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Transcript

Investors and Analysts' Conference Call: Third Quarter 2023 Financial Results

Vasile Tofan, Chairman of the Board of Directors, Purcari Wineries Public Company Limited: Ladies and Gentlemen, it is a privilege to have you on yet another call by Purcari Wineries Public Company Limited. Today, we are reporting the financial results as of September 30th of this year. Again, we are very delighted to report another strong quarter on which the team will elaborate in the following hour. If we jump to slide four, we have the presenting team of today. On our side, we have on call: Mr. Victor Bostan, CEO and founder of the Company, Victor Arapan, Chief Financial Officer (CFO), and we have our great Investor Relations team led by Eugeniu Baltag and Victoria Moldovan.

I, the Chairman of the Board will now pass the word to the team to take us through the presentation.

Thank you.

Eugen, the word to you.

Eugeniu Baltag, Investor Relations Manager, Purcari Wineries PCL: Vasile, thank you for the introduction. Glad to see so many participants today. Our team appreciates your continued support and interest in Purcari Wineries. With the intention of leaving as much time as possible for the Q&A session, our agenda for today has three main points: third-quarter operational results, guidance, and the evolution of the WINE stock. We've left behind nine months of our WINE rally in a highly volatile environment, and we still have one to go. Now, let's discuss the third-quarter results, the strongest by sales seasonally.

As you may see on slide 14, we have continued our growth, reaching RON 252.5 million, a +26% increase year-on-year (YoY). EBITDA reached RON 72 million and Net Profit reached almost RON 44 million, growing with +19% and 24% respectively.

If we are to look at Q3 standalone, we see that it contributed RON 91 million in sales, a +20% increase compared to the same period last year. Therefore, in the third quarter, we've managed to achieve 36% from the total sales for nine months.

In the third quarter, both EBITDA and Net Profit showed an excellent evolution, reaching RON 27.7 million and RON 18.2 million respectively. In terms of margins, in Q3 we can see a significant improvement compared to Q2 2023, EBITDA margin reaching 30%, which is 3pp higher than the last quarter (27%), and Net Profit margin reaching 30% compared to 14% in the last quarter.

We made a strong contribution to our top line from volumes increase (~45%), as well as from an improved mix of products sold. Combined with effects from price increases gradually passed throughout 2023, we brought an additional 55% to overall revenue increase. Therefore, the effect of the volume on the Company's growth is of around 45%, the rest (55%) being the effect of value.

As a market, Romania contributed the most to the Group's results, while Purcari contributed the most as a brand. Overall, sales in Romania grew quite a lot +37% in nine months 2023, the Purcari brand alone growing by 31% year-on-year.

Sales are indeed highly important, but profitability is what drives the long-term success of a company. We have managed to sustain strong margins for nine months 2023, EBITDA and Net Profit (margins) reaching 29% and 17%, both above guidance. We have noticed an ease of cost pressures, a positive impact on margins from less expensive packaging being already visible. We've also registered a decrease in the more expensive 2020 and 2021 bulk wine (in total volumes). For this, special thanks to our relentless commercial team who work around the clock to deliver our wine to the table of the consumers.

From a general point of view, the nine months of 2023; was it a very good period for us?

From a stock market perspective, currently we are the number four best performing company within the BET index, with a +56% increase YTD. We've also rewarded our shareholders, paying a dividend of 0.55 RON per share – in August, with a 6% yield on the announcement day. We have high liquidity for the WINE share relative to market cap, and we've maintained our position in the FTSE Global Micro Cap Index as per the August 2023 review.

Another piece of good news is that the European Union Commission recommended starting accession negotiations with Moldova, along with Ukraine. The decisions are to be taken on December the 15th.

If we are to speak about Ecosmart, there are ongoing improvements, the company contributing at Group level with RON 22.4m in revenues, an additional RON 2.2m in EBITDA and ~ RON 1m in Net Profit. Still, there is still plenty of room for improvements in profitability.

If we are to speak about Angel's Estate, it contributed a total of 3% to the total Group sales, however it still reports negative net income. Even so, we are successfully implementing our turnaround plan: doubling harvest yields, restructuring brand portfolios, re-negotiating commercial terms, introducing new Purcari SKUs to the Bulgarian market.

We've concluded our overview of the Group's nine months' activity.

Next, the Group's Chief Financial Officer – Victor Arapan, will provide additional insights on financial performance. Victor, the floor is yours.

Victor Arapan, Chief Financial Officer, Purcari Wineries PCL: Thank you, Eugeniu. Good day to everyone. As Eugeniu mentioned, during the nine months of 2023, the Group recorded a strong performance, with sales and financial performance above the top end of the guidance range.

Now, I will go into more detail with respect to the Company's financial performance. As you know, the Interim Financial Report is published on the Bucharest Stock Exchange as well as our website.

The Group's sales in Q3 continued to grow double digits, and as a result, revenue increased by +26% YoY for the reported period.

Gross Profit increased by 15% YoY reaching RON 104 million. Gross margin at 41%, slightly decreasing compared to the previous year, as cost of production increased on use of stocks of expensive bulk wines of 2020-2021 vintages, as well as by more expensive packaging reserves made at the end of the previous year, to avoid any disruptions that could happen in the first half of 2023.

Cost of sales is under pressure because of higher depreciation expenses, which increased +51% YoY or + RON 6.5m, which led to an increase in the manufacturing cost.

We also should not ignore the increase of the second business segment – recycling services provided by our subsidiary Ecosmart, which increased to a share of 9% of total sales in the reported period compared to 6.5% last year, but which has a much lower margin compared to the main segment of the business. All these factors led to a decrease in the gross margin from 45% to 41%.

SGA expenses registered an increase as a share in sales to 22% compared to 21% for the same period of last year. In particular, we have a significant increase in Marketing and Selling, which increased +46% YoY, as last year the trade and marketing activities were shifted to Q4, due to uncertainties relating to the war in Ukraine. Last year, 56% of annual trade and marketing expenses were made in Q4.

We believe that at a yearly level, the increase in Marketing and Selling will be coherent to sales increase. Other income/expenses show different evolution YoY during the reported period.

Here, I will provide some more details.

Other operating income experienced a significant increase, mainly due to double of released amount of deferred income, from RON 0.8 million to RON 1.6 million. This happened because last year the group significantly increased the deferred income from business acquisition and started to release this income, and because the Group continues to receive significant amounts of grants for capital expenditures.

Other operating income also includes some one-off gains: RON 260k from write-off of trade payables, due to expiration of prescription period, and RON 450k from surpluses of auxiliary materials and chemicals as a result of stock counting.

Other operating expenses had a positive impact of RON +2.5 million on the company's performance during the reported period, or RON +2.2 million YoY.

This comes from a RON +1.5 million adjustment to fair value of harvested grapes. Even though this is an accounting adjustment required by International Accounting Standards, it reflects increased operating efficiency of the agricultural division of the company, responsible for operating around 1.500 ha of vineyards. So, I would not consider this as a one-off gain or loss, as it directly impacts further the cost of production. The RON +1.3 million is a one-off gain from disposal of tangible assets.

Regarding the net finance cost, it decreased from RON -5.5 million in 2022 to RON -0.7 million for the 9-month period of 2023. But if looking per separate items, picture looks like next: interest expenses increased by 57%, from RON 3.3 million to RON 5.1 million, as our borrowings increased by 35% as of 30 September 2023 compared to 30 September 2022, and also because of increased Euribor rate; as a result of the MDL appreciation vs EUR, the Group recorded a net forex gain of 4.1 million RON, while in the same period of 2022 it recorded a net forex loss of 2.4 million RON.

It is important to mention that the appreciation of MDL vs EUR generated this forex gain, but on the other hand this had a negative impact on revenues and gross margin for all exported goods. So, if the exchange rates would not fluctuate during the reported period, our revenue and gross margin on export markets would be higher by +6%.

EBITDA and Net Profit register increases by +19% and +24%, respectively, compared to the previous year, and the margins of both indicators are above the top of the range of the guidelines we've presented in February. In case we exclude one-offs, the EBITDA and Net Profit margin would stay in the top or over the top of guideline's range.

In slide 17, you can see the financial result and operational performance by business segments.

More than 90% of the Group business is represented by the sale of beverages, and the performance of this segment almost represents the performance of the whole business, we just described in the previous slide, so I will mainly stay on the second segment.

The segment of waste recycling management services, offered by Ecosmart in Romania, is still insignificant in the reported period, without significant impact on what we've presented in the previous slide, related to the entire Group.

The gross margin for Ecosmart business is significantly lower YoY, mainly because of the increase in cost of recycling, as the national target for recycling the waste and package increased in average by 8%. The cost of sales is also impacted by increased depreciation and amortization charges, resulted from valuation of the subsidiary at the acquisition date.

The sales prices were adjusted later, beginning in June, but this is not enough to bring the gross margin to last year's figure, as the company made a turnaround and now needs to re-gain customers. We expect the annual gross margin for this segment of business to be improved by +2pp, however lower than in 2022.

Regarding G&A expenses, we note a small increase, in pace with inflation, and we consider that we have full control over these expenses, after the successful legal and financial turnaround of the company.

In slide 18, you can assess that the group continues to have a very strong financial position over the years. The increase in business leads to an increase of net working capital, with some pressure on the liquidity.

However, the company managed to maintain an optimal level of indebtedness and sufficient liquidity.

We target a Net Debt/EBITDA indicator within the range of 1.5-2.0 times, so there is room to sustain continuous growth.

This being said, I give the floor to my colleague Eugeniu, for a short overview of sales evolution by markets and brands.

Eugeniu Baltag, Investor Relations Manager, Purcari Wineries PCL: Victor, thank you for the detailed information on financial figures. Now, let's see how we have achieved these figures by jumping to the commercial slides.

We had an excellent performance in Romania coming from $\frac{3}{4}$ increase in volumes and $\frac{1}{4}$ from a better mix and price increases. Purcari is an outstanding performer: strong dynamics for our sparkling, limited collections, and Nocturne. Crama Ceptura brand maintains rapid growth +31% in 3Q23, totaling a 26% growth at 9M level. We continue to add new SKUs, new regions, new partnerships.

If we speak about Moldova, the consumer confidence moderates, especially for mainstream brands. Nevertheless, Purcari continues to grow. There are some changes that decreased our

growth in Moldova to only 3%, these mainly being changes in the Duty-Free channel as tax facilities are being canceled. There are also increases in excise duties enforced as of January 1st for brandy products. Also, the One gas station network suspended its operations, reducing its points of sales in the fragmented trade channel.

If we speak about Poland, high pressures in the mainstream wines market continues, including entire Moldovan wine segment. Consumer confidence moderates and there is high sensitivity towards price increases. We continue to bet on premiumization and ensuring double-digit growth for Purcari.

With respect to Czechia and Slovakia, there are similar traits in consumer behavior as in Poland. It is to be mentioned that we have a good performance in the Tesco channel with our Bostavan brands. Purcari shows double-digit growth at 9M YoY, albeit from a smaller base.

In the case of Asia, which is mainly China, we can see first signs of economic recovery in Q3 which are still not reflected in the economic trade. I hope Xi Jinping's visit to the US will bring positive effects in the near future. Till then, the wine market in China is quite difficult and weak. Even so, we believe in this market as it is huge, thus we continue to invest in it, build brand awareness and local presence.

Regarding Ukraine, the situation is still difficult but stable. We are marginally behind the pre-war 9M 2021 figures. In rest, we continue the same strategy, we are maintaining the local team and increasing the distribution in the IKA channels.

Now, we can look at the sales distribution per brand. For Purcari, our affordable luxury formula proved workable and the premiumization strategy continues to deliver excellent results. With Bostavan, there are still some challenging conditions for the mainstream brands. Nevertheless, we prioritize margins over volumes, seeking new opportunities. Of course, we are working towards reinventing the brands under the Bostavan umbrella.

With Ceptura, the value for money remains exceptional. There is a strong demand from the consumer, so we managed to increase our sales by 23% at 9M 2023 year-on-year. Of course, there still are opportunities from portfolio development and premiumization.

In the case of Bardar, I've previously mentioned some specifics of the Moldovan market and its situation this year. As we say, Bardar is mainly about grapes, oak, and passion, and unfortunately passion is what we currently need in our main market – Moldova. We've managed to push through some price increases despite the lower registered volumes for the 5-year-old brandy. We remain optimistic as the price increases will allow us to sell more of the higher profitable older vintages in the future. Therefore, the five-year-old brandy that was not sold yesterday will be sold in two years as a seven-year-old brandy. With Bardar we have strong growth in Romania, which is our second market by size, and is expanding through channels.

For Angel's Estate, as I mentioned previously, it contributes by 3% to the total Group sale, though it still has a negative income. We are still working at making it profitable, but we have successfully implemented the first phase of our turning around plan: we've doubled the harvest yields, we've restructured brand portfolios, we renegotiated commercial terms and we've introduced new Purcari SKUs to the Bulgarian market.

That concludes the commercial part. Now for an update on harvest.

We have registered good results. We harvested almost 15,000 tons of our own grapes, thus the systems implemented at Purcari proved efficient. We have grapes of high quality and good

volumes, especially if you consider that the overall harvest in the Republic of Moldova is expected to be 10% lower year-on-year. We have supplemented the stock requirements for future growth from third-party grapes, benefiting from good pricing environment. In total, we have processed 37.6 thousand tons, which is 10% more than last year.

If we look worldwide, there are expectations that worldwide production will be the smallest in the last 60 years, thus we have -14% year-on-year for Spain, -12% vs 2022 in Italy. These two countries are registering a very poor harvest for the second year in a row. Of course, the real drama occurred for the wine industry in Greece, where the harvest decreased by 45% year-on-year.

In our case, our success comes from the fact that we are diversified. We have vineyards in Moldova, Romania, and Bulgaria and for example, Romania is this year's leader by harvest in the Northern hemisphere, the harvest growing by 15% year-on-year. In Bulgaria as well, the harvest increased by 7%.

As mentioned prior, we've managed to double the yields of Angel's Estate thanks to our professionals in agriculture. The fundamentals for a lower COGS in the future have been settled.

Now for a short update on our marketing activity. Quality of wine is the cornerstone of success in the wine industry, and we strongly believe this. On slide 22 you can see numerous titles and awards received in 2023, at reputable competitions such as Mundus Vini, Decanter, etc.

We are hungry and eager to get Purcari at new levels of success and to open new markets and channels for it. On slide 23 you can see some of our activities in Japan, Baltics, and even Brazil held in 2023. In this year, our team has been in business missions on five out of seven continents (except for Australia and Antarctica).

Next, I would like to invite Vasile Tofan to continue our presentation with more insight on our Guidance for 2023.

Vasile Tofan, Chairman of the Board of Directors, Purcari Wineries Public Company Limited:
Thank you very much, Eugen and the team.

Indeed, as you know, every year, at the beginning of the year we announce a certain guidance. This year we focused on four parameters we have been guiding on: that's total revenue growth, wine revenue growth defined as the core wine business without Ecosmart in our case, EBITDA margin and net income margin.

As you can see on the slide, we vastly outperformed the announced guidance, based on the three quarters of this year, and I think the philosophy on our side has always been to be very prudent with the guidance and rather under promise on over deliver.

However, given where we are in the year, we still decided to slightly update our guidance by saying that we expect the full year to end at the top of the announced guidance range from the beginning of the year or slightly above it.

We don't want to be more specific than that. And again, to explain why, as you just said at the beginning, Q4 is certainly the most important quarter.

Typically, it corresponds to about 35% of annual sales or even a little bit more. So, depending on how the Q4 ultimately will go, I think this can have an important impact on the numbers.

That's why we would like not to be more specific than this, and then saying that we're updating our guidance to the top range of the initially announced one or slightly above it.

But again, our philosophy has always been to be prudent and rather under promise or over deliver. That's on guidance. And with that, I'm passing the word back to the team.

Eugeniu Baltag, Investor Relations Manager, Purcari Wineries PCL: Thank you, Vasile. Prior to jumping to the Q&A session, a few words on stock performance. We are very glad that the wine stock performance is 56% year-to-date. We are number four best performing companies within the BET index. More than 7 million shares have been traded in 2023, so we are registering high liquidity.

That being said, we can now start our Q&A session. Please feel free to address your question directly by turning your mic on or typing your question in the chat. The presenting team will be glad to answer your questions.

Participant 1: Hi, good afternoon. Perhaps you might have mentioned this during the presentation. But can you provide a bit of color on what you see as an outlook for 2024?

And also, if you could provide some color on the fourth quarter. Because I see you maintain the guidance when you look at sales. Actually, sales growth in the first nine months was very high. It was much above guidance when we look at wine sales. So, I was just wondering if you could provide some color here.

Vasile Tofan, Chairman of the Board of Directors, Purcari Wineries Public Company Limited:

Indeed, Participant No. 1. First of all, very good to see you on the call. Today is a busy day for calls, so we have you on time for our humble call. So, as we mentioned, Participant 1, we do update the guidance by mentioning that we expect to end the year at the very top range across all four parameters or slightly above it. And as I mentioned, we typically try to be prudent with our promises and rather deliver what we guide for.

Participant 1: But you don't expect any sort of slowdown in the fourth quarter. I mean, there was a bit of a slowdown, but not in Romania and the other countries. And I was wondering how you see Romania developing, because right now, Romania is basically the engine for the group sales. I was wondering how you see Romania in the fourth quarter.

Vasile Tofan, Chairman of the Board of Directors: At the moment, we do not have any indications of any material slowdown.

Participant 1: And any color on the outlook?

Vasile Tofan, Chairman of the Board of Directors: For 2024, you mean? Yes. We typically announce the guidance for the year when we report the annual results. So, we'll do this this year, too. But maybe to give you some qualitative observations, some of them were shared by Eugeniu.

Again, as we mentioned, for now, we're not seeing a slowdown in sales yet, at least for Romania, our core market, the one you emphasized. And second, we've had a very good harvest. I think this puts us in a good position on margins. And in contrast, the world and the key markets in Europe had a very weak harvest, the weakest on record for at least 50 years, if I have it right, and we're one of the weakest.

And we do expect that this may cause some of the key players to raise prices, which again, I think, may have a positive impact on us as it would put us in a good competitive position. So we are, say, cautiously optimistic about 2024.

Participant 2: Hello, this is Participant 2. Congrats on the results. Again, an exceptional quarter.

I was wondering if you could say a few words about the quality of the harvest of this year, sugar content, etc. How did it perform on such a large volume in terms of quality? Also, if you have any comments on the French harvest.

Vasile Tofan, Chairman of the Board of Directors, Purcari Wineries Public Company Limited:
Participant 2, hi. Let's start from the end.

On French harvest, they have a good harvest this year. I think they had a single digit growth, I guess, last year, which was very poor for them.

But French, for the first time in the last 10 years, I think, they are number one by total amount of harvested grapes. So, they exceeded Spain in this term. So, of course, France is a different kind of country. They have a lot of internal programs from the government, which allows them to maintain and to reduce the out production. So, in case it's over production, they are making distillates and so on. But this year, I think their harvest is quite decent in terms of volumes.

Would you be so kind and repeat the first part of the question, please?

Participant 2: Yeah, I was wondering about the quality of the harvest of 2023, considering that the volumes are so high in terms of sugar content and everything.

Vasile Tofan, Chairman of the Board of Directors, Purcari Wineries Public Company Limited:
Quality is expected to be very good. Our oenologists and technical people right now are working with this wine. We're expecting to have another good vintage for this year, too. Thanks again.

Do we have other questions? I see there is a question in the chat. And the question is, what percentage are the production capacities filled right now?

And the short answer to that, and we always say the same thing, is that in winemaking, it's difficult to put a number on capacity utilization simply because there's multiple stages of production.

For example, on the bottling side, we have ample room for growth. On the storage side, we typically add capacities year by year, not to have unused capacities because this is a better use of capital. But as a rule, we always say that for us the bottleneck is primarily on the sales side. So, we always catch up on the production side to meet the demands of sales. Thus, we are in a good position to always be able to fulfill the demand we have. Thank you.

Look, if there are no more questions, then again, thank you very much for finding the time and joining our call in this busy day for earnings calls.

And on our side, we are very privileged to have you as investors. As you can see, we continue working very hard to deliver and hopefully over-deliver on the results despite difficult circumstances.

I think we keep emphasizing - we believe wine is at least our focus. We believe it's our portfolio, we feel it's crisis resistant. We're seeing especially strong traction in our premium wines, so in that sense, the lipstick effect that the economists talk about, I think, applies to all products. And we don't take it, we always say that we are very far from being self-complacent and self-sufficient, so, yes, I think we have good results. But at the same time, we have the right level of paranoia and hunger to keep this kind of constant sense of, you know, we need to work harder and harder and do more and deliver more. And please rest assured that that sense will remain on our side. Again, thank you for your backing. And we look forward to the next opportunities to be in touch with you. The immediate next one, I think, will be at the Wood Conference in Prague. We hope to see as many as possible of you there. Thank you very much.