



Tat Gıda Sanayi A.Ş.

Tat Gıda Sanayi A.Ş. First Quarter 2019 Financial Results Conference all

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Conductors:

Mr. Başak Tekin Özden, CFO

Conference Call Conducted by Chorus Call Hellas



CHORUS CALL HELLAS
PROVIDER OF TELECONFERENCING SERVICES

TEL: +30 210 94 27 300

FAX: + 30 210 94 27 330

Web: www.choruscall.com

OPERATOR: Ladies and Gentlemen, thank you for standing by. I am Andrea your Chorus Call operator.

Welcome and thank you for joining the Tat Gıda conference call to present and discuss the First Quarter 2019 Financial Results. At this time, I would like to turn the conference over to Ms. Başak Tekin Özden, CFO.

Ms. Özden, you may now proceed.

ÖZDEN B: Thank you, operator. Hello, everyone, thank you for joining our webcast. I am happy to share that we closed the first quarter with successful results, and I will walk you through the details now and answer any questions you may have at the end of our presentation.

First, I would like to summarize the financial results and important topics as highlights of this quarter and going forward. First of all, we generated 279 million TL revenues and this is 6% higher than last year's same period revenue.

In fact, when we look at branded sales our growth figure is 24% which I will go into detail in the following pages. We posted 61 million Turkish liras of gross profits. This is almost parallel to last year. Our operating profit stood at 25 million TL, almost doubling over last year. And our income before tax stood at 60 million Turkish lira, 61% higher than last year same period.

Going over the important topics, I would like to remind you that as we have already shared in our last webcast, last year

in the third quarter, we had started to lose margins in our private label business, as the retailers put more pressure on prices, despite the hikes in raw milk costs, and we were moving away from profit... our profit target in the private label business.

So at the start of the last quarter, we decided to stop, to exit the private label business and we are now focused on growing our branded sales in main categories and actually we have seen positive results so far, so we are happy with our decision.

However, the National Milk Council announced the new raw milk prices this month as 2 Turkish lira per liter starting on May 1st, so we will have to increase our prices as well and we expect our competitors to raise their prices as well. Nevertheless, we will continue supporting branded sales through additional price actions, listings in discount markets and through marketing communication.

We also continued our marketing actions in Pasta and Pastavilla businesses, although with lower spending. You may well know that this year the government announced a specific permit to imports tomato paste for a limited timeline. The overall quota was announced as 25,000 tons. We applied for the permit and obtained 4,000 tons of allocation. This is almost 6% or 7% of our total tomato paste, tomato volume, so we don't expect a major impact on the market as the amount is very limited. Our imports will be in Turkey to resume.

Another important topic is that we recently closed the collective bargaining agreement with favorable results for the company and for our labor force. According to the final agreement, the union workers will receive 25% wage raise, this is similar to the increase in minimum wage actually and next year's raise will be based on the end of year consumer inflation, plus 2.5 points.

So going through the financials, let me start with the net sales. As you see on the chart, we maintained our growth trends in the first quarter as well and we see 6% growth here. I can say that despite the challenges in the market as we have a diversified portfolio of food products, we closed the quarter with strong results overall.

I would like to go over the details of our net sales to break down by product group. Here you will see that we achieved strong growth in the tomato business. In fact, the growth rate is 29% in this segment.

As you may well remember, the tomato output last year was lower than expected due to reasons related with climate and diseases. So the volume we processed was lower than previous years. And the price of Tomato has gone up by 128%. As we are the dominant market player, we could pass on the cost hike in our prices in this, in the Tomato business and we maintained our higher margins while growing our sales.

In the Dairy business, you see here a 10% contraction. However, when we exclude private sales in last year's

figures, in fact we grew by 25%... 21% in Dairy business, so we see our strategy is bearing its fruits. In the Pastavilla business, the growth rate is 16%. This is largely due to price increases we have applied by the start of the year.

When we see, when we look at the exports, we see that the exports grew by... grew both in USD and in TL terms. Our exports revenues total of 29 million TLs and the growth rate was 61%. Share of exports in our total sales stands at 10.5%.

Going on to the profits figures; high growth in high margin Canned Foods and exiting private label business had a full positive impact on profitability. We generated 61 million TL of gross profits. We maintained our gross profit stable in terms of Turkish liras. We lost 0.9 points in margins. However, we posted 25 million of operating profit and 9% operating profit margin.

The major reasons for this performance is the high growth in high margin Canned Foods, favorable product mix, exiting lower margin PL business, and further operational efficiencies. And additionally, the income from maturity difference increased from 4.7 million TL to 13.6 TL this quarter, mainly due to the rising inflation rate.

Looking over to the EBITDA and income before tax. Our EBITDA stood at 22 million TL and the margin rose by 3.6 points. Our depreciation, amortization expenses increase to 4.4 million TLs and this was 3 million TL last year, at the same period.

Our investment expenses totaled 2 million TL this year versus the 5 million TL that we had last year, Quarter 1. We closed the quarter with 16 million TL of income before tax and our margin rose by 1.6 - 1.7 points. Financial expenses, the main reason is that the financial expenses increased to 9 million TL from 3.3 million TL last year.

This was a result of the long term financial loans we have been carrying since last year and the new ones we obtained in 2019 and apparently rising interest rates had further adverse affects on our financial costs. And I will go over our financial debt position on the following pages. So, finally, we registered 14 million Turkish liras net income by the end of first quarter 2019.

Going over on our net financial debt. You will see here that by the end of March, our net financial debt dropped to 101 million Turkish liras. Last year, we had higher raw material prices both in Tomato and Dairy business and this led to higher working capital needs. Accordingly, our net financial debt has increased.

Additionally, the... our... as our Tomato business has a seasonal pattern, we make payments in the seasons to our farmers. So our financial loans go up in the period. Last year, because of the sudden economic downturn, the loans obtained in this period were... had very high interest rates because of the market conditions. So this impact had an adverse effect on our financial costs.

And this year, instead of obtaining all the loans in one season, we wanted to diversify our financial loans with different maturities and interest rates. This is why our financial loans are higher than last year, but net financial debt is lower now. And the net financial debt of EBITDA ratio is 1.6%, which is a healthy level. Let me add that all our financial loans are in TL terms, which are also a major FX risk.

Next you see here the summary income statements what I have already summarized the picture, so I will go over to the summary balance sheet. You see here that our asset stands at 880 million TL almost 17% higher than last year Q1. And you see our financial ratios, current ratios, liquidity ratio and working capital, which are in line with previous trends and in all healthy levels and we aim to keep them as such.

So as final words, we started the year with good results and we aim to maintain the performance. So this is all on my side. Thank you for listening. I'm ready to take your questions.

Q&A

OPERATOR: The first question is from the line of the Sahil Kumar of Moody's. Please go ahead.

KUMAR S: Hi, thank you so much for the call, I have two questions. The first one is on the raw milk prices. So how much increase in raw milk prices are you expecting in the coming month? And how much time it will take to pass on to your

customers as you have mentioned that you would increase your prices. So how much time it will take to reflect in your prices?

And the second question is, if you increase your prices, how competitive landscape would be in the market in that case for your volume growth? Thank you.

ÖZDEN B: Thank you for the questions. The National Milk Council announced the new prices as 2 Turkish liras and it will be effective by 1st of May, so 3 days later. We will have a similar raise, we expect to have a somewhat similar raise in our products not... but the price increases will be different on different product lines, so it will not be the same on milk products or the cheese or the other categories. So we will have different levels of price increases, but we expect our competitors to do the same. We don't know the numbers of course. We are also waiting to see what we will face actually, but we, as far as, what we have heard the numbers are... the competitors increases, price increases, are somewhat similar to ours; if what we hear is correct. So in that case the competitive landscape may not be so much different than we have, what we have today. But of course, we cannot be sure as of today's what the new prices will be. our new prices will be effective by the start of May. Thank you.

KUMAR S: And, sorry, just a follow-up, so how do you think about your volume growth with the increase in the prices in your different products? So, will there be...?

ÖZDEN B: Basically, our focus is to maintain our volumes. We have been doing some price actions, listing in discount markets or market and communication since the start of the year to grow our volumes and we will continue with our plan. Of course, if the landscape changes than what we have anticipated, we may need to revise our plan. But we maintain our targets; volume and revenue targets.

KUMAR S: Sure. Thank you so much.

ÖZDEN B: Thank you.

OPERATOR: We have a question from Azmi Kahan and I quote "what are the reasons behind sharp decline in marketing expenses. Is it sustainable? What are reasons behind sharp decline in Dairy segment volumes? Are you optimizing SKUs with the elimination of unprofitable ones? For the rest of the year, should we expect low volume growth but relatively improved profitability trend to continue".

ÖZDEN B: Okay. So, as I have explained it by sharp volume decline, this is because of the private label business that we had last year. So then the excluding the private stable business we don't have a sharp volume decrease actually, we posted growth over last year as I have already shown on the slide. We are always optimizing SKUs for more profitability to raise our margins, of course. But this is the not main reason we see here. And we expect our trend to continue towards the end of the year.

The marketing expenses, we had spent lower in Tat and Pastavilla businesses, we had some lower spendings in our export business in terms of marketing expenses. And we decided to manage some of our marketing budgets through discounts, so this doesn't have an effect on operating profits. It has an effect of lowering the gross profit, but also lower the operating expenses, the marketing expenses. But I mean overall, it doesn't have an effect on the operating profit. So as these are the main reasons, we expect to maintain our performance.

OPERATOR: We have a question from Melis Pokar: "Can you enlighten us about segments competitive environment, what are your recent market shares and ranks in leading categories. Do you think first quarter EBITDA margin is sustainable for the full year? What are your expectations about long awaited retail laws, advantages or disadvantages, do you expect a cap on private label products?"

ÖZDEN B: We are the dominant player in the Tat category, especially the canned food and the ketchup business. And we are also the segmental leader in pasteurized milk. In other segments, we are the second in... regarding Pastavilla we are the second brand in the premium pasta segments. And this is the most detail I can share. I can't provide because of confidentiality, because the market shares or the revenue shares are not public in our industry.

So regarding the retail law, I'm not sure what you mean, but there was a new retail law a couple years ago which was revised. And sometimes some of those issues come up on

the news. For example, closing down the malls on Saturday... on Sunday. But, I mean, the... as far as we know we don't expect a major change that would have a major impact on our business.

Regarding the cap on private label products, well I don't think that there will be a... there would be a law, putting a cap on private label products but there is a cap we see in the developed markets. So in the developed markets, the private label business has grown more, I mean, rapidly than what we... what we have seen in Turkey. But it's now almost like 40% of the industry. So the market itself had put a limit or a cap on it. So it's stable around those numbers.

For the EBITDA sustainability, since the efficiencies we had in quarter one are real efficiencies and real you know, margins and real performance, we aim to sustain our EBITDA margin going forward. Again, we're not sure what the new price raises will be in the dairy business, but again, we expect all competitors to raise prices so the landscape may not change so much. Hope this is okay for you.

OPERATOR: We have a question from Erdem Hafizoglu of BGC Partners: "In first quarter 2019, OPEX with a lower percentage of revenues which boosted EBTIDA margin, is this sustainable? What is your guidance for OPEX revenues in 2019 in the whole year? What is your budget target guidance for 2019 revenue growth and EBITDA margin?"

ÖZDEN B: Well, this is what we... again the efficiencies we have exhibited in quarter one are real and we expect them to

continue going forward, but sorry to say that I cannot give a guidance for the end of the year.

Can we take the next question?

OPERATOR: We have a question from Erkan Edincik of Horizon: "First quarter 2019 OPEX is under controlled 43 MNTL versus TL51MN last year and the OPEX sales ratio is 15.3% versus 19.3% last year. What is the sustainable level of this ratio? Is there any target?"

ÖZDEN B: Well, again I cannot announce any targets or guidance, but all I can say is that we aim to maintain the performance. I think there are some similar questions.

OPERATOR: We have a question from Abdullah Demirer of Halk Yatirim: "OPEX ratio decreased by 4 PPT year-over-year to 15.3% in first quarter 2019 to 31% year-over-year decline in sales and marketing expenses. What were the actions that the management took to have lower margin? Furthermore, is that one off or current ratio sustainable for the following periods?"

ÖZDEN B: This is a similar question I have answered I think. So the... we have a favourable mix of products with high margins growing further and we had some efficiencies, so going out of our private label business that had posted a good impact on our P&L and we had further operating efficiencies and we maintained, we aim to maintain the performance.

OPERATOR: We have another question from Erkan Edincik of Horizon: "Is TAT management looking for the M&A opportunities at home or abroad or prefer to grow the business organically?"

ÖZDEN B: In fact, we are looking for opportunities for... in organic growth in Turkey or abroad, but there is... I cannot say that we have any... I cannot talk of a project that have come to fruition, I mean, to completion that would be any news or topic here. So we are always looking. We are evaluating the options but for now, we don't have specific projects.

OPERATOR: Ladies and gentlemen, there are no further questions at this time. I will now turn the conference over to Ms. Özden for any closing comments. Thank you.

ÖZDEN B: Well, thank you once again for joining our webcast. I hope, I was clarifying your points. Of course, we are always at your disposal for any further questions you may have and thank you.