to realize. Could you please just walk me through how you're planning to be free cash flow positive?

If you could walk me through your cash flow expectations for the year. And you already tackled the working capital, so just on the other line items?

ALPARSLAN B: At the EBITDA level, as you rightly pointed out, it could be mainly on the back of the synergies to kick in, as well as the normalization of the inflation accounting impact on the EBITDA level. And I'm trying to decompose the components of the free cash flow here. Networking capital, we discussed.

On the capex side, as you know, the major expansion capex programs have been already completed. There are some leftovers here and there, but Egypt, Bangladesh, etc., etc., they are finalized. So we do not have a major expansion capex that is left for the year.

We are also extremely stringent and even stingy on all the capex items for the rest of the year. And we're very much confident on the capex guidance that we've been providing. Considering all of these, we believe that we will be able to generate enough free cash flow before debt service.

And with that, we're planning to, of course, pay the interest and redeem some portion and roll over some portion of our debt going forward. So we think, and as you know, I'm sure you've been tracking, actually, for a very long time, and it's usually cyclical in terms of free cash flow generation across quarters. And if one year, due to high capex needs, etc., the free cash flow is low, for this year, we expect it to be positive due to the factors that I just mentioned.

CAMPOS G: Understood. Yes. Thanks very much. That's very clear. And my last question is more around the net leverage and covenants again. So apologies for following up on that. I'm looking at your slide on net and leverage, and I see the 4.06 net leverage. That's the adjusted number.

My question is that if this is the pre-IFRS net leverage, is this the net leverage that bank lenders are using and approaching when calculating your covenant breach? …

ALPARSLAN B: Yes, we're providing, both pre and post inflation accounting numbers. And the covenant testing, as I said, is subject to cure periods. And you usually come up with a plan with the creditor. So it's a dynamic process. It's not just a static analysis per se. You also normalize one-off transactions and or one-off swings in working capital as well, based on the loan documentation.

So, the covenant testing and the calculation thereof is in our hands. So please feel free to stick to our calculations. And you can do your own calculations as well.

And we're more than happy to help you out offline to show you or to explain in how we navigate ourselves throughout the audit report and how we come up with the financials. Because it's a non-GAAP measure based on the last 12 months of earnings, which is not readily available everywhere. So that's why it's more of a pro forma calculation, which is the essence of the covenant calculation per se.

CAMPOS G: Okay, got it. I was just wondering if this metric is in line with the covenant testing or not?

ALPARSLAN B: Okay.

CAMPOS G: Yes. Thank you very much. And just to confirm, the broad expectation is for some deleveraging by next quarter, so that you can meet your covenant testing, right?

ALPARSLAN B: Yes, of course.

CAMPOS G: Okay, thank you very much.

OPERATOR: The next question is a follow-up question from the line of Bystrova, Evgeniya with Barclays. Please go ahead. Miss Bystrova, can you hear us?

BYSTROVA E: Sorry. Can you hear me now?

OPERATOR: Yes, loud and clear.

BYSTROVA E: Cool. Yes, sorry about that. Thank you for the opportunity to follow up. So, I wanted to follow up on the adjusted EBITDA or net leverage 4.06 number. So, you're using EBITDA as per your management accounts, which are not adjusted to inflation, or you're just taking the, I presume, numbers from note 25 of your financial statements, which is the net monetary position gains, losses.

ALPARSLAN B: Yes, just one second. I think best would be to take it offline because we have to run you through in how we calculate and come up with that number. I think that's the best approach.

BYSTROVA E: Yes, sure. But a quick question. It's based on the monetary gain position note, right?

ALPARSLAN B: Adjustment. Yes. But this is an LTM number. You have your First Quarter results right now. So, we have to tell you or at least run you through in our approach so that you understand how we come up with such numbers.

BYSTROVA E: Right. Got you. Thank you.

ALPARSLAN B: Welcome.

OPERATOR: The next question is from the line of Nekrasov, Maxim with Citi. Please go ahead.

NEKRASOV M: Yes, thank you. Thanks for the presentation. I have a question on margin. So your adjusted EBITDA margin has improved quarter on quarter, 80 basis points. I was wondering if you can tell more about the drivers behind that and particularly to what extent it was driven by accounting effects and slowing inflation, and also why there was such a big discrepancy between EBITDA margin movement quarter on quarter and net margin. And what would be the better metric to track underlying profitability change quarter on quarter? That's what we're trying to understand.

ALPARSLAN B: So first of all, last quarter of a given year is where some one-off expenses on the opening side are being recorded as compared to the First Quarter, like bonus payments, etc., etc. So, there are some extra expenses that are being recorded at the last quarter of a given year. That's one impact.

And secondly, so it's not one to one comparable for the First Quarter, the following quarter of a given year. Secondly, improvement in our EBITDA margin is mainly due to lower raw materials and cost savings and synergies as part of our ongoing restructuring efforts that we've been mentioning consequently.

On the opex side, there has been a negative impact of minimum wage increase in the First Quarter. So we have not achieved an improvement in that respect. And the parity also impacts, although it was toward the end of the First Quarter, euros started to appreciate in March.

So, we expect the impact will be visible in Q2, considering the procurement, production and inventory turnover data, etc. So that's the response to your first question. Of course, the slowing inflation will have an impact on the EBITDA post-inflation accounting, which is because it's merely, it will be merely a transfer between MGL, and to the operating income line.

In a given quarter, considering the inventory turnover days or in a given year, that impact is neutralized and or offset at the profit before tax level. But when you look at the EBITDA per se, and that you have to take into account the inflation, the inventory-related adjustments related to the inflation as part of the MGL.

So that was more or less the essence of our pro forma adjustment to the leverage metric, to the EBITDA, etc., just to provide some perspective. But just to sum up, the slowing inflation will have a positive impact on the EBITDA margin, but that is related to the Türkiye operations or Türkiye sources, where inflation accounting is being applied. So that's not valid for other regions like APAC and or Hitachi, etc.

NEKRASOV M: Understood. But if we basically exclude all those accounting effects, like the more interested about the underlying trends, right, in terms of profitability. And I appreciate that in the fourth quarter, there are a lot of, as you said, like one-offs, right, and extra costs.

But do you see basically underlying progress in terms of margin improvement, or it should be rather skewed to the second half of the year, based on your guidance?

ALPARSLAN B: So, as you know, Europe constitutes around half of our operations, Türkiye around 30%, and the rest, mainly APAC and Hitachi, and we have some other operations in South Asia, etc., or South Africa. But, more or less, the bulk comes from three regions. Hitachi JV is relatively stable in terms of bottom line.

Türkiye, the demand is pretty strong, especially for this month of the year. And the profitability is relatively better as compared to last year. But the main improvement will come from European operations.

As you know, we've started to consolidate Whirlpool as of April the 1st of last year. And there has been a calibration period, especially for the European operations, as we progress throughout the year. And in September, October was, especially September was relatively promising of last year.

But this year, when we compare on a month-on-month basis, on a yearly basis, but the same month, we see significant improvement, especially on the OPEX side. There is pressure on the gross margin, but on the operating expenses side, in line with the closures of UK, Yate Factory, Polish Operations, etc., which are mostly aligned with our budgets, we are seeing significant and visible improvements on our OPEC ratios.

So, the improvement at the EBITDA margin level is visible. There are the synergies that we're talking about, both at the gross margin level due to relocation of plants, along with the headcount optimization plans that we've been announcing quite for some time.

And therefore, we see operating income improvement and considerable improvement in our European operations. So the underlying base, unadjusted EBITDA margin is being improved. And that is the reason why we are keeping our EBITDA margin guidance intact for the full-year results.

The main pressure will remain in the gross profit and on the pricing side, but on the cost side, in line with the synergies in procurement, supply chain, and production technologies, we will be able to compensate the erosion in the gross profit due to intensified pricing pressure. And that you can see in the gross profit margin, I suppose. Hope that answers your question.

NEKRASOV M: Yes, thank you so much.

ALPARSLAN B: You're welcome.

OPERATOR: The next question comes from the line of Bhat, Nikhil with JP Morgan. Please go ahead.

BHAT N: Sorry, I just have one quick clarificatory question in terms of your seasonality. Given Second Quarter free cash flow is typically negative, should we expect your leverage to worsen in the Second Quarter of the year and then improve in the second half to get to below your covenant levels by year end? Is that how we should think about it?

ALPARSLAN B: We would not say worsen, because the increase in net debt levels, as I mentioned, was almost on a half basis due to receivables and inventory side. We do not expect such increase in the Second Quarter on the net debt just because of net working capital.

So the buildup in inventory has been stable, at least on a run rate basis so far. At the EBITDA level, as I mentioned, starting from April, the Second Quarter, workflow operation has been consolidated. And due to the enhancements on the operating margin on the Europe side, we expect a higher EBITDA on the Second Quarter. So we do not expect any worsening.

But the real improvement, as you rightly pointed out, in leverage metrics, margins, etc., we expect starting from September and the following month, September, October, and to some extent in November. So it's a crossover between Q2 and Q3. Of course, August is a holiday period.

But on a like-for-like basis or on a yearly basis, it has the same impact in terms of seasonality. But that's why we expect Q3 and some portion of Q4 to be the defining period for the operations.

BHAT N: August, thanks for the clarification.

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

KILICKIRAN H: Hello, thank you very much for the presentation. This is very helpful. I would like to make a follow-up on the potential strength in Euro impact on your margins. In order to make a proper calculation, is it possible to share the share of Europe in your EBITDA?

I mean, in terms of revenue, it's 47%, but I guess on the EBITDA side, it's much lower. Or do you have any sensitivity for Euro strength on your financials?

ALPARSLAN B: Yes, we're not able to share the regional EBITDA numbers, which are subject to many assumptions in terms of allocation of the expenses and that. We, of course, have our sensitivity analysis on the parity. But these are, again, perspectives that we can share offline, but they are not cast in stone.

So, we mostly perform analysis subject to change in macro backdrops, etc. So, we'd rather stick to the mostly publicly available information and not come up with own internal analysis. So, we're trying to keep that at a minimum, as you would rightly understand.

KILICKIRAN H: Okay. All right. Thank you. I mean, I can understand that the strength in Euro may help your EBITDA margin in the Second Quarter and maybe in the rest of the year? But in the meantime, we have been observing China also devaluing its currency. So, this may also put some pressure in pricing in Europe, I guess.

So, do you think that this could offset each other? I mean, you may not see a big deviation from your EBITDA margin, because probably you were not guiding this strength in Euro in your guidance, right?

ALPARSLAN B: Yes. To be honest, the devaluation of Chinese Yuan has a positive impact in the sense that as we are sourcing our raw materials also from China, the labor costs are on a relative basis. Labor costs are right now being recorded relatively lower as we anticipated, given the depreciation in Chinese Yuan, which has positive impact.

By positive, I mean lower raw material prices and lower process prices. So, as you know, the labor costs are also being fed into the calculation of the raw material prices that are coming from China and some of the materials. So, on the procurement side, we expect a positive spillover effect from the depreciation of Chinese Yuan.

On the main factor that will impact our gross margin will be euro-dollar parity, which is quite favorable at that point in time. So, that has been the balancing factor of the tariff wars. And the slowdown in global demand has been quite conducive to declining raw material prices. So, there are some offsetting factors, as I just mentioned.

KILICKIRAN H: All right. So, do you mean that, I mean, you may have some advantage on the procurement side, but in the meantime, you are going to be as competitive as Chinese players, despite the depreciation of the Chinese currency, right?

ALPARSLAN B: I didn't say that we will be as competitive as Chinese players, but I think on the pricing levels, given the branding etc. we have, I think the main danger will be the inventories that were already embarked for the U.S. market will be dispatched to Europe or APAC or South Asia and Central Asia.

Having said that, we've been through this period before. And as you know, the discussions with the distributors, negotiations, etc., in Europe is not being done every month or every week. So, it's just you usually settle your listings at the First Quarter of a given year.

And therefore, yes, of course, the Chinese inventories, we expect to have some pricing pressure on the overall European operations. But as we said, we have been prepared for this quite for some time. So, it's not news from our perspective, especially in that industry.

KILICKIRAN H: Okay. Thank you very much. That's very helpful.

OPERATOR: The next question is a follow-up question from the line of Campos Gustavo with Jefferies. Please go ahead.

CAMPOS G: Yes. Thank you very much. Just a very quick and brief follow-up for me. I was looking at your capital structure and there's a significant portion of Turkish lira debt and short-term borrowings?

I'm wondering if you have any plans on changing your capital structure or as far as you know, the mix of currencies or the short-term to long-term debt mix, anything there would be helpful? Thank you.

ALPARSLAN B: Thank you. And while we're optimizing our capital structure, we keep an eye on both the interest rates as well as the maturity. So, for a higher interest rate, we will not settle for a longer maturity, to be honest, because we have no problem in extending or rolling over our debt.

Right now, we have ample room in our credit limits in Turkish Banks in particular. And for Turkish lira, as you know, Turkish lira lending environment is not a long-term debt environment. So, they are not used, Turkish lira debt is not used for capex or investment to fund capex or investment.

Usually, it's used to fund networking capital needs. We have various tools for that. But the silver lining here has been the Exim facilities that we have recently, especially last year, where the window for Exim facilities was not open.

In the very past, Arçelik has been utilizing Exim pretty heavily in terms of almost all of its Turkish lira funding. Right now, this market has been opened up again. There was some pause in between, but right now, we're able to fund ourselves at the rates of around 25%-ish numbers.

And that's why in Turkish lira, we will not opt for longer-term tenures, just to extend our maturities. And the average maturity, when you exclude cash pool and other short-term facilities, the duration is close to two years, which is, I think, for a company with almost 30%, 35% of its operations in Turkey, this is a healthy level.

And as we've mentioned, we have long-term facilities just being earmarked, such as ECA facility, which is 10 years, with upcoming facilities, which will be five years. And for this year, we do not have an imminent redemption for a long-term debt.

And we have already started to think and implement the funding needs, including the upcoming Eurobond, which is May 2026. So we do not see any problem in liquidity and or additional funding, tapping into additional bank loan market.

CAMPOS G: Understood. Thank you very much. And because you are utilizing more of these Exim Bank facilities, is your broad expectation for your broad interest costs on your debts to decrease this year?

ALPARSLAN B: Yes, it's mainly due to, I mean, declining inflation/ interest rate environment, relatively speaking. I mean, there has been some pause in the market due to the recent events. There's been some extension of the high-inflation environment, at least on the expectation side.

But eventually, year-on-year, on an average basis, we're expecting the marginal interest rate to be lower. But given the duration, the impact on the overall debt stock is going to take some time. But we are budgeting all these into our projections for this year.

CAMPOS G: Understood. Thanks again.

ALPARSLAN B: You're welcome.

OPERATOR: Ladies and gentlemen, there are no further audio questions at this time, and we will now move on to our webcast questions.

The first webcast question comes from Serhat Kaya with YF Securities, and I quote, do you expect some demand-stimulating incentives in European markets, especially for energy-efficient appliances? Thank you.

ALPARSLAN B: I mean, these initiatives have been on the cards for a long time, but these should be read in conjunction with the offsetting impacts of the high competition that is coming from foreign. Europe has not retaliated via additional tariffs in the tariff war to China, etc.

But with packaging and or sustainability regulations, they are trying to put some hindrance to avoid some, to eliminate some of the negative impact of the competition. But the ECB actually, on the back of lowering interest rates, is kind of a demand-stimulating action. I mean, from our perspective, this should be the modus operandi for the rest of the year.

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

ALPARSLAN B: So, thank you very much for the questions. We can take more offline with our investor relations team and hope to see you in our next call. Thank you.