Arçelik

Arçelik A.Ş. Third Quarter 2024 Financial Results

Conference Call

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Conductors:

Mr. Barış Alparslan, Chief Financial Officer

Ms. Mine Şule Yazgan, Finance & ERM Executive Director

Mrs. Delal Alver, Capital Market Compliance Senior Lead

Mr. Sezer Ercan, Investor Relations Senior Lead

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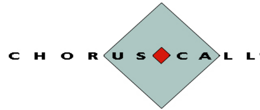

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OPERATOR: Ladies and Gentlemen, thank you for standing by. I am Vasileios your Chorus Call operator. Welcome and thank you for joining the Arçelik conference call and Live Webcast to present and discuss the Third Quarter 2024 Financial Results.

At this time, I would like to turn the conference over to Mr. Barış 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: Thank you very much. Good morning and good afternoon, Ladies and Gentlemen. Welcome to our Third Quarter 2024 Financial Results Webcast. This presentation contains the Company's financial information prepared according to TFRS by application of IAS 29 Inflation Accounting provisions.

Let me start with the Highlights of the Third Quarter. We generated TRY105.4 billion revenues with a gross margin of 26.4% in the Third Quarter, reflecting a 13.8% sales growth year-and-year in real terms. Inorganic growth due to Europe and many transactions closed as of April the 1st enabled that growth. In Türkiye, we observed a weaker demand in both wholesale and retail markets across major product Groups in Third Quarter. However, international demand slightly improved in Q3.

Among all major markets, Europe and Africa performed relatively better. Our OPEX over sales ratio is 26.1% for the quarter. With the impact of the acquired European

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operations, our operating expenses have increased roughly 1.5 points year-on-year predominantly caused by increasing personnel expenses and sales and marketing expenses.

We have recorded a slightly weaker adjusted EBITDA compared to the previous quarter with a margin of 4.6% for the period. Our adjusted EBITDA calculation excludes all one-off income and expenses such as income related with the change in contingent liabilities, transaction expenses regarding Europe and MENA deals and restructuring costs.

Our net working capital over sales ratio as of Third Quarter is 22.7%, reflecting a substantial improvement year-on-year with the contribution of these transactions. Our leverage is 4.29 as of the Third Quarter corresponding to an increase both quarterly and year-on-year due to the increase in our borrowings and weaker EBITDA. We include our adjusted EBITDA in the calculation of leverage ratio for the period.

In Q3, we delivered a 13.8% of revenue growth year-on-year recording TRY105.4 billion consolidated revenues in Turkish lira terms. Inorganic growth had a significant contribution to the growth in the quarter where we were faced with a slowdown in demand in local market. However, growth in international demand slightly contributed to this growth.

Our Gross Profit margin for Q3 is 26.4, which is 2.9 points lower on a year-on-year basis. This is due to challenging pricing environment, unfavourable product mix in the quarter and increasing raw material costs year-on-year.

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We recorded an adjusted EBITDA margin of 4.6% quarterly due to lower gross profitability and mainly higher OPEX as explained.

In the Third Quarter in euro terms, local sales showed an increase by 10.5% on a yearly basis. Growth was mainly due to price increases in euro terms. However, real figures in Turkish lira reflect a 10.5% contraction in local market year-on-year. This is simply because the growth in CPI for the period was substantially greater than the change in the FX rate.

International revenues increased substantially by 58.1% in euro terms on a yearly basis with contribution of inorganic growth. Contribution of acquired entities to the consolidated sales revenue was EUR656 million for the quarter. Organic sales volume increased slightly, but challenging pricing environment in international markets remain unchanged. Figures in Turkish lira shows 28.9% growth in international markets.

On the right-hand side, you can see our Regional Sales breakdown. Türkiye's share in Total Revenues declined to 30% in Q3 in comparison with 39% of share for the same quarter of last year. Western Europe's share in total revenues jumped to 34% from 23%, whereas CIS and Eastern Europe market has 18% share in total revenues adding up to 52% with the impact of the transaction.

Revenues generated in APAC region declined by almost three points and constitutes 9% of total shares in Third Quarter. Africa and Middle East region generates almost 8% of total revenues corresponding to roughly two points decline.

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Due to slowdown in local demand in the Third Quarter, year-to-date growth figures declined in comparison with the First Half MDA6 market demand. In the first eight months of the year, sales volume grew by 6.6%. Despite our relatively lower growth, we sustained our strong leadership in the market.

Volumes in the air conditioning market still reflects a substantial growth over 20% in the first eight months of the year following a robust growth in the First Half due to a low base impact and early summer this year. In Q3, we have compensated the underperformance we had in the air conditioning segment in the First Half due to strong air conditioning sales this quarter.

Retail TV sales volume decreased by 12.8% year-to-date, which is slightly below the market. With 10% decline in local revenues year-on-year, we generated TRY32.1 billion revenues in Türkiye with declining volumes in MDA6 segment, strong unit growth in air conditioning and flattish TV sales. The share of domestic market in total business decreased by 7 points and ended up at 30% of total revenues as of the Third Quarter.

Moving to the European Market, having 52% share in total consolidated revenue in the Third Quarter, revenues generated in Europe increased almost by 90% in euro terms with the contribution of acquired entities compared to the same quarter of last year. Consumer demand in Western Europe has started to show significant recovery signs in the quarter.

In Key Markets such as UK, Italy, Germany, Spain, Belgium and Austria, solid growth has been observed in

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sales volume, however, slowdown continues in France, albeit with a softer pace. Having 34% of share in total sales revenue, recovery continues in the Western Europe market.

As Beko, we preserve the market leadership with a slightly improved pricing ability in the market compared to the last year. Meanwhile, in Eastern Europe, robust demand growth continued in the Third Quarter. Major markets in the region point out a great recovery year-to-date.

In Eastern Europe, having 18% share in total sales, Beko managed to maintain its market leadership despite the slight underperformance in the region. The revenues generated in Africa and Middle East region constitutes 8t% of consolidated sales in Q3. In euro terms, sales within the region grew more than 28%, thanks to strong demand growth in Africa despite the low demand in Middle East throughout the quarter.

Contribution of the acquired entities has limited the decline in sales units in the MENA region. Consumer demand in South Africa for MDA6 products grew by 3% in unit terms year-on-year. Defy's exports within Africa continued to grow substantially by a rate of 28% in the same period. In euro terms, figures are 9% and 32%, respectively.

On quarterly basis, Defy's domestic sales in South Africa and exports within the region grew over 10% in sales unit which corresponds to roughly 20% growth in euro terms as Defy's maintains its strong leadership in the South African market.

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As another key market in the region, demand in Egypt was weaker both year-on-year and quarterly due to market instability and currency fluctuations. Despite the challenges in market conditions, Beko Egypt's revenues remained flattish year-on-year in euro terms unlike 55% growth in local currency.

Quarterly figures show a strong recovery with a growth rate over 40% both in euro terms and in local currency. On the other hand, having 9% share in consolidated revenues, APAC home appliances landscape continues to face challenges due to rising cost of living, political instabilities and housing crisis. Flash floods and typhoons in the region caused even a more negative outlook.

Despite the challenges, sales in APAC region increased by almost 5% year-on-year in euro terms, thanks to substantial demand growth in Pakistan and Thailand in Q3. In Pakistan, sales revenues showed robust growth year-on-year both in euro terms and sales volume, corresponding to 20% and 17% increase, respectively. In contrast, figures reflect a slowdown due to seasonality and increasing competition.

In Bangladesh, we achieved a revenue growth of over 7% in local currency. However, figures in euro shows a slight contraction due to the depreciation of the local currency. Sales revenue is significantly lower on a quarterly basis due to seasonality.

When we move to the Raw Material costs, due to the declining global demand, increased policy rates, decreased energy and input costs both metal and plastic raw material prices have started to decline in the last

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quarter. Metal raw prices remained flattish year-on-year, although we have observed some fluctuations in the last quarter. Minor increase is expected in the last quarter, however, a slight increase in metal raw material cost is expected for the upcoming quarters.

In accordance with our expectations, we have forward contracts for most of our exposure, hence we are not expecting a major raw material cost increase in the short term. After increasing costs for consecutive quarters, average plastic prices are substantially higher year-on-year despite declining costs in the last quarter. Having said that, we anticipate a slowdown in the decline within the next quarter with no hikes on the chemical side.

With that, I pass on to Mine for the financial performance section.

YAZGAN S. M.: Thank you, Barış Bey. Good morning and good afternoon. Here is the Summary of our Third Quarter financials with the application of Inflation Accounting both year-on-year and quarter-on-quarter comparison besides nine-month cumulative results.

Consolidated revenues were TRY105.4 billion in the Third Quarter, reflecting 14% growth year-over-year and 5% decline quarterly. Year-to-date, results pointed 14% growth including inorganic sales. Growth profitability is weaker both in comparison with the same period of last year and quarterly basis.

Margins are lower by 2.9 and 1.3 points, respectively. Year-to-date, gross margin is 1.9 points weaker on a yearly basis. Our Operating profits and adjusted EBITDA

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margins were substantially weaker in the Second Quarter due to lower gross profitability and growth in OPEX

Net financial expenses grew substantially by 57% year-over-year and 65% quarterly. This is mostly due to increased net interest expenses in line with growing debt and increasing hedging costs. As a result of inflationary accounting, we booked around TRY2.4 million monetary gain in the Third Quarter which was TRY1.9 billion last quarter and TRY6.4 billion last year. Year-over-year decrease is due to smaller indexing impact compared to the last year.

Consequently, we saw net loss of TRY5.6 billion in the Third Quarter which corresponds to minus 5.3% net margin, decline is 6.9 points year-over-year and 4.5 points quarterly. Our net debt increased by roughly TRY13 billion compared to previous quarter and ended up at TRY97.1 billion. After the borrowing in the Third Quarter, now our long-term borrowing comprised more than 55% of our total borrowing. It was almost vice versa last quarter.

As of Third Quarter, Cash and Cash Equivalents decreased around TRY32 billion compared to 2023 year-end and booked at TRY34.3 billion in our balance sheet with wealth diversification between currencies. 29% of our total cash is Euro and 11% in USD. Turkish Lira share was 22% as of end of September.

Turkish Lira share in total debt was 25% as of Third Quarter, whereas Euro and USD shares were 41% and 21%, respectively. You may find the details regarding our debt currency breakdown and effective interest rates of

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our loan and bond portfolio on the figure at the right-hand side.

As a result of growing debt along with weaker adjusted EBITDA year-on-year, our leverage was up to 4.29x as of Third Quarter. We're not concerned with the current level of our leverage, hence we do not plan any major borrowings in the short run.

On top of that, our brand new Egyptian and Bangladesh facilities, which were not generating EBITDA but had a significant contribution in borrowings, will start to contribute to EBITDA as of last quarter which will support leverage decrease accordingly.

And finally, as we start to see recovery in our EBITDA in line with our restructuring plan to bring out synergies and cost savings, we expect to see a gradual decrease in leverage. On the upper left corner, you can see adjusted EBITDA margin bridge.

Narrowing gross margin due to product mix and higher cost besides increasing OPEX led to a significantly lower margin of 4.6%. The change in D&A and one-off adjustments have a positive impact on calculation. Adjusted EBITDA excludes income related with a change in contingent liabilities, one-off transaction expenses regarding Group transactions and restructuring goals.

On the upper right corner, Net Working Capital to Sales Ratio has been shown. The ratio is 22.7% as of Third Quarter, decreased by more than 2 points year-on-year as a lot of quick wins from transactions complete as of 1st of April.

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On the lower left corner, you can see our CapEX to Sales Ratio which is 4.6% in the Third Quarter. This was mainly due to Egypt and Bangladesh investments. There are also partial impact of integration and optimization costs we have started to book as a part of restructuring our European business.

Finally, on the lower right corner due to net loss in the period, increased Capital expenditures and cash outflow for trade payables, we generated negative free cash flow of approximately TRY25.1 billion Turkish Lira.

So I'll leave floor once more to Barış Bey to walk us through our guidance. Thank you.

ALPARSLAN B: Thank you very much, Mine. Based on our most recent forecast including Europe and MENA transactions completed as of April the 1st, we have revised our 2024 guidance. We maintain our flourish expectation over local sales in real terms in 2024 considering the stagnant demand environment for the rest of the year.

Also we keep our guidance on International revenues corresponding to 50% increase year-on-year in euro terms, including the impact of inorganic growth. We've revised our guidance regarding our adjusted EBITDA margin. We expect an adjusted EBITDA margin roughly in between 5.8% to 6% for 2024 Full Year.

We are expecting an improvement in our net working capital over sales ratio, so we have updated our guidance at a level of approximately 20%. We have also revised our previous guidance regarding our CapEX from EUR350 million to EUR400 million for 2024 reconsidering the

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impact of maintenance, integration and restructuring expenses.

As we have disclosed in the previous quarter, we estimate savings of approximately EUR140 million through eliminating roughly 2,000 office positions across our global operations within three years. Here you may see the recent updates and realized figures as of Q3. So far, we have completed roughly over one fourth of role eliminations as of Third Quarter.

So with that, we conclude our presentation and we can move on to the Q&A section.

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 and for the opportunity to ask you some questions. I have two key questions. So my first one is regarding your new guidance. If you could briefly touch on EBITDA margin guidance and what was the key driver to downgrade it, that would be very helpful.

And then my second question. So during the call, during the presentation, you mentioned that you're expecting leverage to be decreasing at some point. Could you please provide more details with regards to the timing of when you are expecting leverage to decrease and what are the actions that you are undertaking to do that and maybe you have some leverage target for the end of this year and maybe next year? Thank you very much.

ALPARSLAN B: Thank you very much. So I'll start with the EBITDA margin. This is mostly based on the cumulative results

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that we have as of nine months of this year actually. We do not expect a major recovery in the Türkiye operations, so we expect the stagnant demand to continue.

But in the European business, we expect some recovery given already declining interest rates due to ECB's rate cuts and the expectation around increasing demand going forward. That's why we took the base as of cumulative based on nine-month results for this year, but also expecting a slight uptick throughout the remainder of the year.

When it comes to the leverage, you have to consider two things. One is, as you know, we have ongoing -- we have completed special projects like Egypt and Bangladesh and for the next year, we will mainly focus on the maintenance CapEX plus restructuring and integration-related CapEX on the back of the recent acquisitions.

And that's why when we look at the leverage -- so when you, for instance, take out the leverage on the back of the capital investments of Egypt and Bangladesh, you will already see that we can go below 4x in terms of net debt and EBITDA.

And given the expectation of the rate cuts in 2025, both in Türkiye on the back of declining inflation rates and the European market. We expect the demand growth, the operating leverage inherent in the business and the cash flow generation that will come along with the demand recovery. And with tight controlling CapEX and networking capital management and the completion of the integration and the extraction of synergies of

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workable operations we expect the leverage to reduce to our previous levels.

We do not share any target in terms of leverage, any specific target but we expect it to decline on the back of those factors that I just mentioned.

BYSTROVA E: Okay. Thank you, very much. Maybe one last question from my side. In terms of the synergies I think on the last call you mentioned that you're already expecting some synergies to kick in later this year or next year. Could you please update us on the progress with regards to savings that were planned to be generated?

ALPARSLAN B: Yes. So I must say first of all that the progress of the extraction of synergies is going faster than we anticipated. And on the back of our announcement both on HR restructuring and the plant restructuring in UK and Poland operations we have started to extract our synergy plans be it in HR reduction, procurement, IT etc. For this year I can say that we've already -- we're targeting around EUR15 million of synergies to be accrued as part of our financials.

As you know we've announced a long-term synergy plan of EUR300 million. We're not in a position to share with you the exact trajectory of that but you can extrapolate that on a let's say back-loaded fashion over the five-year period in your models.

BYSTROVA E: Thank you very much.

ALPARSLAN B: Thank you.

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

KILICKIRAN H: Barış, thank you very much for the previous questions. I want to make a follow-up on the leverage side. And you are looking for your leverage to decline but could you also share your plans for financing the short-term debt given that it currently met with your cash position and there is ongoing cash burn. So I wonder how you are going to pay this debt. And maybe you can answer and I can ask the other questions.

ALPARSLAN B: Let me do that way. So I'll start and pass on the floor to Mine Şule on that one. So our average maturity of debt is around two years right now and if you exclude our cash pool and the trade-related financing here, the credit card loans etc. It's almost two and a half years. So that's why and 56% of our debt is comprised of long-term debt.

And if you exclude again the cash pool and credit card related loans it's around 66%. So considering that we wouldn't label it as a let's say short-term refinancing, imminent short-term refinancing need. And that's why we do not face any major problem in rolling over the short-term debt. And as a let's say recent news we've managed to tap into Turkish Lira lending market as of Q3.

As you know since August 2022 we weren't able to tap into that market given the restrictions in ethics related assets. There was a ratio as you know 5% cap and that's why right now being able to tap into Turkish Lira lending market plus the ample room for credit limits especially in the local market we do not expect any major problems in rolling over our short-term debt.

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KILICKIRAN H: Okay. Thank you very much. Can I make a follow-up for two questions please?

ALPARSLAN B: Sure please.

KILICKIRAN H: Yeah all right and maybe Mine Şule can answer this. I mean there is a substantial increase in the financial expenses compared to the previous quarter and I mean this is basically offsetting all of your EBITDA. You said that there are some one-off items. Is it possible to explain again about these one-off items? And are there any one-off items that won't appear in the Fourth Quarter?

And if so I mean the total amount would be I mean quite useful for us to estimate the upcoming financial expense outlook actually.

BARIŞ ALPARSLAN: Sure as you can decipher from the difference between adjusted and unadjusted numbers in our presentation. We have around TRY947 million of one-off items related to mainly plant restructuring and HR, Admin restructuring costs for the Third Quarter. When you look at the cumulative results for the first nine months we have additional one-off items around TRY440 million which is related mostly related to the consulting expenses related to the Whirlpool transactions.

And as you know we have changed the assumptions in the contingent liabilities in our balance sheet and the income impact gain impact of that was around TRY1.1 billion. And that's why you see a lower amount in on a cumulative basis for the Nine-Months results in terms of delta between the adjusted and unadjusted numbers.

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Most of the figures that have been recorded in the Third Quarter are non-cash in the sense that as you know given the announcements and given the IFRS regulations we have to allocate some provisions based on the upcoming restructuring costs etc. And we will continue to allocate provisions as we approach the year-end but these will be again mostly related to non-cash expenses.

So on a free cash flow basis you should not expect any major change but we will continue to allocate provisions that's what I can say on a directional basis to you.

KILICKIRAN H: Thank you Barış and this is very helpful but actually I think these are all under the other income so I'm looking into the financial expenses. So something happened in the financial expenses in the Third Quarter it has been inflated a lot versus the Second Quarter. So what happened is there a hedging load or I mean that in an elevated level will remain the same in the Fourth Quarter?

ALPARSLAN B: Yeah on the financial expenses side as you know on the back of increasing net debt. And just to take a step back we do not experience any major change in the interest rate percentages on a quarter basis. So the main impact has been on the net debt side. Increasing net debt and you see the free cash flow, negative free cash flow in the quarter as well.

So the increase in net debt is the main culprit behind the change in financial expenses. And secondly under financing expenses you also see some portion that are related to imputed interest of receivables and payables. So there are also some operational related items that are

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also accounted for as part of the financial expenses but the main reason is the increasing net debt I must say.

And in Fourth Quarter with the recovery of the operations especially on the Euro side and the strict networking capital control on the inventory side we do not expect a major change on the net debt side. And on the back of the declining interest rates relatively speaking we do not expect a major growth on the net debt level.

KILICKIRAN H: Okay thank you very much and the final question is about the margin pressure. And could you share how much of this margin pressure is related to local acquisitions?

ALPARSLAN B: At the gross profit side the impact of Whirlpool is around 1% and on the operating profit side the impact of Whirlpool is around one and a half points.

KILICKIRAN H: Thank you very much.

ALPARSLAN B: You're welcome.

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

DEMIRTAŞ C: Thank you for the presentation. One of my questions is related to transition costs. We see around TRY909 million of transition cost in Third Quarter in your footnotes. And when we look at the details you're mentioning that some other costs might be arising in the Fourth Quarter and you didn't put any numbers. But I guess you know it's difficult to calculate right now.

But at least you can, could you give some direction on that side. And in your EBITDA unadjusted EBITDA

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calculation do you include this transition cost in the -- unadjusted because I cannot fully just make similar calculations with your numbers and my numbers that don't coincide.

And the other question is again in addition to Hanzade's question you know in the quarter something is happening in the -- especially in credit finance expenses arising from the trading activities. When we look at from outside there was not big changes, the fluctuations and occurrences.

But really, it's difficult to understand how this much losses occur in Third Quarter. Maybe -- do you have any additional comment on that? Thank you.

ALPARSLAN B: So to start with the first one, as you rightly pointed out we do not have reliable estimates at this point in time to calculate the remaining provisions that were related to announced restructurings, that's one thing. But towards the year end we will have more information and we plan to allocate more related to the already announced restructurings.

Secondly as far as I could understand you're trying to reconcile the difference between 909 and 947 some of those impacts are recorded under other expense. And some of them are recorded under OPEX. So the difference is mainly related to the OPEX. And they are related to mostly HR/Admin restructuring costs, HR related costs.

And can you repeat the last question please because you referred to the credit finance and then you said…

DEMIRTAŞ C: It's when you get into details we are not only looking at the financial expenses side but we are looking your ethics

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losses and gains arising from trading activities that's one side. And the other item you have credit finance charges arising from trading activities which are recorded under other operating expenses.

And especially in this quarter each quarter we are just putting them together credit finance income. And credit finance charges. So when we sum up negative and positive number, in this quarter we see an additional increase. It's not about the ethics losses or financial expenses.

So that's a big change I saw so could we expect that…

ALPARSLAN B: I didn't understand the question. Now so it's mainly related to the imputed interest that we charge on trade receivables and payables. The so-called rediscount expenses so that's related to the expanded maturity of trade receivables mainly. And secondly we also provide early payment discounts as a financing item to our dealers.

So that's one of the main reasons, so just to ameliorate the issues around the stagnant demand environment in Türkiye. We are incentivizing our dealers with early payment discounts. And coupled with the rediscount expenses related to trade receivables that part has increased as compared to the other quarters.

DEMIRTAŞ C: Thank you. And one last question about the acquisition impact. I say around EUR600 million but as far as I remember in the First Quarter it was a higher number. How does the selling going in that region? And overall

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when do you think things will settle in terms of HR, in terms of transition.

I know it's a long process possibly but at least when we are like notice the bottom in terms of the transactions. Do you see any unexpected negatives or positives on the way? Thank you.

ALPARSLAN B: So as it relates to the first question. Especially in August we have realized or we've experienced a few things in the European market. Especially the distributors were trying to recalibrate their inventories. And we were -- there was a, let's say, relative slowdown. A higher slowdown as compared to the other months but when we look at September and October we have seen substantial recovery.

Especially in the European operations. And I can say that especially on the Whirlpool side the things have substantially improved when we come to the September results in terms of operating profit. So we're quite optimistic on September and November. So just to cut a long story short, we do not expect to experience the same decline that we experienced in July and August towards the last quarter of this year.

Of course December is a tough month in terms of seasonality both due to Christmas period as well in Türkiye local market but having said that the two months are much more promising than the summer periods. And when it comes to your next question, this is a long journey. We have started pretty fast. And I can say that we've been pretty successful in executing a lot of things in parallel.

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And we are actually ahead of our plans in terms of the restructuring efforts and in terms of things being settled as we have announced it will take a couple of years but we are going in line with our announced plans, I must say.

DEMIRTAŞ C: Thank you, Barış.

ALPARSLAN B: You're welcome.

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

CAMPOS G: Hi. Thank you very much for taking my questions. Firstly I was wondering your 4.3 net leverage is that the same net leverage that's calculated for your covenants?

MANAGEMENT: Yes.

CAMPOS G: Okay, thank you. And what are your existing covenants at the moment?

MANAGEMENT: Mainly 3.8 times.

CAMPOS G: Okay. So are you by chance like pursuing like a waiver?

ALPARSLAN B: No this is -- yeah this is I understood where you're trying to reach at. So the covenant testing is not done at a point in time. So we have almost six months of remedy period in our documentation. I mean, I don't want to get into details of our loan documentations but they are not being tested at just one point in time when it comes to covenant testing.

So, they are being tested on a consecutive quarterly basis just to summarize the procedure. And to be very honest with you, when you look at the calculation formula. We

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can also look at the normalized networking capital levels and the impact on EBITDA thereof etc.

So, it's a different result that will come out when we do that vis-a-vis our lenders. And this is not the subject of our call here totally. But we're pretty comfortable when we consider the remedy period plus the trajectory that we see going forward as we progress through 2025.

CAMPOS G: Okay thank you so it's 4.3. And at some point in like six months there will be another test. And you have like ways to calculate it. And you are expecting it to maintain acceptable levels is that correct?

ALPARSLAN B: Yes we expect to maintain our or let's say, pass our covenant testing to put it that way.

CAMPOS GUSTAVO: All right and that's expected on the back of like the leveraging and…

ALPARSLAN B: Leveraging, networking capital improvement, cash flow generation and synergy extraction.

CAMPOS G: Okay, perfect. So that's a good segue to my second question here. Could you please unpack your negative TRY25 billion free cash flow? I understand that there was a huge working capital outflow here at the moment. And if you could also provide -- in terms of your, if possible like an EBITDA performance here like maybe like non-IAS 29 adjusted.

ALPARSLAN B: So let me summarize it that way, when you look at our cumulative results our EBITDA is able to compensate for our CapEX investments and the remaining is mostly the negative free cash flow is mostly related to increasing net

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working capital. And when you decompose that it's mainly related to inventories plus increasing receivables to some extent.

Local transaction has been quite instrumental in extending our trade payables and as you know we've migrated a trade supply chain finance program along with the transaction reaching up to EUR600 million and in a given month it's expanded and then we utilized draw down that credit limit.

And that's why the main culprit behind it is the increase in net working capital and as you noticed this is a cyclical industry in 2023, it was the other way around and in 2024 on the back of the whirlpool transaction we've migrated a large balance sheet here. And when you compare the change in networking capital as compared to the year end of 2023, of course there has been an increase in our networking capital levels on the back of whirlpool migration. This we expect to decline on the back of the recovery mostly in European demand going forward.

CAMPOS G: Okay perfect thank you. And as far as the trajectory of your free cash flows, are you expecting negative free cash flows to be improving and heading towards maybe a new more neutral profile. How do you see this trajectory over the next few quarters?

ALPARSLAN B: Yes we expect the free cash flow generation to improve substantially, as I said due to strict CapEX control. And as I mentioned before our expansion CapEX related to the two special projects Egypt and Bangladesh is already completed and for the next year it will be mainly

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maintenance CapEX and CapEX related to the integration efforts. So this will be controlled.

And for network, as far as networking capital is concerned, as you know this this year has been a bit problematic in terms of competition from Far East, the slowdown in Europe and there's been a contraction in the European market for the last almost two years, which is relatively unprecedented.

And that we expect to recover and there are like as you know the macro tightening measures in Türkiye is not helping. And I think coupled with the normalization of the interest rate trajectory and inflation rate going forward, we expect the cash flow generation to be followed by the earnings generation.

CAMPOS G: Okay thank you and just lastly, is there like maybe like a timeline where you would expect to see like free cash flow turning positive or is that something too soon to tell?

ALPARSLAN B: That's our target for the next year, yes.

CAMPOS G: Okay sounds good, appreciate your time and detailed answers. Thank you.

OPERATOR: The next question is a follow-up question from the line of Bystrova, Evgeniya with Barclays. Please go ahead.

BYSTROVA E: Yes thank you very much for allowing me to follow up and for all the color you provided before. Just one quick question on CapEX. So you mentioned that you're planning mainly maintenance CapEX as well as some integration CapEX for next year. So what is your main typical maintenance CapEX volume and can you maybe

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provide some color in terms of the total CapEX volume for next year?

ALPARSLAN B: Yes our maintenance CapEX hovers around 2% of our sales. We are yet to calibrate the CapEX related to Whirlpool but in line with the industry standards this is ballpark to level.

BYSTROVA E: Okay so for next year 2% would be a good assumption?

ALPARSLAN B: Yes.

BYSTROVA E: Total CapEX?

ALPARSLAN B: No, we haven't provided any guidance related to the CapEX for the next year that will come on the back of 2024 year results. You asked me the run rate maintenance CapEX for the company and that refers to that answer.

BYSTROVA E: Okay thank you very much.

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

DEMIRTAS C: Thank you. Maybe I missed you mentioned at the beginning, but I would like to understand the guidance for the EBITDA you see 5.8% to 6%. So we need at least 5.8%-5.9% in Fourth Quarter. What would be the drivers to see higher margins in the Fourth Quarter? Especially fourth quarter has been the difficult one. Could you just further elaborate that, thank you.

ALPARSLAN B: Yes sure I tried to explain that but as far as Türkiye operations are concerned, we expect the standing environment to continue. So we do not expect any major

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change in the margins and barring December in that period. But for the European market and as we can observe right now, as of September and October, there has been an operational profitability improvement in Europe.

So, the sales are going pretty well on a run rate basis. So, the trading update is pretty well and that's why we kept the bottom end in line with our cumulative result and we expect a slight uptick in the margins, as we progress throughout the last quarter. That's why we provided a range here.

OPERATOR: Thank you. The next question comes from the line of Luis Gomez, Antonio with 91 UK Ltd please go ahead.

GOMES L. A.: Hi there, thank you for your time. Just a quick follow-up on one of the answers you gave. You mentioned that there's been Far East competition, I presume that comes from China. I just wanted to understand what are the markets where you're seeing that competition and to what degree is that impacting your performance?

ALPARSLAN B: Yes thank you very much the impact of Chinese competition has been profound especially on the European market as you can observe this in other consumer discretionary industries as well. But the recent announcements related to the domestic stimulus efforts in China, the impacts have already started to be felt.

And to be honest we do not expect the Chinese competition to sustain forever as they progress in their domestic market and as the European players are able to position themselves vis-a-vis that competition, as we

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progress through the next year. We think that that issue will be normalized as we progress through 2025.

GOMES L. A.: Okay so effectively the Chinese are still competing even though they have to pay a tariff to come into the European market?

ALPARSLAN B: Yes, that's correct that has been there, let's say modus operandi starting from the beginning, especially of this year. Having said that there are many ways to shake off that competition, as you can position yourself within a wide brand portfolio.

And for Beko in particular, following the Whirlpool acquisition, we feel pretty confident that we can really withstand that competition with all the brands that we have ranging from premium segments to the entry-level segments. So we have enough capacity, enough SKUs and enough brands to withstand this competition as we progress to our integration efforts.

GOMES L. A.: And are they price competitive on the brand level, entry-level, mid-level, high-level?

ALPARSLAN B: Yes especially on the entry levels they are pretty competitive. Having said that, you always calibrate your brand portfolio within a wide range. So…and there are other measures that you can take with standard competition like outsourcing or cross-sourcing in different manufacturing area. That's why if you follow the announcements of all the PSU, there has been a margin erosion across the board and one of the main culprits behind it has been the intensified competition from China. Having said that we expect it to be normalized on the back

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of as I said domestic stimulus that is coming from their homeland.

GOMES L. A.: Okay great thank you for your time.

OPERATOR: Ladies and Gentlemen, there are no further audio questions at this time. We will now move on to written questions from Webcast Participants. Our first question from our webcast participant is from Mustafa Kemaleski with A1 Capital Portfolio Management and I quote "Thanks for the presentation. When will the whirlpool effect end? EBITDA margin revisions continue to deviate and you are currently 40 basis points below the median target. Is there a strong demand in the Fourth Quarter? If there is we cannot see it in this data. Can you explain this to us? We reached 5.22 in net debt EBITDA. What is the limit of this? Will Arçelik be able to handle this? When do you think Arçelik will return to its old days? Are you hopeful for 2025 and the following years? Thank you."

ALPARSLAN B: Thank you very much. I understand that all of these numbers are based on your calculations and we haven't reached the Fourth Quarter yet and that's why you're not able to see it in the data. I think I can give a combined answer to that. Yes, we're very much hopeful for 2025 and the main reason is that, we have completed our acquisition of whirlpool as of April the 1st and we've prepared our business plan and our integration plans internally and did our announcements going forward, to structure the operations and merge both operations going forward.

This has been experienced on the back of a tough macro period especially for Türkiye. This was coupled with the

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macro tightening measures as it relates to Türkiye's inflation interest rate and fixed rate environment. Having said that we have already started to reap the benefits of the whirlpool merger, especially starting from this quarter. As we progress and as we execute our plan going forward you will see the improvement in both in the margins and the cash flow generation.

Right now as I mentioned before, we have enough brands and enough capacity to withstand the competition across the continent and therefore we are very much hopeful for 2025 and going forward. Of course, the macro environment has to be conducive. With that I mean there shouldn't be any low delta and low tail risk event. But I don't understand what you mean like the old days, in terms of numerical figures but I can comfortably state that as we execute to our plan the financials that you see will substantially improve going forward.

OPERATOR: Thank you. The next written question comes from Serhat Kaya with YF Securities who have submitted four questions and I quote the first one, "Can you talk about initial progress about synergies and planned cost savings that was announced in Q2? Also do you see room for gross margin expansion in Europe due to your improved market position and increasing presence in high margin building segment? Thank you."

ALPARSLAN B: So as I mentioned a few times, we are going in line with our plan and expect to finalize the announced restructuring for the UK operations until the year end. And for Poland we expect it to be finalized within the First Half of the next year. All of them are going according to the

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plan and along with the HR related restructurings, we expect our market position to Europe improve substantially given our brand positioning and positioning in our distributors as well.

The margin increase will come from our perspective in two ways. One is the pricing and given especially the Whirlpool brand, we will be able to tap into the premium segment especially in the profitable built-in market. And as we relocate our manufacturing to less costly areas regions like Türkiye and Romania and as we fill out our capacity utilization ratios, there will be a gross margin improvement due to lower transformation cost as well.

OPERATOR: Thank you. Second written question from Serhat Kaya and I quote "There is a TL16.3 billion income classified in retained earnings as part of Europe MENA transaction. Will this item be reclassified in P&L at the end of year once final calculations are made? If yes do you expect a positive net income in Q4?" Thank you".

ALPARSLANB: So, we have a purchase price allocation study ongoing and the numbers are not yet out but we expect it to come out in the Full Year results. The numbers are not set yet, we cannot state anything about this specific numerical direction but you will see it in the Full Year results.

OPERATOR: Thank you. Third question from Serhat Kaya and I quote "There was an announcement today about TL30 billion bond issuance. Do you plan to use this for share paybacks?" Thank you."

ALPARSLAN B: So just to correct this announcement is only related to the preparation for us for let's say upcoming potential

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domestic bond issuances so that we do not lose time when the time comes to hit the market. It's not earmarked for any specific use of proceeds at this juncture.

OPERATOR: Thank you. Fourth and last question from Serhat Kaya and I quote "Is there a change in your Euro USD parity exposure in the balance sheet? As per footnotes you have long USD and net short Euro position as of Q3" Thank you."

ALPARSLAN B: So our euro dollar exposure stays the same and reason for our long USD short euro position is related to the cross-currency swap deal that was executed to hedge future cash flow of our euro bond issuance. However cross-currency swap transaction is under hedge accounting application and when that is excluded the euro dollar exposures will be balanced.

OPERATOR: Thank you. The next written question from Max Nekrasov with Citi and I quote "What was the impact of recent acquisition on your EBITDA margins in Q3? What are the key drivers of margin pressure in Türkiye?" Thank you.

ALPARSLAN B: Thank you for the question. As I said, the margin impact on the operating profit of the acquisition is around one and a half points and the key drivers of margin pressure in Türkiye. As you know due to flat FX rate and increasing in minimum wage etc the labor cost has increased substantially in euro terms, in dollar terms, in hard currency terms in Türkiye and that has impacted our transformation costs substantially. That's on the cost side.

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And on the pricing side, given the monetary tightening measures and limit in monthly instalments etc, there has been a decline purchasing appetite of the households. And that's why it's relatively harder to pass on the increases in the cost inflation to the pricing. We expect that to recover as Türkiye progresses towards a consumer-stimulated economy going forward when the time comes. And this time in our expectation will come, when the growth rates will stay low and then the cycle will probably start all over again in terms of consumption growth led going forward.

OPERATOR: Thank you. 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: Thank you very much for attending the webcast and for all of the questions. We can take any remaining questions offline and hope to see you again in our next webcast, to present the Full Year results. Thank you very much.

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