

Transcript

Investors and Analysts' Conference Call: First Quarter 2024 Financial Results

Alexandru Filip, Deputy Chief Executive Officer, Purcari Wineries PCL: Hello, everyone. Welcome to our Q1 2024 results conference call. Thank you for taking the time today to participate. I know it's a busy day for many of you, with the results of many companies listed on the Bucharest Stock Exchange (BVB) yesterday.

Today, on behalf of Purcari Wineries' Group, we have with us Vasile Tofan - the Chairman of the board of Directors, me, Alexandru Filip, Deputy Chief Executive Officer, Eugeniu Baltag - Investor Relations Director, Victor Arapan - Chief Financial Officer and Victoria Moldovan - Investor Relations Officer.

We will walk you through the key numbers and key developments of the Company, in line with the documents we published yesterday. We'll go through some selected slides, and we'll leave time for a Q&A session at the very end.

So, let us go through, just to confirm, the audited numbers for 2023 are in line with the preliminary numbers that we communicated, reaching 369 million RON in revenues. A record number also in terms of EBITDA, 101 million versus 107 million RON, 69 million RON normalized for 2022 and 64 million RON for Net Income versus 41 million in 2022.

If we move forward, an important element next to the financial results, supporting financial results is the feedback that we receive from customers. One important channel is Vivino, where we are by far the leading producer in what we consider a crucial market segment, the 30 to 60 range. You see, we occupy 6 positions out of the top 10 and 8 positions out of the top 20. An important element not only for online sales, but also for HoReCa sales, is the fact that we can see here the Rara Neagra from our Nocturne selection, which is a special HoReCa selection, ranked ninth out of top ten, also a reflection of the success of this range of wines in HoReCa locations.

We continue to invest in quality and we're happy to see that the feedback is consistent.

If we move to the Q1 2024 results, we are happy to report growth in revenues of 11%, fundamental volume increases, but also improved in product mix and selected pricing increases. Seasonality plays an important role in our first quarter due to the delayed Orthodox Easter this year versus last year, and this is an important element, core wine revenues growing by 16% YoY in the first quarter. Sales in April were Easter loading for our retail partners happened showing very strong dynamics, so we are confident that the growth is on a good trajectory.

All brands showed positive traction in the first quarter, a strong recovery for Bardar. In Q1, Crama Ceptura also grew nicely, Bostavan, on the other hand showed slower growth, but overall, we see improved traction in some of our key markets, primarily Baltics, Czech Republic, and Slovakia. The commercial turnaround is picking up speed in Bulgaria for Angel's Estate, with a +74% YoY in Q1, already accounting for 4% of the Group sales and the fourth largest market for us.

EBITDA margin at 28%, at the top end of the guidance. Net Profit slightly below but within reach of the range that we provided. Gross profit margin at roughly 44%, marginally lower YoY. Still, a very good quarter if we compare it to our last two years, and we are confident that the margin

should improve as the share of premium wine continues to increase. We also start seeing the impact of the 2023 COGS, a fundamentally cheaper wine versus previous years. We now have 2023 harvest kicking in for whites and rosés, also, lower prices for consumables, so bottles, packaging, should also be reflected increasingly in the sales in the next quarters.

In terms of Investor Relations, you might also have seen the announcement that we made, next week we'll have the Annual General Meeting of Shareholders. Online voting is also available. We are also proposing a dividend of 65 RON per share to be paid as of July 26. We have also announced changes to the Board of Directors, but we'll provide more details later.

Additionally, we'll attend the Frontier Investor Day organized by WOOD on June 4th in London and the ERSTE online event.

In terms of M&A, we also communicated, just to recap, the acquisition of a commercial vehicle in Turkey, that should support our commercial expansion there. It is just a distribution entity that was set up as a greenfield operation, so no major assets were acquired. An important acquisition that we also announced, and we are happy to communicate that it is being completed – the acquisition of Timbrus Purcari Estate, which gives us roughly 112 hectares of vineyards with strong operational synergies given the vicinity of the vineyards to our own assets.

An important element that we'll discuss in more detail affects Ecosmart, following the negative decision of the high court of taxation and justice reflecting a litigation against Ecosmart. We will discuss it in more detail.

Briefly, if we move on, the P&L. We let Victor present this part.

Victor Arapan, Chief Financial Officer, Purcari Wineries PCL: Thank you, Alex. Hello, everybody.

The Group's sales in Q1 this year recorded an increase of 11% YoY, yet to provide against the annual guidance due to the seasonality of the Easter holidays, which were later this year as mentioned by Alex. Usually, Orthodox Easter (sales) took place within Q1, however this year they were in Q2, therefore Q1'24 and Q1'23 have different bases. In this quarter (Q1'24) Gross profit increased by 9% YoY, reaching 36 mRON. Gross margin decreased by 1pp compared to Q1'23. It is one of the best quarters over the past eight quarter in relation to the margin, as it started to improve due to the full consumption of more expensive bulk wine of 2020 and 2021 vintages. As a result, the margin for the Wine business segment improved by 2pp compared to the previous quarter.

The SG&A expenses registered ~19.4 million and remain almost flat compared to last year, at 24% share of sales, G&A expenses grew by 10% YoY, mainly impacted by staff costs. Marketing and selling expenses increased by 19%, also impacted by staff costs, including team expansion, and high investments in marketing to support future sales growth. Regarding the net finance cost, our interest expenses increased by 42%, mainly due to increased costs on loans and a bigger amount of contracted loans.

MDL continues to appreciate vs EUR, as a result, the Group recorded a Net Forex gain of 0.3%. The net finance cost of the Group was 0.7 million RON, which is much less than the gain registered in Q1 2023, which was 2.1 million RON. Due to these factors, the net finance cost in the reported period is 1.3 million RON, compared to the Net finance income of 0.7 million RON. The net finance cost of the Group was 0.8 million RON, which was recorded last year.

It is important to mention that the appreciation of the MDL vs EUR generated this Forex gain from the valuation of balance sheet items, however it also has a negative impact on revenues and the gross margin for all goods sold on export markets.

EBITDA registered 23 mRON with a 28% margin, at the top end of the annual guidance, and an increase of 9% YoY in absolute figures. Net profit decreased by 15% compared to Q1 2023, this being mainly the effect of high finance costs and due to higher taxation.

As you can see from our Balance sheet, we have a very strong financial position which has been maintained over the years. We have an increased liquidity which is mainly due to (the class of) inventories, from long-term assets to short-term assets. Even due to this, over the years the indebtedness of the company remained at the same level. EBITDA increased, but both loans also increased, so we stay at almost the same level with Net debt/EBITDA.

That was all from my side. Alex, the floor is yours.

Alexandru Filip, Deputy CEO, Purcari Wineries PCL: Thank you very much Victor. I wanted to provide, as indicated earlier, a bit more detail on Ecosmart. This is an important material development and it's important that it's properly understood.

Ecosmart is a company that was set up in March of 2017, in which Crama Ceptura, our company in Romania became a silent partner, or if you want – a silent shareholder with 27% of the company. On July 20, 2020, the AFM, which is the national environmental agency in Romania ran an investigation or inspection on Ecosmart for its 2018 and earlier activity and indicated that the company was liable for an additional 22 million RON to be paid. On September 20, the Court of Appeals suspended the agency's decision.

We took over the administration of Ecosmart and increased our stake in the company in May 2021, and I think this is an important point to mention that the liability and the negative outcome that we're discussing now is originated prior to us taking over the administration of the company.

Now, in March 2023, we see the movie going forward, the Court of Appeal suspending again the AFM decision, which gave us the strong confidence that the company was on a good trajectory.

Now, legislative changes were implemented, and the warranty return system was also implemented in November 2023, with a negative impact on the business of the company, in the sense that all PET and aluminum cans, plus glass, glass bottles for beer and wine were no longer part of Ecosmart's scope of business, but were covered exclusively by this warranty return system. This development, as you can see, has already negatively affected the performance of the company in the first quarter of 2024.

In what we considered a surprising outcome, the High Court of Justice admitted the AFM appeal against the Court of Appeal decision, and the decision is final, re-imposing the fine that was originally imposed by the agency in July 2020.

Again, we're talking about negative development that has its origin in 2020, fundamentally in 2018 that reflects in the company's performance in 2020 under a previous management. Now, an important element to be taken into account is that the management or the recycling management activity is a highly and tightly regulated activity by the environmental agency with annual quotas imposed on any management activity or manufacturer that brings recycling materials onto the market, which means that Ecosmart clients need to have absolute certainty that the company can collect on their behalf the recycled materials that they are liable to recover in line with market regulations.

Which means that a fine of this amount poses a clear credibility risk for the company and for its clients, that the company may not be able to fulfill its commitments at the end of the year. In light of this development, not just the magnitude of the fine, but also the continuity risk that it poses on the company, the shareholders of the company are summoned on May 30 to decide on the continuation of the company.

We foresee the discontinuation of the business, given the low likelihood of business continuity that the fine imposes, and in the sense of being fully transparent to our shareholders, we wanted to make this clear for everyone.

We believe that the impact on the overall performance of the company will not be significant given the contribution of the business so far, as the impact that we already saw in Q1 coming from the warranty return system implementation. We're ready to take more questions in terms of provisioning and everything else that you might have in the Q&A session. We are confident that we have taken the appropriate measures in terms of recognition of this impact on the company's performance.

Moving to more pleasant news, let's discuss the commercial performance of our core business across the different markets and brands. As you can see, continuous performance of our Romanian operations, but a slight decrease in concentration or relative importance of the market. I think it was 57% last year, now down to 54%, which is a reflection of our performance. So, we are very confident that we are going to be able to continue to do our work to diversify our footprint.

Strong presence, as I said, strong growth in Bulgaria, recovery in Moldova, fundamentally driven by Bardar. Strong recovery in Czech Republic and Slovakia. Continuous pressure in Poland on the price, where we are prioritizing margins and we are working hard to do that, managing profitability while finding new sources for growth. Purcari is one of those growth engines for us in Poland, albeit from a small bases, but continuing the growth that we have seen in the previous quarters.

We are happy to see that Asia is also recovering, and our efforts throughout the last years are starting to pay off. Still a complex business in China. We see that its going to be easy, there is a weak demand for imports in China not just from Moldova, but across. Strong growth in the rest of the world, where we are continuously developing new destinations, North America, Africa etc., and we are working on building our local partnerships there. I think its showing that we are growing across the board, except for Poland. In terms of brands, also, we see that we are growing across, Purcari, Crama Ceptura, Bardar and Angel's Estate. Bostavan linked fundamentally to Poland and Moldova, slightly lower growth. With Purcari, we are celebrating the growth of our products that we've seen not just in Poland, but also in China and Ukraine.

I think Angel's Estate is an important focus area for us, where we are continuing the investment program and the transformation there. Now we're seeing the results of our expanded sales force and our expanded investments in marketing and distribution, and we are counting on continuing to grow compared to the previous year.

If we move on, an important point to show, we've shown these numbers as preliminary in the previous call, but we wanted to confirm the final numbers for our harvest, and I think an important element to take into account and something that we worked hard to achieve is to increase the productivity of our own vineyards. As you see, almost a 20% increase in productivity in 2023 versus 2022, which is a reflection of our investment in irrigation at Purcari, but also the benefit of more benevolent weather conditions. We are continuing to invest in expanding irrigation, and we are hoping to start the work of our irrigation systems at Etulia, Bostavan at the end of this year.

Although the impact will most likely be seen at the end of next year (second half of next year), depending on the timing of the works. As you can imagine, the increased harvest yield will also be reflected in improved production costs for our own wines, and this is something that should trickle into the margin as we go ahead. Sooner for whites and rosés, but later also for reds, given the different maturation periods.

If we move on, I think I made the point earlier with the Vivino rating. I think another measure of our sustained performance in terms of quality is the medals that we're getting for our wines at different wine competitions. You can see the results from Mundus Vini, London Wine, Vinalis, Gilbert Galliard in Bruxelles, etc., and these are only the first events that have taken place so far.

There are several other competitions that are happening in the second quarter, and we will report on them, but it's an indication that the harvest of 2023 is a strong one, and our wines continue to improve and to be appreciated. In addition to this, if we move on, we will also continue to invest in brand building and awareness. As you can see, there are several events that we have attended and supported all the way from Cluj to Tokyo, from Istanbul to Dusseldorf. So, this is also part of the effort that we're making to support brand perception and international expansion, and we will continue to do this throughout the year.

If we move on, on guidance, I think this is an important point given the developments of Ecosmart. There are updates, and I think the fundamental message is that there are no changes foreseen in terms of revenue growth for our wine, our core wine business, EBITDA margin or net income margin.

As I mentioned before, there is this seasonality impact that is reflected in Wine, so we are very confident that we are going to be able to sustain our numbers for Q1 given the timing of Easter holidays. Given the acceleration in sales growth in April, we are confident that we can sustain the ambition for revenue growth. The EBITDA margin, as we mentioned, is at the top of the range that we indicated. We remain cautious that we are in the right interval. Net income margin, as we mentioned slightly before, but given the expected improvement in margins and also the expected reduction in financing costs in the second half of the year as interest rates lower, given our exposure to variable rates. We are confident that we can also reach the guidance that we indicated,

If we move on. Vasile, if you want to cover the main points of the AGM.

Vasile Tofan, Chairman of the Board of Directors, Purcari Wineries PCL: Yes, sure. With the view on time, I will not spend a lot of time here, but maybe very briefly for your attention, the points we submitted to the AGM shareholder voting, which is next week.

So, the first three items are about changes in the board. We are pleased to announce that we are going to have changes, the reappointment of Neil McGregor as an Independent director of the Board. So, thank you, Neil for willing to stay with us for another term. We will have two changes we recommend in the board of directors. Ana-Maria Mihaescu and Alex Filip will be joining the board and Monica Cadogan and Eugen Comendant will be retiring respectively. We, of course, are very sad to see Eugen and Monica retire from the Board after so much work for the benefit of the company. At the same time, I think we're trying to see the positive for new blood in the board which is always a good thing.

Another item is the approval of PwC. I think this one is straightforward. We've had KPMG very long as our auditors. PwC audited the results for the last year, and we recommend appointing them for another period.

Item five, to be compliant with the legislation, we submit to your vote the remuneration report.

Item six is the approval of dividends. At the moment of announcement, that was a yield of 4.7% and consistently with our dividend policy, we are paying a meaningful part of our net profit which is typically up to 50% in dividends. We believe this is also keeping us disciplined in terms of liquidity and the management of our cash because we want to be both a growth story but also a company that has a discipline for distributing the cash in dividends to shareholders.

Item seven is a very important one, so as you know, our compensation structure has three components for top management, there's the base pay, the annual bonus, but what we placed a lot of value on is to allow for a lot of cash to be distributed to our shareholders. So that's why we always have this ambitious stretch, a long-term incentive program, I say stretch, because we like to compensate executives by skewing the stock component to two options.

With ambitious strike prices – so, when the options awarded to top management are not in the money but are actually below the money. As you can see, the strike prices set are at 15, 20 and 25 RON, so the stock has to appreciate a lot for these options to get into the money, which we think is the right thing to do to have the management work hard. Very importantly, the CEO of the company is not part of this plan because we believe he already has meaningful equity exposure. So that's why, of course, he's not part of the plan. So, this is really more for the executives of the company.

So, we are really keen to have this long-term incentive plan approved, because it's a key component of attracting and retaining talent to Purcari.

Item 8 is a continuation of the previous. So, to fulfill our obligations under the plan, we recommend the acquiring of two hundred thousand five hundred shares. I'll remind you the total number of shares is just over 40 million, just to give you a sense of the proportions involved here.

And item nine, the last one every year, we recommend the approval of a certain number of shares that can be issued by the company. So, we're asking for the option though not the obligation in this case. Typically, we ask for this optionality so that we can move swiftly on transactions that we believe are creative for the company, for example, like an M&A where we could pay without stock. So, to have this optionality and not be in the position where we have to urgently call an AGM and waste precious time on this, we are asking for the approval of the shareholders to have this optionality to issue shares in case of need.

These are the nine items. I really look forward to seeing as many of you as possible at our AGM next week. Alex, word to you.

Alexandru Filip, Deputy CEO, Purcari Wineries PCL: Thank you, actually, to Eugeniu.

Eugeniu Baltag, Investor Relations Director, Purcari Wineries PCL: Thank you, Vasile. Good afternoon, everyone. So, I believe this is the last slide. Before we jump to the Q&A session, just a snapshot of our shareholders' structure. It is pretty much the same as in the last quarter. We have 79% institutional investors and 21% retail investors.

In general, you can see our main institutional investors on the right side of the slide, with more than a 2-3% stake. So, starting with Amboselt, which is actually the founder of the Group – Mr. Bostan, with 20%, then Fiera Capital, Horizon Capital, Conseq, East Capital, etc.

We have some good news as well, this quarter we have been reconfirmed in the FTSE Russell Micro Cap Index and MSCI Romania Index, and as you know we are part of the BET Index as well.

We've managed to get a high score for VEKTOR, a maximum of 10/10 for the fourth consecutive year, which actually measures the quality of communication with our investors.

As Alex mentioned at the beginning of the beginning of our presentation, we will have several events. The first one is the Annual General Meeting on May 22. It will be in Bucharest at Courtyard, so we invite you to attend the event in person if you have the possibility. You can vote both in person and via eVote, we've set up this option for you as well. Of course, you can vote in the old-fashioned way as well, by submitting the proxy by paper.

Now, we can jump to the Q&A session in order to address all your questions. Please feel free to address the questions directly or writing the questions in the chat,

Q&A session

Participant 1: Good afternoon. Thank you for the presentation. I have a couple of questions regarding the Ecosmart decision to discontinue the activity. Just to be on the same page, will the Group still have to pay the penalty of 22 million RON?

And my second question is regarding the sales in Poland, as we see a 6% decrease. If you can develop, please, why does this happen? Thank you.

Alexandru Filip, Deputy CEO, Purcari Wineries PCL: Okay. Thank you, Participant 1. So, on the penalty for Ecosmart, the group only has to pay in line with the subscribed capital that is has in Ecosmart. Okay, so all net assets of Ecosmart should be used against the payment of the penalty. And as such, we have provisioned our share of those assets in Ecosmart. Beyond that, we do not expect, and we do not consider that the Group is liable for additional amounts. Just to remember, Ecosmart is a limited company, where shareholders are only liable with the subscribed capital, okay, so we do not expect more than what we have provided for.

In terms of Poland, as I mentioned before, we are facing a tough pricing environment where we are working hard to optimize our profitability, while supporting the profitability of the sales in line with our overall objectives for the Group. Because, if we want to improve profitability of the Group, we are also carefully reflecting and assessing where our sales should be directed so that we generate the right average profitability, and as such, we are investing and we are exploring all options to change the portfolio structure, find additional partners that can support our commercial ambitions in Poland. While we do this, there is a slight deterioration of our volumes, but we believe it's justified by our overall profitability target.

Okay. I think there is a question in the chat. Sorry, are there more questions we can take before moving to the chat?

Participant 2: Yes. Hello, this is Participant 2. Thank you for the presentation. Congratulations on the results. One of the reasons that you are not getting a plethora of questions is that the presentation was very clear and very, very detailed.

I was just going to chat with you a little bit, and I would like to ask you about how do you see the developments of the brands going forward? I see that both in Bostavan and Bardar you are continuing to look at margins rather than gaining market share. So, if you could discuss a little bit about this product strategy going forward across different geographies. Also, what are you looking

to do in Moldova, because that's a pretty big market, and from that I understood, you are concentrating on key accounts. What's happening there in the market at large and how do you plan to take advantage of the changes in the duty-free and what other opportunities are there that you can look at? Thank you so much.

Alexandru Filip, Deputy CEO, Purcari Wineries PCL: Okay, good. So, first of all, thank you for your appreciation. Second, I'll try to address some of the elements of your question because there are several facets of the question.

So, in general, what we're trying to do, we are trying to strengthen our brands to support not only the sales ambition but also our profitability ambition. And this, in some cases, might mean that we rationalize the product portfolio and the brand portfolio to consolidate the volumes and to support the investment in brand building and communication that we put behind some of the brands. This is an ongoing effort that is driven by individual market assessment and individual brand assessment that we're running in the core market. So, this is something that we'll do primarily for Bostavan.

Now, for Bardar, the reality has two facets. One is that it is a traditional divin. The core product of Bardar is a very traditional product for Moldova. It's part of the Moldavian culture and it has, as such, a historically important exposure to market development in Moldova, where we are facing significant competition because there are multiple local producers who are trying to establish themselves and grow. Now, we are working hard to develop and further build the brand in Moldova while diversifying international sales, taking the products to not only Romania, but also to other countries. This is the strategy for Bardar, and we are currently exploring how we can also develop further the product portfolio, given changes in consumer preferences, not only in Moldova, but also in Europe. For Moldova, there are several elements. There is, and this has more to do with market development, if you will. There is a natural growth of the modern trade channel that should benefit our growth, given that we have a strong experience and a strong partnership with the key modern trade networks in Moldova. At the same time, traditional trade remains an important channel, given the market's development, and we are working hard with our distributor to develop tailored offers for the traditional trade channel.

The duty-free element, at the moment, is more an element of uncertainty. I mean, there have been regulatory changes that have introduced additional taxes for duty-free sales, but the biggest challenge that we face at the moment is uncertainty regarding the operator of some of the duty-free points. This creates uncertainty in terms of the commercial partnership that we can build with the current operators. At the moment, we're waiting for the decision on the operators selected for this point.

Participant 2, please let me know if I covered all your points. I trust I did, but please let me know.

Participant 2: Yes, great. Thank you very much and cheers in more ways than one.

Alexandru Filip, Deputy CEO, Purcari Wineries PCL: Okay, thank you. Good. Any other questions live? Otherwise, we have a question from earlier in the chat.

Okay, so if I go with this question, if there's nothing else.

Participant 3 (chat): Any updates on the lawsuit against previous Ecosmart management? Are the options for the management incentive plan cash or share settled? Update on Q2 trends so far?

Alexandru Filip, Deputy CEO, Purcari Wineries PCL: We don't have a definite outcome on this lawsuit. They're pursuing their course. We will share updates as they happen.

It very much depends on a case-by-case basis. We have colleagues who want to buy the shares, and then we exercise the options in this way, or who want to settle the cash, and then we exercise the options in this way, or who want to settle in cash, and then we exercise the difference between the transaction value and the option value.

Vasile Tofan, Chairman, Purcari Wineries PCL: On this one, if I may, Alex, just to make sure. Indeed, the individuals who are subject to the plan, they can decide either to exercise their option in cash, but on the company side, when I mean they exercise the option in cash, meaning that they can acquire the stock from us at the strike price in real time cash or get the difference. But on the company side, the settlement is in shares. So, we're not settling in, it's not a cash payout for us.

So, again, we settle from our side in shares. Just to make sure if I got the question right, that's what we are focusing on here. Alex, back to you on Q2.

Alexandru Filip, Deputy CEO, Purcari Wineries PCL: Yeah, so updates on Q2 trends, I think I already indicated that the trading update for April is encouraging. We see an acceleration in sales, and we are confident that things are progressing well. Of course, we will now start seeing the results of our Easter campaign in our core markets once we start getting the new orders from the key accounts, reflecting the sales, what the sales are from their network, from their shops, following the Easter campaign. But we are positive that we're on a good trajectory. I don't know if there are more questions.

Eugen?

Eugeniu Baltag, IR Director, Purcari Wineries PCL: I believe we do not have any more questions. So, we want to thank you for taking the time to attend our call. We will be waiting for you at the GSM next week.

In the meantime, all I want to say that we are working very hard to deliver on our promised guidance, results, figures, and thank you all for your backing.

Thank you for your time. Goodbye.