

PURCARI

WINERIES GROUP

Transcript

Investors and Analysts' Conference Call: 2024 Preliminary Annual Financial Results

Eugeniu Baltag, Investor Relations Director, Purcari Wineries PCL: Good afternoon and thank you for joining us today to discuss Purcari Winery's 2024 preliminary results. My name is Eugeniu Baltag and I am the Investor Relations Director at Purcari.

Today we'll walk you through the key financial highlights, operational developments and our outlook for 2025. Before we dive into the details, I would like to thank our shareholders for their continuous support, our team for their hard work and dedication, and our agricultural team for taking care of more than 1800 hectares of vineyards. Thanks to our production team for turning exceptional grapes into outstanding wine, sparkling wine, and brandy, and to our commercial and marketing teams for making our wines available in over 40 countries worldwide. And of course, thanks to the finance team, which managed to publish the results three days ahead before the Bucharest Stock Exchange deadline. And last but not least many thanks to each of those over 800 group employees, who stand behind Purcari Group's success story.

Please consider that this call may include forward-looking statements based on current expectations and assumptions, which involve risks and uncertainties that could cause actual results to differ. The financial figures discussed are unaudited and should be read in conjunction with a full reporting package available on our website and on the Bucharest Stock Exchange's website. Participants are advised to review all disclosures before making investment decisions.

I'm pleased to introduce our speakers for today: Alexandru Filip, Purcari Group's CEO, and Anatol Belibov, the Group's CFO. Additionally, there is an extended team of senior executives and non-executives on this call. Together, we aim to provide a comprehensive overview of the company's results and outlook. That being said, we can get started. Alex, the floor is yours.

Alexandru Filip, Chief Executive Officer, Purcari Wineries PCL: Thank you, Eugeniu. Just to remind everyone of what we are set out to do, as communicated during the Investor Day last October, we're working towards building a global winemaking champion, focusing on indigenous grape varieties of New Europe. We are building the foundation of such a champion. Everything we do has a dual perspective delivering short-term results in line with expectations, but also setting the stage for a bigger and more solid company going forward. This is an important point to make because many of the investments that we make, given the specific of our industry, are long-term investments. These long-term investments are made annually, both in our vineyards and winemaking capabilities, contributing to the goal of building a global winemaking leader.

If we focus on recent results and short-term priorities, here are a few highlights. Many of you may recognize these points from previous calls where we presented the quarterly results.

Commercial updates: We aim to get closer to our consumers in the core markets, especially Romania. This year, we have become the main sponsor of the prestigious Jazz in the Park Festival in Cluj-Napoca.

We were honored as the best winery in the Republic of Moldova, achieving this recognition for the second time in three years, after previously winning the title in 2022.

We are also continuing to innovate. We have launched new products, like the Sapiens range in Moldova. We introduced 2Familias, a new blend range in the Netherlands. We launched Nuit des Anges in Côte d'Ivoire, including both still and sparkling wines. In Israel, alongside our standard retail brands, we introduced Nocturne Wines, which is a brand dedicated especially for the HoReCa sector.

IR updates: Regarding corporate affairs, we have completed the succession from Mr. Bostan, the founder of the Group, to myself as CEO. Mr. Bostan remains actively involved, supporting me and the winemaking team. Currently, he is at Château Purcari, tasting our 2024 vintage, which we are preparing for bottling soon.

We added an additional market maker as of October 1st, and now we have two market makers, which should provide additional liquidity and price transparency to all investors.

In terms of financial results: Group's net profit has reached 57.4 million RON, with a margin of 15%. Net profit performance was impacted by several one-off elements, including the deconsolidation of EcoSmart, our waste recycling company. This process is now complete.

EBITDA has reached 107 million RON, while its margin matches 28%.

In terms of development, we have made strategic acquisitions, adding 200 hectares of prime vineyards in both Purcari and Dealu Mare. Timbrus is located in Purcari, while Dealu Mare is our core winemaking region in Romania. This expansion is part of an ongoing process, and we will continue to seek additional opportunities to grow and to expand our production capabilities.

Our core markets remain Romania, Moldova, Poland, Bulgaria, all experiencing growth at varying speeds, reflecting our approach to balancing profitability and long-term expansion. In lower-growth markets, we are either investing in market development or optimizing profitability to ensure sustainable returns. In Romania, growth is driven not only by Purcari, but also by Bardar. Moldova remains highly competitive, with many local producers, and both Purcari and Domeniile Cuza contribute to market growth. Last year, market disruption was caused by challenges in the duty-free channel, a key export avenue for Moldovans and foreign nationals. Poland remains a tough, price-sensitive market. Our focus there is on improving profitability and expanding our higher-margin product ranges.

Regarding brand performance, Purcari continues to grow steadily, as does Angel's Estate in Bulgaria and Domeniile Cuza in both Romania and Moldova. We are pleased that Purcari continues to outpace overall market growth, and we will maintain this priority. In Bulgaria, wider distribution is yielding results, and we are increasing visibility for both Angel's Estate and Purcari, particularly in the HoReCa sector. Bardar, facing a competitive pricing environment in Moldova, is experiencing slower growth. To maintain its premium positioning, we avoid promotional price wars and focus on expanding export markets. For Bardar, given the nature of brandy aging, there is no urgency to offload volumes, as aging enhances value over time. This gives us flexibility to strategically position the brand in the right commercial opportunities. We have also begun developing specific products from our Bostavan winery for Moldova and Bulgaria, with the first deliveries completed in Q4. Other markets, such as the Czech Republic and Slovakia, show solid growth, while Asia demonstrated strong momentum in Q4. For the rest of the world, we view these as

midterm opportunities, expecting volume growth in the coming years as initial deliveries transition into larger repeat orders.

If we move on, just to dive a bit **into the non-financial results**: We strengthened our presence in core markets like Romania through participation in wine events and music festivals. Last year, we sponsored for the first time the Jazz Festival in Cluj, and we will continue this practice this year. Additionally, we will soon announce sponsorships for other major blockbuster festivals.

In terms of marketing campaigns, we are proud to have Mircea Lucescu, Romania's most distinguished football coach and current national team coach, as our ambassador. A true legend in the field, he has over 50 years of coaching experience and hopefully might become the oldest coach to qualify for the World Cup at the end of this year. Fingers crossed for Romania and Mr. Lucescu!

We also launched Sapiens, a new collection of wines. Purcari Group continues to receive multiple awards, consistently winning medals, which we actively communicate. In terms of quality recognition, we were named the Best Winery in Moldova for 2024 – our second win in three years, having previously received the title in 2022. This highlights our commitment to production excellence and our success in international markets. Additionally, we earned multiple awards at the Decanter Competition and other prestigious events.

A new Easter campaign in Romania is planned for late March.

A key priority remains launching new products and **expanding into new markets**. We entered the UAE market with both alcoholic and non-alcoholic wines. We see a big opportunity for non-alcoholic wines in the Middle East, and we will expand there. Additionally, we expanded into Nigeria, Slovakia, Canada, and Cyprus. We also maintained strong market activity across 40 countries, with multiple events in the US, Latvia, and Serbia.

Alexandru Filip, Chief Executive Officer, Purcari Wineries PCL: For the next part, Anatol, do you want to take over from here?

Anatol Belibov, Chief Financial Officer, Purcari Wineries PCL: Yes, sure. Thank you, Alex. Apart from strong growing core business wine, total revenue increased by 3% year-on-year.

It is important to note that the decision to deconsolidate EcoSmart has affected our total revenue growth for 2024. In 2023 EcoSmart counted 30 million in revenue, accounting for more than 8% of total revenue. As a result, this change will influence overall growth for 2024. Additionally, this decision has impacted our gross margin. In 2023, EcoSmart represented half of the group's profitability, and its deconsolidation has contributed to an improvement in our average gross margin by approximately 1% in 2024.

Focusing on the core wine business, we achieved a 4-5% increase in margin for 2024. Two key factors contributed to this improvement: first, pricing adjustments and mix improvements. As mentioned in the previous slide, we managed to increase the average price per bottle, which directly enhanced profitability.

In the meantime, another important point is the reduction in COGS rate, apart from shifting production of less expensive wine from 2022-2023. our team successfully negotiated lower prices for bottles and corks. Additionally, we improved production efficiency, which collectively contributed to enhancing our gross profitability.

Total SG&A (OPEX) reached 107 million RON, marking a 31% year-on-year increase. The largest contributors to this increase were trade and marketing investments, which grew by 27% year-on-year. Our team focused on maintaining brand awareness and supporting promotional activities, particularly in trade execution. These marketing initiatives significantly impacted our total marketing spend.

Salary costs increased 29% year-on-year, primarily due to salary inflation, team expansion, and the implementation of the 2024-2027 management incentive plan.

Logistics costs also increased, aligned with our strategy to expand in export markets. A notable factor here is the implementation of RetuRO in Romania, which had an impact of 2.4 million RON, contributing to both marketing and sales expenses.

General administrative costs increased by 31%, now representing nearly 30% of total revenue. The primary driver of this increase was salary-related costs, with half of the increase attributable to the management incentive plan. We have a Management Incentive Plan (MIP) that includes share awards and stock options. The associated costs for this plan are reflected in the current year's financials, contributing to the increase in general and administrative costs.

Moving on to other income, we have registered 8 million RON, which primarily stems from income derived from the sale of various fixed assets, as well as adjustments to provisions from prior years.

Our operational result, as stated in the financial statement, is close to 83 million RON, showing a 12% increase compared to 2023. This operational profit growth is aligned with the rate of increase in our core business activities.

EBITDA stands at 107 million RON, or a 28% margin. Net profit is 57.4 million RON. In the next slide, I will explain the reasons for a decrease of 10% compared to the prior year.

As of 31.12.2024, Purcari Group performed an assessment under IFRS 10 and concluded that we no longer have control over EcoSmart. As a result, EcoSmart has been deconsolidated from the financial statements, which has led to a loss of 4.6 million RON. If we recalculate EBITDA and net profit excluding this impact, our normalized EBITDA stands at 112 million RON, or a 29% margin, and our normalized profit is close to 62% margin.

To reiterate, our gross margin has been improving over the last eight quarters, and we are committed to maintaining this upward trend through our operational decisions. We are focused on achieving the right growth equation, which includes optimizing pricing and mix while carefully managing costs, especially in the current environment where costs have become more fluctuating.

In 2023, we finished with a profit of 6 million RON. In 2024, we count for an additional 30% increase in gross margin. As previously mentioned, we became more efficient, and we also registered other income of approximately 8.8 million RON.

Excluding the increase in OPEX, which is close to 19 million RON, we also faced a significant negative impact from agriculture. As mentioned in previous calls, the 2024 harvest didn't meet our expectations, with lower grape quantities, leading to a loss of 7.2 million RON.

Additionally, in 2024 we incurred several one-off costs, which are particularly related to taxes. As reflected in our financial statement, taxes increased by more than 80%. This increase is due to a profit adjustment

from the previous year. In our interim financial statement for 2023, we initially reported 12 million RON, which was later revised down to 7 million RON, creating an impact of approximately 6 million RON in year-on-year variance. The discontinuation of EcoSmart had an impact of 4.6 million RON. The implementation of the management incentive plan, specifically the stock option plan, had an impact of 4 million RON. Our net profit, both with and without this one-off impacts, should be higher than the previous year. Furthermore, factors such as Forex fluctuations and other costs contributed to a decrease in the reported net profit.

Despite these factors, our balance sheet remains strong, and we are well-positioned to finance our investment strategy. Our current cash ratio remains similar to the prior year, ensuring sufficient liquidity while maintaining a balanced approach to credit costs. Net debt has increased, aligning with our strategy to support growth and expand production capacity. However, it remains within market range. The Net Debt-to-LTM EBITDA ratio stands at 1.72, reflecting a slight increase due to higher debt exposure.

Alexandru Filip, Chief Executive Officer, Purcari Wineries PCL: Okay, thank you, Anatol. Just to wrap up the financial part, if we stay on the guidance. It's fair to admit that we failed to deliver on the revenue growth ambition. Our target was 15-20%, but we closed the year at 13%, primarily due to lower-than-expected growth in wine revenues. Several planned export transactions did not happen by the end of the year, and growth in our core markets was slightly below expectations.

On the other hand, EBITDA performance remained strong, aligning with the higher end of our expected range. Profitability has been a key focus of our strategy, and we successfully delivered on this front. Ensuring sustained profitability remains a fundamental pillar of our long-term growth strategy.

For 2025, our guidance reflects the fact that EcoSmart is no longer part of our operations. Now we focus solely on total revenues, which come primarily from wine and ancillary activities. Our goal is to achieve a growth between 12% and 17%. This range is driven fundamentally by the market uncertainty and external factors that may impact performance. Given these conditions, we are taking a cautious approach. Growth should primarily come from expanding core markets. To achieve this, we have clear plans to expand our product portfolio, improve the distribution and the turnover for our key products.

A fundamental strategy is launching new products, particularly those with above-average margins, to improve overall profitability of the portfolio. At the same time, we are investing in new markets to diversify and strengthen our revenue base. This diversification takes time and may initially impact operating costs and margins. As an example, at the beginning of this year, we expanded our international sales team. We now have local representatives in Poland, Central Europe, and North America. This investment will support faster mid-term growth through local presence and professional networks. While costs come first, we expect strong returns in the future. Similarly, we are entering new markets through partnerships with distributors. These market launches require initial investments in paid marketing and communication to drive volume growth.

We will continue to manage portfolio profitability while considering these various factors. Our profitability estimates and targets remain consistent. We believe we have the necessary tools to mitigate cost impacts. We have already begun passing some of the cost increases to clients, starting at the end of last year and continuing in the first half of this year. We expect to see the effects of these measures over time.

Operational efficiency is also a key focus. We have initiated the digitization of our operations, and this process is ongoing. It involves both expanding the scope of digitized processes and rolling out new systems across various markets. We remain optimistic about achieving our goals and are committed to the mid-term targets outlined in our 2027 strategy.

We continue to invest, and we are confident that commercial and capacity-related investments will generate mid-term results. A critical priority is ensuring that the additional value generated through higher sales translates into net profit for shareholders. As we achieve greater scale, we expect to see stronger profitability. As I mentioned several times, investments in production capacity and vineyards are not linear; they represent strategic jumps that position us for long-term growth. The benefits of this increased scale should materialize over the next few years, aligning with our mid-term objectives.

That being said, I think now it's a good time to open up the floor for the Q&A part. Let's check the chat.

Q&A session

Eugeniu Baltag, Investor Relations Director, Purcari Wineries PCL: We have the first question from the chat from Participant 1.

Participant 1: Hi, are you going to launch a sparkling wine product? Or will you make acquisitions related to sparkling wine production?

Alexandru Filip, Chief Executive Officer, Purcari Wineries PCL: First of all, just to clarify a few things, Purcari is already producing its own classic method sparkling wines since 2019. We have steadily increased sales and now we are planning to expand production capacity to meet growing demand. Purcari sparkling wines remain a priority for us. They are complementary to our core still wine portfolio and provide higher-than-average margins. We will continue to develop this segment both commercially and from a production perspective.

At the same time, we currently sell the Charmat method to other brands of the group, which are produced by third-party producers and sold under our own labels. As volumes grow and we reach sufficient production levels, we plan to gradually transition to in-house production. We are currently evaluating the business case, including determining the appropriate volume and timing for this switch.

We are mindful of optimizing CapEx in alignment with the group's broader priorities. At the moment, we remain focused on brand development, with strong consumer support behind our products. In the mid-term, we will assess the opportunity to switch to our own production, with an emphasis on securing customers and production capacity.

Eugeniu Baltag, Investor Relations Director, Purcari Wineries PCL: Alex, thank you for the answer. Dear participants, I kindly ask you to write your questions in the chat section, or you can unmute yourself and address the question directly.

Participant 2: Good afternoon. Do you expect higher negative impact (cost) from the Warranty-Return System in Romania or it's not meaningful?

Anatol Belibov, Chief Financial Officer, Purcari Wineries PCL: We have already received official communication that, starting in 2025, costs will increase by an average of 10%. This was unexpected, that is why we update our budget. We will implement corrective measures, including price adjustments to be passed on to the market. Additionally, we will explore other opportunities for cost savings. As a result, there

will be a 10% higher fee for SGR. However, we will make efforts to minimize the impact on our margins through proactive actions.

Participant 3: Could you provide more granular explanation for your revenue growth target for 2025, please? How will it break down by brands, international markets, etc.?

Alexandru Filip, Chief Executive Officer, Purcari Wineries PCL: To provide a clear answer, the story remains consistent. In absolute and relative terms, we expect new markets and smaller markets to grow faster than our core markets. However, given the weight of Romania and Moldova, through Purcari and Bardar, the majority of the absolute contribution will come from these markets by the end of the year - specifically Romania, Moldova, Bulgaria, Poland, and particularly the Purcari, Crama Ceptura, and Bardar brands. This is simply a matter of mathematics. Over time, we plan to reduce the relative weight of these markets and brands. In the short term, we expect exports to grow significantly, and the contribution from the rest of the world should increase by the end of next year. Nevertheless, the absolute contribution will still primarily come from our core markets.

Participant 4: How do you see Asian and North American markets in 2025?

Alexandru Filip, Chief Executive Officer, Purcari Wineries PCL: To be honest, we see these markets quite different. Asia, excluding China, presents a more challenging dynamic. Volumes in 2024 are below the 2019 levels, indicating a significant market decrease. However, as we are relatively small in that market, we are not overly discouraged by this trend. We still have growth plans, but it will be a more challenging environment.

In contrast, North America shows positive momentum. For example, we exported a significant batch to Mexico for the first time and now we are very hopeful and excited to see the market's response. The products only arrived in November, so we are closely monitoring the market reaction and follow-up orders. We see considerable opportunity in the North America market. In addition to Mexico, we are already established in both Canada and the US via local presence. We are optimistic about further growth. This is our ambition.

Participant 5: Regarding your core markets, particularly Purcari, how does the growth expectation break down into volumes vs price? How can you justify raising prices further?

Alexandru Filip, Chief Executive Officer, Purcari Wineries PCL: Regarding growth in the core markets, it's important to note that growth will come from three factors: volume, price, and product mix. While we are passing on some of the cost increases across the portfolio, we are also investing significantly in promoting higher-priced products. This remains a key focus for us. As I mentioned earlier, we are placing emphasis on sparkling wines and further investing in marketing and promoting our Spark line. Additionally, we are increasing investments in the HoReCa sector, where we offer high-margin products. Furthermore, we are closely monitoring the price index versus our competitors. Based on historical data, we believe we are operating within the standard price range. Our goal is to ensure we remain competitive, and we do not become too expensive for our consumers.

Participant 6: Given the deconsolidation of EcoSmart, the service segment contribution to revenues declined drastically in 2024 Financial Year. Do you have something in plan, to offer new services/products? Thank you!

Alexandru Filip, Chief Executive Officer, Purcari Wineries PCL: We are not expanding into new lines of services or products. We are focused on our core products: winemaking and brandy. The only additional

services we provide are hospitality services at Château Purcari. We have plans to potentially develop hospitality services at our other wineries, particularly at Angel's Estate and Crama Ceptura. However, this may not happen this year. From our perspective, this aligns with our strategy of sticking to what we know and do best.

Participant 6: Thank you, all clear. Have a nice day! See you next time!

Eugeniu Baltag, Investor Relations Director, Purcari Wineries PCL: I think the presentation was so comprehensive that we received only a few questions. If there are no further questions, we would like to thank you for attending our conference call.

Alexandru Filip, Chief Executive Officer, Purcari Wineries PCL: As always, we are available for any follow-up questions, in case they arise. Eugeniu and Victoria will also attend several events over the next few months, and we hope to meet some of you there. We are happy to connect on specific points at any time. Thank you very much for attending the call and for your continuous support of our company. Goodbye.