



PT Avia Avian Tbk (AVIA)
FY 2024 Earnings Call Q&A Summary
Friday, 28th of February 2025

Panelists:

Mr. Ruslan Tanoko	: Vice President Director
Mr. Robert Christian Tanoko	: Operations & Development Director
Mr. Kurnia Hadi Sinanto	: Finance Director
Mr. Andreas Timothy Hadikrisno	: Head of Investor Relations

1. Questions from Christian Purnomo, CPI Investment

- 1) Does AVIA own or lease its wholly-owned distribution centers (DCs)? What is the distribution range per DC?
- 2) Why do you think AVIA's share price has kept going down since IPO? Is the IDR 50 trillion market capitalization overvalued? What do you believe is a fair market capitalization for AVIA?
- 3) Why did AVIA enter into the PVC pipe business? Will you expand to other product categories?
- 4) Why doesn't Avian retain more earnings instead of paying a high dividend and use those funds to expand the business more aggressively? With AVIA's expansion into PVC products and other trading goods, is there a potential conflict with other businesses owned by family members?
- 5) Does Avian lease or rent any properties from the family owners?

Answer:

- 1) As of December 2024, Avian Brands operated 124 wholly owned DCs and 15 Mini DCs, all of which are leased. As we continue expanding our distribution network, the average delivery distance to customers decreases. The company provides 1-day delivery services for retail outlets located within a 50 km radius from our wholly-owned DCs. We maintain a 91% fulfillment rate for this service, which means around 9% of our customers are still located beyond a 50 km radius from our nearest wholly owned DC.
- 2) During the IPO, our historical performance consistently demonstrated strong double-digit sales growth. Regardless of the IPO, we would still have encountered the same macroeconomic challenges, particularly the weakening demand in Indonesia. While short-term price movements are influenced by various external factors, including the broader market environment, our focus remains on strengthening the fundamentals of the business for long-term growth.
- 3) Our expansion into the trading goods segment was driven by the strong synergies with our existing customer base. This is reflected in the number of customers in the trading goods segment, which represents around 85% of our total consolidated customers. It enables us to leverage our distribution network, strengthen our bargaining power with retail outlets, and improve our payment collections. Regarding further expansion, we are focusing on areas that align with our current business and distribution channels.
- 4) We believe aggressive spending alone does not guarantee faster market penetration. As the market leader in the decorative paint market in Indonesia, Avian is already very



aggressive in its expansion strategy compared to smaller competitors. This is evident in our continuous distribution center expansion and the launch of over 10 new products annually, supported by a strong R&D team. Our expansion into PVC pipe products is part of our broader business strategy, and any new product category is assessed based on market opportunities and synergies with the existing operations. This expansion does not create any conflict of interest with other businesses of the family members as Avian operates independently with its own strategic direction.

- 5) Out of 124 distribution centers, 50 are leased from an affiliated company owned by the family, while the rest are rented from third parties. However, the company does not set rental rates for family-owned properties. Instead, it engages independent third parties to assess and determine the fair market rates based on the location and facilities. Beyond these leases, Avian has no other rental or lease agreements with family members.

2. Questions from Robin Sutanto, Mandiri Sekuritas

- 1) How has sales volume been in the past two months? How do you see inventory levels at retailer customers? Is trading goods expected to resume growth and margin improvements?
- 2) Nipsea's FY24 OPM rose YoY in contrast to AVIA's, any comment on this? Any guidance on dividend payout?

Answer:

- 1) In the first two months of 2025, our sales performance showed double-digit growth. The company had a last-bite moment in January because we decided to increase our prices by 2.5-5% starting February 1st. Our customers generally accepted the price adjustment without issue, especially considering that we did not participate in any price hikes last year, even though many of our competitors increased their prices. On the other hand, our trading goods segment has not performed as strongly during the same period as the PVC pipe business tends to be weaker in the first half of the year.
- 2) Our operating margin was affected by the increase in the trading goods sales contribution. This segment generally has lower margins, which led to a slight compression in profitability. Regarding dividends, Avian Brands remains committed to distributing a minimum 50% of the dividend payout ratio. However, given our historical distributions of over 80%, we anticipate sustaining this level unless there is a significant capital allocation requirement.

3. Questions from Nashrullah Sulaeman, DBS Vickers

- 1) Did the average selling price in 4Q24 decrease? Any plan for a price increase in 2025?
- 2) Do you see any additional demand from the 3 million house program? Can you remind us again how much demand comes from repainting vs new homes?

Answer:

- 1) Our blended ASP increased by 2.4% in Q4 2024, mainly affected by the product mix. The company did not implement any price adjustments in 2024. Regarding the price increase in 2025, please refer to Question 2 from Robin Sutanto, Mandiri Sekuritas.
- 2) While Avian primarily focuses on the retail market, we have been gradually expanding our presence in the project segment. However, we remain selective, avoiding large-



scale developers that demand lower margins and longer payment terms. The 3 million housing project is a potential opportunity, and we have been actively engaging with government organizations to build confidence in our products. About the split between demand from repainting vs new homes, there is no official data on this information.

4. Questions from Tian Q Chen, HSBC Asset Management

- 1) Can you provide further details on the 2025 guidance, including gross profit, EBITDA, and net profit margins, including the gross profit margin for both paint and trading goods?
- 2) Is the Cirebon plant fully commissioned since there is no expansion Capex set aside in 2025? If yes, how is the ramp-up, and is there any impact on depreciation/overhead?

Answer:

- 1) While raw material prices remain stable, our main concern is the USD/IDR exchange rate, as ~70% of our raw materials are tied to the USD. To mitigate this risk, we implemented a price adjustment in February. As a result, we expect the gross margin for the architectural solutions segment to hover around the same level as in 2024, while the trading goods' gross margin will normalize to 19-20%. We will maintain aggressive marketing efforts while implementing tighter cost controls. Consequently, we remain comfortable in maintaining an EBITDA margin of ~27% and a net profit margin of ~22%.
- 2) The Cirebon plant is still under construction, focusing on increasing our water-based paint production capacity. We are targeting an initial 100,000 MT capacity for the first year, with a total planned capacity of up to 225,000 MT. From 2019 to 2024, we have invested around IDR 240 billion in the plant, and for 2025, we will allocate around IDR 300 billion. In terms of cost, the minimum wages in Cirebon are 46% lower than in our existing manufacturing plants in Sidoarjo and Serang. Additionally, the plant is designed to operate with higher efficiency and larger batch volumes, which will minimize the overhead and direct labor costs.

5. Questions from Kevin Halim, Maybank Sekuritas

How do you see the competition from Nippon Paint? Have they scaled back on their aggressive expansion? Do you see room for AVIA to gain market share in FY25E?

Answer:

We remain confident in our ability to gain market share, regardless of the market conditions. The Indonesian building materials sector faced challenges last year, and we do not anticipate significant changes in market conditions in 2025. Our strong performance in Q4 2024 indicates that our market share expansion is not solely reliant on marketing spending but is driven by the disciplined execution of our strategies. We believe that as long as AVIA and Nippon continue competing for market share, smaller players will inevitably struggle.

6. Questions from Handiman Soetoyo, Mirae Asset Sekuritas

- 1) Who do you consider to be your closest competitor and what are their key strengths where AVIA still lags behind?
- 2) Have you observed any competitors gaining market share in Java, and what factors have contributed to their success?



Answer:

- 1) Our closest competitor is Nippon Paint. As a multinational company, one of their key strengths is their extensive R&D support, with teams located across multiple countries. While this provides them with strong innovation capabilities, it does not hinder our ability to continue gaining market share. The company leverages external support to enhance its R&D and other operational aspects.
- 2) Apart from AVIA, we do not see many competitors gaining significant market share. Nippon Paint performed well in Q4, achieving over 9% growth, while we recorded over 11% growth for the architectural solutions segment. This suggests that smaller players continue to face challenges not only in Java but across other regions of Indonesia.

7. Questions from Bob Setiadi, CGSI Sekuritas

- 1) How do you see paint demand for this year's Lebaran?
- 2) Are you going to participate in the 3 million housing projects?

Answer:

- 1) We strategically conducted our last-bite moment in January, knowing that retail outlets tend to stock up ahead of Lebaran. While market sentiment remains weak, this timing ensures that retail outlets are holding more of our inventory, giving us an advantage as demand picks up during the festive season.
- 2) For discussions on AVIA's project business, please refer to Question 3 from Nashrullah Sulaeman, DBS Vickers.

8. Questions from Dadang Kadarusman, Private Sector

Is there a specific plan to increase business in the rest of Indonesia, such as Sulawesi & Papua?

Answer:

Avian Brands has been a market leader in Sulawesi and the rest of Indonesia (including Papua) due to our early expansion efforts. Rather than just expanding our physical footprint, we focus on deepening our market penetration by increasing sales of product categories where we are not the leader. We leverage our strong relationships with retail outlets, encouraging them to sell more of our products by highlighting our reliable supply chain, strong after-sales support, and flexible inventory management.

9. Questions from Axel Bramantyo, Retail Investor

The company launched many new products last year. How is its NPD performance?

Answer:

New product launches typically take time to generate significant contributions. However, some innovations, like No Drop Kolam Ikan, have seen immediate strong demand. Unlike other two-component solutions, this product's one-component formula simplifies application, making it more accessible to painters. While not all new products see such rapid success, the demand for this product has been surpassing our initial forecasts.



10. Questions from Claire Hwang, Undisclosed

- 1) With the competition in Indonesia's paint segment getting stronger, especially from Nippon Paint and other brands, what strategies are implemented to maintain market share without sacrificing profit margins this year?
- 2) What are the top three products in 2024, and will these three products maintain their top positions in 2025? Because you have plans for new launch, will it affect the existing products' sales?

Answer:

- 1) In Q4 2024, our growth was driven by the disciplined execution of our strategies rather than the implementing of new marketing initiatives. During that period, despite lower spending on advertising and promotions, we recorded strong double-digit sales growth. This approach will continue in 2025. Additionally, we focus on expanding our customer base beyond large retail outlets. While big customers tend to be more demanding on margins, our strategy of penetrating mid-tier and smaller retail outlets has allowed us to grow without sacrificing profitability.
- 2) Avian Brands' top three revenue contributors are the wall, waterproofing, and wood & metal, and these are expected to remain the top segments in 2025 and beyond. The company's innovation remains focused on strengthening these three segments. New product launches are expected to complement rather than cannibalize existing sales, contributing to overall growth.

11. Questions from Rut Yesika Simak, CGS International

- 1) Will there be any changes or modifications to your marketing strategy going forward?
- 2) Will you maintain the level of BTL (as a % of sales) like in FY24?

Answer:

- 1) Avian Brands' core marketing strategy remains unchanged, with a strong focus on execution. However, adjustments will be made selectively based on regional competition landscapes. Any modifications will be specific to market conditions rather than broad strategic shifts.
- 2) Avian Brands does not plan to exceed its full-year 2024 below-the-line (BTL) spending and aims to further optimize the costs. The company demonstrated in Q4 that the effective execution of our strategies can drive growth without increasing marketing expenses, and this disciplined approach will continue.

12. Questions from Vilhelmina Kwee, Borealis Kapital

Notice that AVIA managed to book low raw materials cost amidst IDR/USD depreciation throughout 2024. How was FX risk managed in AVIA?

Answer:

AVIA benefited from a slight decline in raw material prices in 2024, primarily due to supply and demand dynamics. While FX fluctuations did have an impact, raw materials account for only ~25% of sales, with ~70% of those costs affected by foreign exchange rates. AVIA does not engage in FX hedging but instead manages risk by maintaining disciplined, periodic payments, maintaining stability while avoiding speculation.



13. Questions from Felix J, Verdhana

What is the target of your market share this year?

Answer:

AVIA aims to grow its market share by at least 1% annually, regardless of market conditions. However, this year, the company is optimistic about exceeding that target, particularly with the addition of products from the company it is acquiring.

14. Questions from Hyeonjun Yang, Parkway Capital

Could you walk us through your thought process on your capital allocation decisions, especially on how you decide on buyback amount vs dividend payouts?

Answer:

In general, we want to maintain our commitment to distributing 50% of net income as dividends. If there are no other capital allocation needs, we can increase this payout ratio, as we have done over the past two years, supported by our strong annual free cash flow. Capital allocation decisions, including share buybacks, are reviewed annually based on the company's strategic plans, and if the additional buyback proposal is approved during our AGM, the dividend payout may be adjusted accordingly.

15. Questions from Richard Addyanto, Retail Investor

How do you position Avian Brands compared with the other players in the market? Is the competition becoming more aggressive, and how can Avian differentiate to beat the other players in the market?

Answer:

Avian Brands positions itself as a long-term, reliable partner for its customers by emphasizing service quality and a mutually beneficial relationship. With a nationwide distribution network and over 7,000 employees at the distribution centers, Avian ensures consistent product availability and hands-on support. Despite its strict payment terms, Avian offsets this with exceptional service, including reliable deliveries, promotional support, and immediate issue resolution. The company also drives continuous product innovation, leverages backward and forward integration, and is committed to providing the best quality service to its customers. During times of uncertainty, the company assures its customers that they are partnering with a company that values their business and prioritizes their success.

