Arçelik A.Ş. First Quarter 2024 Financial Results Conference Call

Friday, 26th April 2024, 19:00 (TR Time)

Conductors:

Mr. Özkan Çimen, Chief Financial Officer

Ms. Mine Şule Yazgan, Finance & Enterprise Risk Executive Director

Mrs. Delal Alver IR & Capital Market Compliance Senior Lead

Mr. Sezer Ercan, Investor Relations Senior Lead

Conference Call Conducted by Chorus Call Hellas

CHORUS CALL HELLAS
PROVIDER OF TELECONFERENCING SERVICES
TEL: +30 210 94 27 300
FAX: + 30 210 94 27 330
Web: www.choruscall.com

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 2024 Financial Results.

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

Mr. Çimen you may now proceed.

ÇIMEN Ö: Good morning and good afternoon, Ladies and Gentlemen. Welcome to our First Quarter 2024 Financial Results Webcast. Before we go into details, I would like to let you know that this presentation on First Quarter 2024 Financial Results contains the Company's financial information prepared according to CFRS by application of IAS 29 inflation accounting provisions.

And financials of First Quarter of 2023 are indexed with 1.685 for inflation adjustment. Let's start with the Highlights of First Quarter. Arcelik generated 7 to 2.3 billion revenues in First Quarter reflecting a 4.8% growth year-on-year in real terms. In Türkiye, demand was quite strong in both the wholesale and retail markets across major product groups. After a period of weak demand in our major international markets, recovery signs in some countries have been visible in the First Quarter of 2024. Our consolidated EBITDA margin was 8% in First Quarter with a 64 basis points annual expansion.

Margin improvement was mainly backed by ease off of raw materials cost and strategic pricing initiatives. Our Networking Capital to Sales Ratio as of First Quarter was 23.4% reflecting a slight improvement in networking capital thanks to our better inventory turnover management in this period.

Our leverage was 2.65 as of First Quarter which represents a slight decrease compared to same period of last quarter. If you move to the next slide, in Q1‘24, Arcelik delivered consolidated revenues of TRY 72.3 billion and strong growth in unit sales in Türkiye.

Strategic pricing initiatives across regions supported our revenues whereas relatively slighter contribution of our international markets where demand growth was limited. Our consolidated Gross Profit margin for First Quarter was 29.7% which is up by 91 basis points year-on-year. Margin improvement is led by eased raw material costs and also partially impacted by supported higher capacity utilization both domestically and abroad.

In Q1, we have achieved a consolidated EBITDA margin of 8% with an annual expansion of 64 basis points resulted by better Gross Profitability. Next slide. Domestic market, Türkiye. Wholesale and retail demand was substantial in two months, 24 in unit terms. MDS-6 wholesale market grew by 30% whereas Arcelik has recorded around 26% in unit terms.

Arcelik as a Group maintained this strong leadership position in this quarter. Sales in AC market was significantly up by 54% in Q1 while Arcelik outperformed to market by 80% growth in the same period. TV retail market grew by 3.5%

in Q1 whereas our sales increased by 3% which is slightly below the market growth in the same period.

In the First Quarter, we have generated TRY 30.7 billion revenue in Türkiye which registers 18% year-on-year growth. Annual growth was mainly driven by strong Unit growth in all major Product Groups and strategic pricing.

The share of domestic market in total business increased to 43% with a robust growth as of Q1 given the solid month. Move to the next slide, European Market. Having 34% share in total consolidated revenue in First Quarter, 24, revenues generated from Europe declined 5% in Euro terms year-on-year.

Consumer demand in Western Europe remained under pressure throughout the year. However, the level of contraction eased in the last month and the market declined 1% year-on-year in Euro terms for MDA6 products. We have observed a flattish demand in units in Western Europe on yearly basis and having 21% share in total revenue as of Q1, 24, our revenue in Western Europe were down by 5.3% year-on-year in Euro terms reflecting the overall demand contraction.

Meanwhile, in Eastern Europe, consumer demand increased by more than 5% year-on-year in the First Quarter. Change in demand remains negative only in Poland within the region. In Eastern Europe, having 13% share in total revenue, our revenues decreased by 4% in Q1 on a yearly basis in euro terms whereas the units had been slightly increased in two months, 24.

Let me move to the next slide, Africa, Middle East, and APAC. The revenues from Africa and Middle East region represents 9% of our consolidated sales, increased by 11% annually in Euro terms thanks to strong demand growth in Middle East. Consumer demand in South Africa for MDA6 products contracted by around 6% year-on-year this year.

Device revenues grew substantially by 16% in local currency terms in First Quarter of this year and in Euro terms revenues grew by 7.6% as a result of depreciated local currency against Euro. As of first two months, DeFi maintained its strong leadership in the market. Despite operating in a flattish environment, Beko Egypt's revenues registered a robust growth of 43% in units and out formed the market within the same period.

Our revenues from APAC region having 13% share in total revenue were down by 4.4% year-on-year in Q1 and this contraction mainly reflects the ongoing weak demand environment. In Pakistan, compared to First Quarter of last year, revenues remained flattish in Euro terms although there has been 10% growth in local currency within the same period. In Bangladesh, we achieved limited growth in Euro terms year-on-year in First Quarter.

We move to the next slide which is related to our raw material prices. On year-on-year basis, drivers as declining global demand, increased pulse rates, decreased energy and input costs, partially decreased logistic costs resulted in decline in raw materials, mainly metal raw material prices, whereas the increase in plastic raw material prices remained flattish within the period.

Let me move to the sales bridge slide in Q1. Türkiye revenues grew by 18%, mainly coming from unit growth and pricing initiatives. International revenues decreased slightly by 3.4% and a limited more solid growth in real terms within the period. On the right-hand side, you can see our regional sales breakdown.

Türkiye's share in total revenue was 38% last year, last quarter, First Quarter. Now, 43% while the share of Western Europe declined from 23% to 21% compared to Europe and the share of Eastern Europe was 15% last year.

I will leave the floor to Mine to go over the financials.

YAZGAN M: Thank you very much, Özkan Bey. Good morning and good afternoon. Here is the summary of our First Quarter, '24 financials with the application of inflation accounting compared to the same quarter of last year.

ARCE's consolidated revenues were TRY7 2.3 billion in the First Quarter of this year, reflecting almost 5% growth compared to a year ago. ARCE posted consolidated growth margin of 29.7% in the First Quarter. Margin expansion of 91 basis points on a yearly basis was mainly attributable to declining material costs together with strategy pricing.

Expansion in growth margin is reflected on consolidated EBITDA margin and ARCE accelerated EBITDA margin of 8% in 2024 First Quarter, marking an annual margin expansion of 64 basis points. Net Financial Expenses increased by 49% in Turkish Lira terms in the First Quarter due to ongoing high-cost funding environment.

As a result of inflationary accounting, ARCE booked around TRY 3.2 billion monetary gain in the First Quarter. Consequently, ARCE posted Net Income of TRY538 million in the First Quarter. Net Profit margin declined by 134 basis points annually and realized at 0.7% for that period.

Our debt increased by TRY 4.9 billion compared to last year, mainly due to working capital funding and Turkish Lira depreciation. As of First Quarter, our cash and cash equivalent increased by TRY 2.4 billion compared to 2023 year-end and reached at TRY 46.4 billion in our balance sheet with well diversification within currencies. 35% of our total cash is USD denominated while 28% is EUR denominated. Turkish Lira share was 12%.

As a result, along with improved annualized EBITDA, our leverage was down to 2.65%, 65x as of First Quarter from 2.67x at the end of last year. On the right-hand side, you can see our loan and bond portfolio. As of First Quarter, we have TRY 106.8 billion equivalent debt. Turkish Lira share in total debt was 19% as of First Quarter. USD and EUR shares were 22% and 46% as of First Quarter, respectively.

Move on to the next slide, please. On the upper left corner, you can see the EBITDA margin breach, decreased material costs, left higher Gross Profit margin, which also resulted in 91 basis points expanded EBITDA margin in the First Quarter. On the lower left corner, you can see our CapEx ratio, which was 4% in the First Quarter. On the upper right corner, net working capital sustainance ratio has been shown.

The ratio was 23.4% as of First Quarter this year, decreased by 80 bps year-on-year, thanks to our better inventory turnover management within the period. Finally, on the lower right corner, due to increased capital expenditures, it generated negative cash flow of around TRY 7.9 billion. Our Bangladesh, Egypt, and Manisa investments are still underway and have not been contributing to sales and EBITDA yet.

So, I leave the floor once more to Özkan Bey to walk us through our guidance. Thank you.

ÇIMEN Ö: Thank you, Mina. Based on our most recent forecast, we had shared our 2024 guidance in the last quarter, considering the inflation accounting principles. For this quarter, we will keep our guidance.

These numbers represent our expectation, excluding the recent transaction that we have completed. According to this, we expect our Türkiye revenue to remain flourish in 2024, considering the unpromising demand environment for the rest of the year. We expect our international revenues to increase by around 2% year-on-year in Euro terms, and we expect to deliver EBITDA margin of 8%.

And we target to keep our networking capital sales ratio under 25% this year. And with the investment of factories and all the other CapExes, we are planning to spend around EUR 300 million this year. So, this was the final slide of our presentation.

So, now we can move to the Q&A session.

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

BYSTROVA E: Yes, hello. Thank you very much for the presentation. Congrats on the results. I have quite a few questions. So, first of all, you said that there was a growth in Türkiye sales of 18%. Could you please provide a breakdown in terms of how much percent came from pricing and how much from units?

My second question, could you please provide any colour to European Market and what's your outlook for sales in

Europe? And my third question is about your Net Leverage. So, on the slide, you showed 2023 Net Leverage level, which is quite different from what we saw at the end of the year.

So, if you could share what was the adjustment or the coefficient used to make the adjustment, it would be helpful? And finally, on Beko Europe, I understand that you just closed the deal. Probably, you can't provide any guidance, but when do you think you will be able to provide any numbers or any indication on what the contribution of the deal to your business in terms of unit sales volumes and revenues, etcetera? Thank you.

ÇIMEN Ö: Thank you. Mine, can you start with the Net Depth and the Leverage?

YAZGAN M: Yeah, sure. Well, our Net Leverage was compared to the year-end last year. So, well, in Turkish euro terms, our Net Leverage did not change much, only slightly decreased 2.65 this year.

So, if you have any further questions, I'm happy to follow up.

BYSTROVA E: Okay, I will follow up by email, I guess.

YAZGAN M: Okay, sure. Anytime you want.

ÇIMEN Ö: In Türkiye, so let me continue with the other questions. In Türkiye, as we have mentioned, there is a high growth of 18% in real terms, and this is mainly coming from price increase as well as the quantity increase. And I can say that the quantity increase overall is around 20%. So, because of the mixed impact, we see a net impact of 18% in real terms. And I can say that mainly the growth is coming from the quantity impact and also the inflation impact. And you asked the...

BYSTROVA E: Sorry. Thank you for the answer. So, you said 20% approximately from unit terms. So, should we assume that there was some pricing pressure or...

ÇIMEN Ö: No, it's not just pricing. The overall mixed impact, we can say, because the mix is different than last year. So, I can say in real terms, we have the same price, but the quantity impact is 20% around.

When we look at the European Market, last year, we have seen a contraction in all of the markets that we were operating. However, Eastern Europe was partially different than the rest of the other countries. And when we look at this quarter, the market growth shows a mixed picture by countries.

In some of the countries in Western Europe, we have seen the decline rate is softened, and there are some recoveries in some of the markets, especially in Germany, and also in Spain still is growing. However, if you look at Italy, we still see declines in the markets. And when we look at the Eastern market, we see the trend of increasing trends.

However, Poland is different. It is declining compared to last year, as it was in the last quarter of last year. And therefore, our expectation going forward is that recoveries of those markets will continue.

And in some markets, we will see positive trends going forward. But in some markets, we haven't seen the signs of recovery yet. But we think that the second half of the year, those might be in a better position compared to this quarter.

But we are closing follow ably, whether it will turn to a positive growth or it will be stable. And in this environment, as we have mentioned, we have completed the deal with Whirlpool, where we started our operations under Beko Europe. And right now, we are looking at the details of the operations, looking at the details of the brand management and sales channel management.

So right now, we haven't provided any guidance for the Beko Europe incremental sales. And we are working on that. And next quarter, we will be presenting the numbers, the guidance, including the acquired companies' incremental revenue.

BYSTROVA E: Thank you very much.

ÇIMEN Ö: Thank you.

OPERATOR: The next 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 again related to the sales bridge. How was the picture in consumer electronics and other business segments? And as we see in Türkiye sites, you have 18.3%. But the volume in the sector was much higher in the First Quarter. Was that 18% related to lower TV consumer electronics and others or did you see similar trend in white goods side? Thank you. And the same question is applicable for the international sites?

ÇIMEN Ö: In Türkiye, as I mentioned, we have a real growth of 18%. And that real growth is including the inflationary adjustment that we adjusted 2023 figures with the inflation rate. And our unit growth in white goods is around 20%. And in the television consumer electronics side, it is around 9%. And so, I can say that we have unit growth. And at the same time, we have been able to increase the prices to deliver 18% growth in this quarter.

When we look at the international sites, our unit growth is around 4.5% in white goods. And in AC, it is around 15%. And the rest of the products is around 18%. So, we have growth in international markets, mainly in white goods as a positive. However, there are pricing pressures, which is limiting our real-time growth.

DEMIRTAS C: For the remainder of the year, do you see any sign of weakness? Because already in the first three months, it was very strong. When do you expect some slowdown? How are the inventory levels in sell-outs and selling? Any color on that?

ÇIMEN Ö: The inventory levels are pretty much the same as the last quarter. However, our concern for the local market, Türkiye market, our concern is with the purchasing power of the households. Because of the inflationary environment that is creating uncertainties in the market and is changing the behaviors of the consumers, we have a still high demand in the First Quarter.

However, we think that it will not continue as is because the purchasing power will be limited when we see the next month going forward. And also, there are some credit card limitations. Installments are less than what it is right now.

This is also impacting the purchasing capability of the households. Therefore, we expect some slowdown in the Türkiye market whether it's Q2 or Q3. And when we look at the international market it is a little bit mixed in some of the countries, as I mentioned, there is signs of recovery with positive growth. And in some markets, we still see the decline in the year-on-year figures. However, the pace of decline is less than what it is.

And therefore, we are estimating that Q2 or Q3 there will be some recovery in the market, if it's not within all of the countries that we are operating, but in some key markets like Germany, Spain, and the UK.

DEMIRTAS C: And the other question is about your financials. I can say, I see a higher tax expense in the First Quarter significant increase in the tax around 700 million Turkish Lira. Do we expect a similar trend going forward because your profit before tax was 1.28 and you record a significant tax expense attributed to the First Quarter. What was the reason behind that? Should we expect a similar trend going forward?

That's one part of the question. The other side is, your income from associates it has been lost. When should we expect some recovery on that side your income from associates should we see some improvements in the future?

ÇIMEN Ö: Thank you for the question, Cemal. As you highlighted, our net tax compared to last year is higher. If you look at it in two parts, there's the corporate tax portion which is pretty much as a percentage of sales in line with last year.

However, the main difference is coming from the deferred tax impact. And deferred tax this quarter is mainly impacted by two reasons. One of them is the financing expenses which are not deductible as coming from the regulations.

The entity in Türkiye is not able to use all the financing expenses deducting from the tax base. Therefore, it is impacting our tax assets. Last year, same period, we have less financing expense, but this year it has almost doubled.

So that is impacting deferred tax in a negative way. And the other part is the differences between IFRS and local tax regulations. It's creating a temporary deferred tax impact.

I can say that the first part will continue, and the second part is a temporary impact. Therefore, our tax will be high, but not as high as Q1.

DEMIRTAS C: You mentioned about the statutory and IFRS results difference partially attributed to the difference between CPI and PPI. Should we understand that?

ÇIMEN Ö: Yes, that is one of the impacts.

Cemal D: When we look at that figure, it's a little bit higher. When the PPI is lower than the CPI then are you recording some additional tax? Should we just interpret it this way between the statutory and the IFRS numbers, should we attribute to that difference if CPI is higher than the PPI, then are you going to record higher tax expenses?

ÇIMEN Ö: Deferred tax is coming from that difference as well. There is a negative impact, but what we can do is we can provide you further details after the call and discuss in detail if you have further questions.

DEMIRTAS C: Because in this quarter, it's very significant, so that maybe going forward, what should be the tax rates we should take that possibility and the reason behind my question? That was really the reason behind my question. Maybe we can discuss it later.

ÇIMEN Ö: Your second question was related to the income from the associates. The main negative portion as we have presented in our financial reports is coming from Indian operations. Right now, we are having loss, and we are investing in India, so our capacity utilization is increasing. And this year, we target to have a lower loss compared to last year. Going forward, once our quantities and market share increase, we will turn to a break-even point in the coming two years.

DEMIRTAS C: Thank you.

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

KILICKIRAN H: Özkan bey. Thank you very much for the presentation. I just want to make a follow-up on the pricing side. Your peers have been guiding some negative unit revenue performance for the rest of the year. I wonder if you see a major pricing pressure, particularly in Europe, due to competition? That's my first question.

The second one is that I think your guidance doesn't include Whirlpool, but how do you expect Whirlpool to impact your margins in the Second Quarter? Can you please share some Q1 performance of Whirlpool for the European operations? This could be a base for us to estimate the Full Year. Thank you.

ÇIMEN Ö: Thank you. Let me look at the markets. As I said, some of the markets are growing in unit terms. However, we are not able to increase our prices due to ongoing competition, especially in the low segment of the Product Groups.

There are also promotions. The competitors and all the players select Product Groups and promote those Product

Groups , either to sell the other Product Groups or to increase their quantities to create efficiencies. What I can say is that going forward, there won't be much room to change your prices in a positive way.

However, there will be some positive impacts coming from the quantity change, which we estimate our growth going forward in international markets to be positive. When we look at the Whirlpool transaction, our guidance doesn't include the numbers of the acquired companies. Previously, we have to shared that annual revenues of the companies operating in Europe is around EUR3 billion.

I can say that roughly the operating profit of those companies is low-digit negative. However, we are not able to guide you on going forward, which we need to work on those numbers before we share. That will be probably due to earnings score.

KILICKIRAN H: Okay. About this pricing, I understand Europe is competitive, particularly in the low segment. And this can be offset by the volume, if I didn't understand it in the wrong way. Also, in the Turkish market, you had a stellar volume performance, but your revenue underperformed the volume performance. So, is there also a particular pricing pressure in Türkiye?

ÇIMEN Ö: We are looking at all the Product Groups in detail, but there is a limit that we can change the prices because of the purchasing power of the households. I can say that we will be able to reflect inflation to the prices of our products sold. However, there might be some promotional activities that we need to do to promote higher quantities going forward.

Therefore, net impact of price change will not be breakeven in real terms. That's why going forward, even though we have 18% real growth in Q1, our expectation is that we will be breakeven in Türkiye in net real terms.

KILICKIRAN H: All right. Thank you very much, Özkan Bey.

ÇIMEN Ö: 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 everyone for attending our earnings call. Hope to see you in our next earnings call.