PURCARI
WINERIES GROUP

Transcript

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

Vasile Tofan, Chairman of the Board of Directors, Purcari Wineries PCL: Ladies and gentlemen, it's a pleasure to welcome you to our call presenting the first half and second quarter financial results for Pucari Wineries. I am glad to be joined by our team here. We have Victor Bostan, CEO, on the call; Alex Filip, Deputy CEO; Anatol Belibov, incoming CFO and also, Victor Arapan, who is transitioning his work to Anatol in a very organic way, and I am very grateful to him for this transition. We also have Victoria Moldovan, our Investor Relations Officer. We have a wide team on the call, and I'm very excited that our company continues to invest in people and strengthen the team.

You may have read the news over the last few weeks and months that we have made quite a step up in terms of our team. Since Alex Filip has joined us as Deputy CEO from McKinsey, he has worked on bringing new, fresh blood to Purcari — new energy, new competences. We understand that ten years ago we were doing $10 million in revenue, today we're doing nearly $100 million in revenue, but we also understand that what took us from $10 million to $100 million is not necessarily what will take us from $100 million to much bigger numbers.

So, I am very excited that today we have a much wider team. The new team includes Bogdan Bayer, who joined us from Heineken as Commercial Director; Anatol Belibov, who joined us as Chief Financial Officer from Nestle and AkzoNobel; and Anton Fortunatov, who joined us as Chief Informational Officer to up our digital game, also from McKinsey.

We also have Stefan Catrina, who joined us as the Head of Transformation and Strategy, guruing all these transformation projects together, who also joined us from McKinsey. Quite a few McKinsey people, but we negotiated very good income levels with them. I mean, very decent, not exaggerated salaries, pushing most of the compensation in stock, as we like to do. And we also have Mr. Chiritescu with us, who joined as Marketing Director from Cotnari. So, this is a long way of saying that this is a new chapter in Purcari's development. We are enthusiastic about where we are as a company at the moment.

Today will be a presentation of the second quarter results and first half results, but I really want you to see the bigger picture, and I hope it will give you a sense of where we want to take this company going forward. I think the pinnacle of this is going to be on October 4, when we will hold our Investor Day at Purcari, where we're going to reveal in greater detail what is next for our company. You know we like setting high bars, we like setting a very high level for conditions, and we're going to reveal this in much greater detail on October 4.

Without further ado, and apologies for this long intro, but I just wanted to set the scene in a proper way so that we get the big picture. Now I want to pass the word to Alex Filip, who's going to take us through the operational results for Q2 and the first half of 2024.

Alexandru Filip, Deputy Chief Executive Officer, Purcari Wineries PCL: Thank you, Vasile. Hello everyone, I am happy to present the results for the first half of the year.

Vasile mentioned there are a lot of changes in the team and we're building bigger plans, but we're also focused on delivering day-to-day results. Thus, we are here today to share with you the performance so far. We will go into further details in a second.

Overall results: group revenues grew by 3% year on year, focusing primarily on the core business. Wine and brandy sales were up 12% for the first half. You know the situation with EcoSmart, and the discontinued operations, hence the overall gross revenues have grown at a slower pace than core revenues due to the fact that the EcoSmart revenues are no longer contributing. So, this is an important factor.

Premium brands continue to perform the best within our portfolio. Purcari is growing across the markets, Crama Ceptura also following suit quite nicely. We are happy to see that we have multiple growth engines, and we have good traction across several of our key markets: Romania, Czech Republic, Slovakia, Bulgaria, where we are building an important success story for us as a Group, turning around Angel's Estate. So, we are happy to see commercial traction there.

Also, an important market for us in Asia is growing quite nicely as well. We have very good profitability numbers and we're very proud of our ability to generate and continue to improve profitability, as we have indicated in the past. We have a gross margin of 51%, and the EBITDA numbers for the second quarter are quite impressive for us, with a high watermark for us to observe going forward.

In terms of investor relations, what we have done in recent months: we have expanded our share capital by issuing additional shares. We paid the dividend at the end of July. Going forward, Vasile mentioned the Investor Day on October 4, but we will also be in Bucharest at the beginning of September. I am happy to meet as many of you who will be there for the Frontier Investor Days. In terms of operational and management changes, I will not go through the changes as Vasile mentioned them already.

I think two more important points to mention in terms of our development are:

- We have established a small digital hub, a venture, that is supposed to accelerate our digitization while building in-house the key competencies that we consider crucial for our development.

- An important piece of news that we released yesterday evening: we have just signed an acquisition for an important vineyard in Dealu Mare—51 hectares, plus land that would allow us to expand the winery we have in Ceptura. This is an important element for us to continue to develop our Romanian entity.

And yes, these are big developments for us. I am happy to go into details with each of them, and we'll go right away. We will also take questions at the end. Next, we will go into the financial results, Anatol, if you want to go ahead.

Anatol Belibov, incoming Chief Financial Officer, Purcari Wineries PCL: Thank you, Alex.

As you already mentioned about the 3% growth for H1. For sure, it is very important to go segment by segment. In the core WINE segment, we grew by 10% in Q2 and 12% in Q1, so overall, plus 12% year over year. Also, HoReCa delivers strong single digits, +6%.

It is very important to mention that the turnover is now highly impacted by the discontinuation of the recycling segment. In H1 2023, recycling had a share close to 10% in revenue, so this 3% growth is highly impacted by the discontinuation of the recycling business.

Now, I think it is important to mention the positive part, and here I would like to mention gross profit. You can see that we have a very good journey, and now it's close to 47% in H1, and in Q2 2024 is close to one of the highest levels at 51% gross margin in revenue. In absolute terms, you can see that we grew by 17%. There are a lot of reasons why.

I would like to start with top-line improvement. Here, I am speaking about pricing because we managed to increase it in some parts of our geography — Bulgaria, Moldova, and also some export countries. We have already told the investors that we are focused on premiumization, and it looks like we are moving in the right direction. So, Purcari, our premium brand, increased by 16% year over year, and it is increasing its share in the total portfolio. For sure, we did a good job in terms of pricing and premiumization.

Also, the geography mix helped us improve gross margin profitability. Countries with a high price per liter, like Romania or Central Europe, have a higher path of growth versus others, and this helps to improve profitability.

However, cost of sales is also impacted by, let’s say, correction of COGS rates. Here, we are speaking about cheaper bulk wine from 2022, which came into production. But it is also very important that we already have the positive impact coming from lower prices for packaging—especially bottles, which are impacted by corrections in energy prices.

So, all in all, we have this positive impact on the gross margin. Going down in OPEX, marketing and selling expenses grew by 24%, but as a percentage of revenue they increased from 12% to 13%, so it’s one percentage point. Here, the key factor is the increasing people’s costs. As it was already mentioned previously, we are investing in the team and in new projects. Our focus now is to keep the growth pace. That is why we are starting to invest in different marketing projects.

General and administrative costs grew by 7%, but as a percentage of revenue they are mostly flat. The impact here comes from people costs, salary reviews, traveling, and other professional fees.

The positive impact comes from other income. We have positive momentum in collections, which is why we have started to reduce the provision for receivables and bad debt. Also, in this line, we have the post-tax effect from EcoSmart. So, net profit for H1 ends up at 18% of revenue, or 29.3 million RON. EBITDA is also delivering a very strong H1, and Q2 ends up at 55 million RON, or 33% of revenue.

At the bottom, you can see the net profit from discontinued operations of 1.7 million RON, which will be covered during the next slide. However, we would like to draw your attention to the fact that this one-off, which we expect to be reversed after the finalization of this procedure with EcoSmart, impacts our figures.

That is why our normalized EBITDA is 53.3 million RON, with a margin of 32%, and our normalized net profit goes up to 16.7 million RON, with a margin of 20%.

So, for sure, this will be the level. All in all, very strong performance in terms of gross margin and cost control. If there are no questions, I would like to pass the word to Mr. Arapan to cover the segment reporting.

Thank you!

Victor Arapan, Chief Financial Officer, Purcari Wineries PCL: Thank you, Anatolie!

First of all, let me also comment a bit on the analysis for this second-quarter results call. Based on the slides you see now; we talked about the operational performance of our business segments. As you know, by 2020, the group had a single segment: production and sale of alcoholic beverages. Later, with the acquisition of the EcoSmart subsidiary, in 2021, a second segment related to waste recycling management services appeared, which, over the years, has not been significant.

Now, at the reporting date, the group no longer provides waste recycling management services. So, I will talk more about the accounting approach for this event that took place during the second quarter. As you might remember from our last calls, as a Group, we are disclosing as contingencies the potential penalties from AFM. Below, you can see a scheme of the evolution over time of the litigation between EcoSmart and AFM.

The most important event that impacted the operational activity of EcoSmart during 2024 was on the 16th of April, when the High Court of Cassation and Justice granted the appeal filed by AFM against the decision pronounced by the Bucharest Court of Appeal. As a result, on April 29, 2024, AFM issued an enforceable title for the collection of the fine amounting to 22 million RON. Since this amount was not proportional to the revenues and profits of EcoSmart, the management decided to cease operations.

The Group's management considered that, under these conditions, its subsidiary could not operate anymore, and on the 13th of May 2024, the AGM of EcoSmart unanimously decided to initiate a simplified bankruptcy procedure. On July 2nd, AFM submitted to the Bucharest Court a request to start the insolvency. So, what is the situation on account and treatment as of June 30th?

First, the group is still holding control over the subsidiary, as there is no core decision empowering a third-party administration of EcoSmart. This means that all assets and all liabilities of the subsidiary were consolidated as of June 30, 2024. However, the accrued debt of 22 million RON was recognized only in the individual financial statements of the subsidiary. Neither the parent company nor any subsidiary has an obligation to AFM arising from its risk of execution.

The group management decided not to provide EcoSmart with any financial support. As a result, at the consolidated level, the debt to AFM was not recognized, since there is no probability of an outflow of resources, including economic benefits, to settle the respective obligation. At the P&L level, the entire activity of EcoSmart during the six months of 2024 was treated as a discontinued activity and disclosed in the statement of comprehensive income as a single separate line, with a positive impact on the consolidated net profit amounting to 1.7 million RON.

As soon as the court decides to initiate an insolvency case, which is expected to happen in November this year, the group will lose control over EcoSmart Union and will not consolidate it anymore. The group will not recognize this result from discontinued activity and will have to calculate the gain or loss from the loss of control over the subsidiary. It is important to know that in the consolidated financial statements ended December 31, 2023, the group made a provision of 1.7 million RON, which is equal to the group's share in EcoSmart's net assets at that time. This provision will help the group to net any loss from the loss of control if such a loss occurs. So, this is the update about EcoSmart.

On the next slide, you can see that the group continues to maintain a very strong financial position over the years. The company managed to maintain an optimal level of liquidity, gathering cash for the dividend payment that took place on August 16th. The dividend payout will not influence its liquidity, only with some impact on when the net debt is expected. Even though the net debt increased due to more loans required to sustain the growth of the business and continuous capital expenditures, the gearing ratios and the indebtedness ratios are still at comfortable levels.

Since we target a net debt to EBITDA indicator around two times, there is still room to sustain continuous growth.

So, with that being said, I offer the floor to Alex for a short overview of sales evolution by markets and brands.

<u>Alexandru Filip, Deputy Chief Executive Officer, Purcari Wineries PCL:</u> Thank you very much, Victor!

Going into the commercial part, the usual picture that we provide, the breakdown by country and evolution by country overview: you see we're growing across most of the markets with the exception of Poland, where we slightly decreased year on year for the first half. In Moldova, the growth is slightly lower than the rest. There is good performance in Romania, sustained by several growth engines. It’s not just Purcari; it's also Bardar, Crama Ceptura, and Domeniile Cuza. So, multiple elements support our growth and our ambition.

In Moldova, we are facing a specific situation where we are growing nicely in double digits in key accounts, driven primarily by Purcari. However, we are seeing lost volumes in the duty-free channel due to a new taxation model. We assume these are volumes lost by the category, the market, rather than by other competitors. We see a particularly challenging situation in the brandy segment, where there is fierce competition in pricing with very aggressive promotions from most competitors. We have indications from key accounts that large volumes of the category sales are actually happening in promotions. We are taking a long-term perspective, trying to protect the profitability of our sales as well as the price perception and quality perception of our brand. We will discuss Bardar in a second.

In Poland, we see pressure in the mainstream segment, which accounts for the bulk of our sales there. We see growth in the second quarter, offsetting the initial weaker start, but still, we are pushing as hard as we can for profitability, which sometimes means passing on sales opportunities. We are taking a mid-term perspective, focusing on building profitable brands and investing in those brands that can deliver this profitability to us. We are investing in Purcari and growing the premium segment in Poland, but from a smaller base compared to the mainstream segment.

In Bulgaria, it's a very happy development for us. We continue to develop the market both with Angel's Estate and the local brand portfolio, but also by accelerating the listing of the Purcari brand, both in key accounts and HoReCa. We are happy to see that Purcari is already contributing with 10% to the local sales, which is the direction we want to take the sales mix there.

There is good performance in the Czech Republic and Slovakia, challenging environment in terms of pricing there. Our mainstream brands are performing and growing despite the challenges. We are happy to see, after several years of investments and uncertainty, that our sales in Asia are picking up from a smaller base but are still improving. We have had three consecutive quarters of growth, and we continue to invest in developing not only China but also South Korea and Japan, which are also important markets for us.

In the rest of the world, which accounts for 10% of sales and growing, we have a mix of commercial efforts from Purcari, Bostavan, and Bardar delivering nice profitability despite the small share of sales at the moment.

Moving on to a brand-by-brand basis: strong sales for Purcari, as mentioned, not just in Romania but across several of our key markets. Bostavan shows a slight decline, driven primarily by weaker results in Poland and the Baltics. We are focusing on this and will most likely make it a mid-term effort to turn around the portfolio and build stronger, more profitable brands than we have now.

Crama Ceptura has strong performance, as I mentioned before, across the different ranges that we have. We are further developing those ranges and price segments where we are not as competitive as we are in others, and we are investing in capturing those opportunities as well.

For Bardar, as I mentioned, the bulk of the sales historically came from Moldova, where there is fierce competition for sales from the loss of the duty-free channel.

The strategy there for us is to protect the profitability and the premium perception in Moldova. Also, taking into account that brandy, as opposed to wine, ages better and gains value with time, there is no rush for us to sell cheaply now something that we should be able to sell at a higher margin next year. So, we are carefully managing the aging of the portfolio while we're developing export markets. I mentioned Romania, but there's also Nigeria and other markets where we are developing profitable export opportunities for Bardar.

Angel's Estate shows strong growth year on year, which is due to the investments we've made in expanding our commercial capabilities.

If we move on to Investor Day, I think Eugeniu would like to talk about it. Since you're the master of this ceremony, would you like to discuss it briefly?

Eugeniu Baltag, Investor Relations Director, Purcari Wineries PCL: Hello everyone.

Indeed, we are planning our second Investor Day for October 4, and you are all more than welcome to attend. We will have a full agenda covering different topics. First of all, you will hear about our strategy and see with your own eyes how our wines are made. You'll observe how we process the grapes and visit the vineyards where we grow our exceptional varieties. Afterwards, of course, we will have a wine tasting, so there is a lot to see and taste during Investor Day. Please do register; the event's registration is open until the 6th of September, EOD. We welcome all of you.

Also on this slide, you may see some snapshots from our last event, which was held in 2022. As I said, you'll learn more about our strategy, meet our team, and taste our wines. We will be waiting for you.

Alexandru Filip, Deputy CEO, Purcari Wineries PCL: OK, let's move on. Other things that don't show up directly in the P&L but are important for our performance: we have continued to reap recognition for our wines across multiple highly reputable competitions, and we are very proud of this. As you know, we take this very seriously, and it's part of our way of working to benchmark ourselves against the best.

We're happy to see what we have achieved this year. I think for us, an important reflection of our work and our philosophy can be seen here on the top left corner of the page, showing that we have achieved several Decanter Worldwide Awards, not just for our wines from Moldova, but also for the first time for our wines from Bulgaria. You can see there Angel's Estate from Bulgaria, and this is what we aim to do across our different wineries. We are happy to see that this is working out well.

If we move on, I think an important topic for us is the revised guidance. Before I go into details, let me tell you that we do not take this topic lightly, and we've spent quite a lot of time figuring out what the best outlook is and what we can deliver for the rest of the year. This is how it looks: we know that we have disappointed with revenue growth, and we will explain this in a second. EcoSmart is clearly something we did not expect at the beginning of the year, and we showed the revised update in the previous call when we knew that we had the negative court ruling on the core wine revenue. Despite the slower start, we were hoping that with the shift of the Easter holidays, the second quarter would prove much stronger than it did.

Hence, we had retained the guidance in the previous call. But it turned out that the price competition was too fierce for us, and we decided not to push the sales for the sake of volumes if it would deteriorate the margin. Prior to the development of our brands, we stopped and took a bit of a view on their performance and whether investing additional money in trade marketing and communication behind our brands would give us the comfort and assurance that they can grow mid-term to the profitability level that we want.

This is the reason why we're revising the guidance for the second half of the year. We want to make sure that we grow and the markets we grow in give us a sustainable basis for profitable growth going forward. We are confident that we can deliver the numbers we are indicating here.

In terms of profitability, we are optimistic that we can deliver these numbers, but we're also aware that there are several sources of uncertainty across some of our main markets affecting some of our main brands that may still deliver variations versus the current plan. So, we are positive, and for these ranges, we have a high level of confidence. I guess some of you will ask us why we have not increased the profitability guidance, given that we don't have EcoSmart anymore. We are being conservative because we do not like to disappoint you, and we believe that it's best to go for something that we are certain we can deliver.

<u>Eugeniu Baltag, IR Director, Purcari Wineries PCL</u>: That being said, we have covered the first part of our meeting, and now we are moving gradually to a more dynamic part: the Q&A. So, please feel free to address your questions either directly here or by writing them in the chat.

<u>Q&A session</u>

We have the first question in the chat from Participant 1.

<u>Participant1:</u> Good afternoon! For Q2 2024, you report a revenue of RON 84.3m for the Purcari Group, while the value for the sales of finished goods in Q2 2024 is RON 86.7 m. Could you please explain why the total revenue is lower than the sales of finished goods?

<u>Anatol Belibov, incoming CFO, Purcari Wineries PCL:</u> I think here is a matter of how we read the numbers. For Q2, you are right that the revenue is close to 84.3 million, but the cost of goods sold for Q2 is 41 million RON. So, I'm not sure about the 86.7m RON. I think there may be a technical error here. For Q1, the revenue is 81 million RON, and the cost of goods sold is 46 million RON, and for Q2, it's 84 million RON with a cost of goods sold of 41 million RON. The cost of goods sold is not 86 million; I think it's better to check the numbers once again. I hope I covered your question.

[Small pause]

Okay, so I have checked the numbers once again. In Q2, we have a significant improvement in gross margin, driven by a correction of raw material impact, but we also have the impact of removing EcoSmart from this post-tax profit.

Participant 1: Thank you, a lot!

Alexandru Filip, Deputy Chief Executive Officer, Purcari Wineries PCL: Okay, thank you, Anatol. I see a hand raised by Participant 2. Participant 2, do you want to go ahead?

Participant 2: Yes, thank you all. So, you mentioned that you're redefining the focus on brands. Which brands have the best potential to reach your margin targets? Specifically, which brands are going to be your focus, and what level of profitability can you get them to?

What's your hurdle rate, or sort of level of profitability where you aim to get them? Where do they stand today? I mean, I know Purcari is by far the strongest, and I do not think you break down the profitability of just the Purcari brand, but it's much more profitable. So, where do the others come below it, and how far can you get them up? Which ones are you going to be focusing on? Just provide a bit more color, please.

Alexandru Filip, Deputy CEO, Purcari Wineries PCL: I think there is a point on which existing brands we focus on and which new brands we build. For us, the rule of thumb is that across the portfolio, we want to operate at a 50% gross margin and a 30% EBITDA margin. This is what we are striving for. Hence, we are looking at any combination of brands and geographies that fit within this picture. We are working towards building a brand portfolio that delivers this combination. Some brands might have smaller volumes with higher margins, while others might have the opposite. The challenge for us is to build new brands or strengthen existing brands that have higher pricing power, which allows us to increase profitability across the portfolio.

So, at the moment, when we look, out of 100 units sold across different countries and markets, we see that some of them are diluting the average margin. Hence, we are trying to develop or strengthen those to the point that we can also improve the pricing power we have or build new ones and uncover new geographies where we can do that.

I cannot give you a specific timeline because I think this will be an ongoing project. But throughout the next one or two years, we should see a significant revamp of the portfolio. In addition, as you can imagine, Purcari, as a premium brand, commands a higher margin. Spirits like Bardar also command high margins. These are things that we will continue to develop and try to accelerate the sales. We are also trying to build additional brands that have the right combination of price and cost structure to give us the profitability we seek.

I hope this explanation is clear. Let me know if not. Otherwise, Eugeniu, your choice: do we go first with the raised hands so that we do not keep them up too long and then take the chat questions?

Eugeniu Baltag, IR Director, Purcari Wineries PCL: Participant 3, please address your question.

Participant 3: Hello. At the beginning of your presentation, you mentioned that you issued new stock to pay the employees, but that is diluting me as a shareholder. Do you have any plans to maybe buy back stock in the future and also use the capital to buy more stock back? Because this is how respectable companies that respect their shareholders operate worldwide.

That's my question.

Vasile Tofan, Chairman, Purcari Wineries PCL: With your permission, I will take this question and thank you for it.

I speak here also as a shareholder. We (Horizon Capital) are the second largest shareholder in the company, so, of course, we have the most interest in preventing dilution that could destroy shareholder value.

In this case, we approved the AGM stock options plan for the next four years. We believe this is critical for several reasons. One, we need to attract top talent, and we don't want to pay them high salaries or big guaranteed bonuses. We are a company that believes in aligning incentives between shareholders and management. We believe that the dilutive effect of this stock allocation is far inferior to the value created by these people.

When you run the numbers, a dilutive effect of, say, low single digits percentage points, can be outweighed by the value that these people can create, potentially expanding the company many times over. I think these are incomparable aspects, and in designing our share incentive programs, we like to set high targets. This means the bulk of these share allocations are in the form of options with high strike prices. As approved by the AGM, we presented the plan in great detail. There are three tiers for the stock options: The lowest tier starts at 15 RON per share, which is about where the company is trading at the moment. The next tier is at 20 RON per share. The highest tier is at 25 RON per share.

The management makes money only if the stock price goes above these levels, and they stand to make a lot of money if the stock price goes much beyond 25 RON per share; otherwise, they are underwater.

Please rest assured, we are quite greedy when it comes to stock incentives. We set high targets for management, and they will make money only if we, as shareholders, make money.

Additionally, management interests are often misaligned with shareholder interests. For example, when a manager comes and wants to increase their salary and says, "Look, I want to increase my salary; inflation was high, and I want a 20% or 30% bump," my answer is always the same. As chair of the board, I say, "Think as a shareholder; most of your value is in shares, not in your salary." This is the mindset we are trying to instill in the company. By the way, this doesn't apply only to top managers. This is a deep program, covering about 30 people. This includes heads of agricultural segments, heads of wineries, winemakers, people in the finance department, and people in the sales department.

This is quite a deep program, and we want these individuals to think as shareholders, not as managers seeking the highest possible salary. I apologize for the lengthy answer, but I believe it is key to the culture we are trying to build—a culture where the interests of management, including middle management, are aligned with the interests of shareholders. They only make money if we, as shareholders, make money.

Alexandru Filip, Deputy CEO, Purcari Wineries PCL: Thank you, Vasile. Moving to the next question.

Participant 4: Good afternoon, and congratulations on your results. Can we expect COGS to stay low in Q3 '24? I assume that effects from the costlier bulk of the 2020-2021 vintages are close to zero.

Anatol Belibov, incoming CFO, Purcari Wineries PCL: Thank you for the question!

You are right. Our guidance for the full year already includes this assumption: the cost of inventory, including wine, is expected to go down because we have already started to use all the stock. However, in the meantime, we have other costs, including revised salaries and also other overheads, which have, driven by inflation, increased. So, all in all, the net will show the same trend of COGS decreasing rates. We plan to continuously improve margins in Q3 and Q4.

Eugeniu Baltag, IR Director, Purcari Wineries PCL: Thank you, Anatol!

Moving from operational performance to commercial activity, Alex, this one is for you.

Alexandru Filip, Deputy CEO, Purcari Wineries PCL: Yes, I can cover it.

Participant 5: Hi, following the acquisition of the distribution company in Turkey, how much did the revenues in Turkey increase, and what do you estimate by the end of the year?

Alexandru Filip, Deputy CEO, Purcari Wineries PCL: Sales in Turkey have historically followed a pattern where we have several very large deliveries throughout the year, rather than a continuous flow of smaller deliveries. This has to do with the complexity and challenge of logistics to Turkey, primarily via sea. We are now preparing a new delivery of a large shipment to Turkey in the third quarter, covering a large part of the sales for the third and fourth quarters.

So far, we have not had sales in the first half of the year, but we will have a large dispatch in the third quarter.

Participant 6: How is grape production for 2024? Was it seriously affected by the hot weather this summer?

Alexandru Filip, Deputy CEO, Purcari Wineries PCL: This is a rather complex topic because we need to define where—Bulgaria, Romania, Moldova. For everyone to take note, we operate vineyards across markets, and we source grapes from multiple places within these geographies, and as such, we have the benefit of hedging to a certain extent. That being said, the bulk of what we do is in Moldova, so we can focus on that. The harvest actually started last week, and a lot is to be done. What we see now is that across Moldova there is a challenging environment for many grape producers, primarily due to drought.

We had the benefit that at Purcari we have 300 hectares irrigated, and our productivity there is to a large extent insulated against drought. We also have the benefit of a diverse base of grape suppliers, and we have proactively expanded this network by tapping into new producers located in more diverse geographies.

So, we are confident that we can secure the supply needed for our forecasted sales for the next couple of years in a tough environment. To a certain extent, we believe that many of our competitors locally will struggle to secure enough supply. So, all in all, quite complex in Moldova, but we believe we have secured our supply, and we are investing further in expanding irrigation, so we think that mid-term we can mitigate this risk.

Participant 7: Good afternoon, have you tried or is there a strategy to enter the US market?

Alexandru Filip, Deputy CEO, Purcari Wineries PCL: Yes, we have tried, and we are actually working with several large wholesalers in the US. We have started to list primarily Purcari products, and we are now, with a new commercial team, redefining our commercial strategy for the US market.

We are also considering hiring a dedicated person for the US market, which we did not have in the past. This is something that we will prioritize as a development given the market potential for the next few months and years.

Participant 8: How many hectares of vineyards do you have in each country?

Eugeniu Baltag, IR Director, Purcari Wineries PCL: As you know, recently we have acquired an additional 51 hectares, so using round numbers, we have approximately 100 hectares in Romania, circa 100 hectares in Bulgaria, and the rest are located in the Republic of Moldova across different sectors. We increased our vineyards this year because, at the beginning of the year, we acquired Timbus Estate, adding 130 hectares of premium vineyards near Château Purcari. Currently, we have around 430 hectares of mature vineyards. We are well-secured with our own grapes, and we are also working with third-party partners to supply the additional need for grapes.

Alexandru Filip, Deputy CEO, Purcari Wineries PCL: Thank you, Eugeniu!

Vasile Tofan, Chairman, Purcari Wineries PCL: If there are no more questions, I want to reiterate my invitation for the October 4 event. We will also arrange an online version, but I think it is really good to have you there in person. As a preview of what we plan to do, we want to announce a mid-term strategy—not beyond the annual guidance we do. We would like to share with you how we see the development of Purcari in the mid-term period. We will also try to make it a tradition to share mid-term guidance in addition to the annual guidance.

The team is working on finalizing all the details. There is tremendous momentum at Purcari with the new team, and there's tremendous energy. I think it is a great time to be an investor in Purcari.

At least we, as Horizon Capital, being the second-largest shareholder, and Mr. Victor Bostan, as the largest shareholder, believe in a very upbeat future for the company.

Thank you for being with us today, and I hope to see you on October 4 at Château Purcari.

Alexandru Filip, Deputy CEO, Purcari Wineries PCL: Vasile, sorry to steal the thunder, but there is one final question we can take very quickly.

Participant 9: Do you have any plans for M&A in Europe, short term?

Alexandru Filip, Deputy Chief Executive Officer, Purcari Wineries PCL: I don't know how we define short-term, but within this horizon that Vasile described, M&A will be a growth engine for us, and we are constantly exploring several targets, in Romania, Bulgaria, and Moldova, as well as in new geographies, primarily within Central Europe. I trust this answers your question.

Otherwise, on my behalf, I am looking forward to seeing as many of you as possible at our Investor Day. It will also be an opportunity for you to meet not only me but also the rest of the team who have joined. So, hopefully, this will intrigue you as well to see who is going to push behind the strategy that we'll present.

Participant 10: I'm sorry. I just have one quick question. I just wanted to clarify on the guidance slide. The revenue or the growth year-on-year, is that excluding EcoSmart from the 2023 base, or does that include EcoSmart?

Alexandru Filip, Deputy CEO, Purcari Wineries PCL: We do not expect any additional revenues from EcoSmart.

Anatol Belibov, incoming CFO, Purcari Wineries PCL: If I may, Alex, we announced two revenue growth figures. We announced the group revenue, that is, the total for the group. To answer your question, that figure does not exclude EcoSmart from the 2023 comparative base. If we had excluded it, of course, the growth would have been larger. The second revenue target we announced is the core wine segment growth guidance, and that one indeed normalizes for EcoSmart because it takes EcoSmart out of the equation.

Participant 10: Got it, okay, that is clear. And then on the EBITDA margin, obviously the EBITDA margin in the first half is higher than this range, and then you mentioned just now that you're hoping to see sort of an incremental improvement in the gross margin in the second half. So, is it fair to assume that the EBITDA margin is likely fairly conservative, or is marketing expense or some sort of SG&A expected to increase in the second half?

Alexandru Filip, Deputy CEO, Purcari Wineries PCL: There is a certain seasonality element both in the margin and the OPEX side, but the numbers that we show there are numbers that we are confident we can deliver. There is, as we mentioned, the potential that we exceed them. We just want to avoid underdelivering again, and we'd rather make sure we deliver and perhaps even exceed expectations.

Participant 10: Right, got it, thanks a lot! Cheers!

Participant 2: I have another question. We just saw that the Romanian economy is not performing as expected in the first semester of the year, and obviously, your largest market is Romania. How is this impacting your guidance, not only for 2024 but maybe the first half of 2025?

Alexandru Filip, Deputy CEO, Purcari Wineries PCL: I think the Romanian economy is growing slower than it used to. That being said, in terms of consumption, if you take a look at the different elements of the GDP, you see that consumption actually continues to grow. As such, we do not see in the market any reasons to be concerned about our revenue growth for Romania in the second half of the year. Overall, if we look mid-term, we believe we still have ample space to grow in the Romanian market, and we are well-positioned to do that.

There are several opportunities for us, both in expanding the distribution of existing brands and in developing new brands for segments that we have not catered to until now, which give us enough ammunition to continue to grow.

Anatol Belibov, incoming CFO, Purcari Wineries PCL: To add to this, Alex, I think you covered it, but I tend to repeat, market share-wise, we're still not very large in Romania; we're below 20 percent. Second, segment-wise, we are weak in sparkling, a very important segment, and we are weak in brandy, another very important segment. So, there are tremendous growth opportunities in both of these segments. Third, and here I'm going to speak super speculatively, but Romania is entering an election cycle that is going to be quite long. All the signals we get, at least as amateur political observers, suggest that the government will keep pumping money by raising salaries and increasing budgetary expenses. While this may be bad for some segments of the economy, making the economy less competitive in terms of net exports and other drivers of GDP, on the consumption side, as Alex says, this is actually beneficial to us because Romanians keep buying, and the consumption numbers are still very healthy.

Thank you all for spending an hour of your precious Friday time with us. We look forward to seeing you on October 4th or on the next calls. Thank you very much and have a great weekend!