



# Tat Gıda Sanayi A.Ş.

## Tat Gıda Sanayi A.Ş. First Half 2019 Financial Results Conference Call

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### **Conductors:**

***Mr. Başak Tekin Özden, CFO***

Conference Call Conducted by Chorus Call Hellas



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

Welcome and thank you for joining the Tat Gıda Sanayi A.Ş. conference call to present and discuss the First Half 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'm happy to share that we closed the first half of the year with good results. And I will walk you through the details now and answer any questions you may have at the end of our presentation.

When we look at our net sales figures, you see that we have maintained our growth trends in 2019, as well. I should note here that there's a reclassification in our sales figures regarding 2018, last year, in the first half of the year, around 25.7 million Turkish liras of marketing expenses, which were attributed to action sale and incentive contributions have been re-evaluated as sales discounts. So, accordingly, they have been reclassified under sales figures. So, this makes our financials on a...more on a comparable basis, apples-to-apples. So, when we see the effects of this reclassification, we see that our growth over the last year is 10% in total sales.

So, moving to the Breakdown of our Sales Figures, you see here two different charts. Again, another impact is that we had exited Private Label sales in Sek business last year towards the end of

the last quarter. So, again, in order to make the numbers comparable, we also included a like-for-like growth chart.

So, when I go through the categories, in the Tomato Business TAT business, we achieved 28% growth over last year same period. And the...although the volume we processed was lower because the tomato crop was lower due to climate problems and diseases, and accordingly the cost of tomato have gone up by 128%, we maintained our growth by 28%, then our sales increased to 255 million TL this year. So in the first half of the year.

In Sek Business, on the left you see almost the same 0.4% contraction in sales. However, when we make a like-for-like comparison, actually we have been growing 31% over the last year, and we posted the sales of 278.6 million TL. How we did this? This year's figure doesn't include any Private Label sale, and we achieved this growth through branded sale increasing our communication, expanding our distribution network, making listings in discount markets and pricing action. So going forward, if our aim is to do Private Label sales only if the conditions are profitable, and they are in line with our targets.

In the Pasta Business our growth rate is again 28% largely due to price increases. I will go over the Pastavilla at the end of our presentation, I guess, you would have some questions around that topic.

This year in the first half, our exports revenues totaled 50 million TL growing 23% over last year. And our share of exports stands at 8.8%, which is 0.09 points over last year.

Going over the Profits Figures. Thanks to high margin...the growth in the high margin TAT business and Sek branded sales, we had a positive impact on profitability. We generated 118 million TL of gross profit, higher than last year by 26%. And we improved our margins by 2.7 points to 20.8%.

Our operating profits stands at 52 million liras and this is ahead of last year's by 72%. And in terms of margins you will see that the 9% of the operating profit margin we achieved this year is well over our performance in previous years.

So what is the main reason behind this performance? One, first of all the high growth in high margin TAT business and Tomato business, in Sek business exiting lower margin PL sales and reorganizing our production accordingly. So we also achieved further operational efficiencies and also our income from maturity differences increased from 14 million TL to 25 million TL this year, so this have a favorable effect on our operating profit as well.

Our EBITDA stood at 46 million TL, higher than last year by 88%, and our margin rose by 3.4 points to 8%. Our depreciation and amortization expenses increased to 9.2 million TL from 6 million TL last year. And our investment expenses totaled to 10.5 million Turkish lira versus 8.3 million Turkish lira last year. And we closed the first half of the year with 38 million Turkish lira of income before tax. Our margin rose by 1.8 points.

There was a higher impact of financial expenses this year in the first half. Our financial expenses increased from 8 million Turkish lira to 14 million... TLs. This was a result of the long-term financial

loans we have been carrying since last year and the one...the new ones we have obtained this year. And of course, the effect of rising interest rates had further adverse effects on our financial costs. I will go over on our financial debt position on the following pages for more details.

Finally, Net Income, we generated 33 million TLs of net income in the first half and this is 37% ahead of last year's same period.

Going over the Financial Position, by the end of June, our net financial debt has dropped to 57 million Turkish lira. As you may all well know that our tomato businesses has a seasonal pattern. We make payments in the tomato season around these months to our farmers. So our financial loans go up in the period. I'm speaking about July, August and September.

So last year, because of the sudden economic downturn, the loans we have obtained in this...before the season was...had high interest rates because of the market conditions. So this year, instead of obtaining all the loans in one season, we wanted to diversify our financial loans with different maturities and interest rates. And we wanted to start the season with improved liquidity. And this is why our financial loans stand at €269 million TL by the end of June.

On the other side, our cash stands at 212 million Turkish Lira. So the net financial debt is 57 million TL. Overall, our net financial debt over EBITDA ratio is 0.8%, which is well, which is then beyond healthy level and we're carrying around 70% of our total financial loans in the long-term debt. And let me add that all our financial loans are in Turkish Lira terms.

Finally, you see here our Summary Balance Sheet. Our asset stands at 1.011 billion Turkish Lira. This is 17% higher than last year.

Final words about our Financials. I believe that we started the year with good results and we aim to maintain the performance going forward. So our aim is to sustain the performance going over in the second-half.

And finally, I would like to go into some details around the Pastavilla deal. So I'm sure you are well aware of the disclosure we have made last Friday. And you see here what is the plan and what will be the impact on our financials.

First of all, we agreed with Durum A.S on sales of our brands, Pastavilla, Kartal, and Lunch & Dinner last Friday and the sales agreements entail the cash payments of 8 million Turkish Lira.

So the P&L effect will be directly 8 million TLs of income. The rights of ownership of the brand will be transferred subject to the approval of the Competition Board of Turkey. We do not expect any obstacles here as a total market share of our brands and Durum brand is not as high as the dominant players in the market. And so regarding production, our factory in Izmir will stop its operations by 2nd of September and unfortunately, we will be ending our employment agreements with 84 of our employees and including the outsourced employees, the total payments for severance will be around 8.1 million Turkish Liras. We expect a P&L impact of 4.6 million TLs.

Going forward, we don't expect a big impact on our financial because the Pastavilla business was only 5% of our total sales. Also, I should explain that regarding the...after the brands are legally transferred and the sales operations are terminated, we will start preparations to sell the land and the remaining equipment which now stands at 0.6% of our total assets.

And let me explain that you may know that the factory is in Bornova, Izmir and this region has been going through a fast real estate development phase. Yasar University is now here, Ege University and the hospital. There is a popular mall and there are other real estate projects around our factory. And in fact the factory has been squeezed between new real estate projects

So, because the factory was squeezed in the center of the city, actually our manufacturing operations were not quite sustainable going over the long-term. So we evaluated different options, of course making a new investment was one of them. However, there is a large overcapacity in the market, in the sector, in this business, so...and our scale is low and making new investments in another factory isn't feasible for us. So, when we received the... Durum A.S sales proposition, we agreed to sell the brand and stop manufacturing altogether.

So, going forward what will happen, our manufacturing operations will be terminated by 2<sup>nd</sup> of September, we will continue selling our products until the Competition Board approves the deal, and then the brands are terminated will be transferred to Durum A.S and we will stop preparations to sell the land and the remaining equipment. So this is all from my side.

Thank you for listening and I am ready to take your questions.

## Q&A

OPERATOR: The first question comes from our web participant Erdem Hafizoglu. And so the question is, net P&L impact of pasta segment sale is 8.0 to 4.6 million, so 3.4 million positive. Is this correct? Second question, roughly how much value do you expect from the land and equipment. Third question, starting from the third quarter, are you going to adjust your previous financials excluding pasta segment?

ÖZDEN B: Well, the first question, that is true. The second one, I cannot give a figure now, as neither the land nor the equipment is ready for sale. They will become ready for sale in the last quarter. So, we will make or change our accounting and financial figures accordingly. So, this is not a good time to name the numbers now. And the third question, I cannot...in the financials there will be pasta business for this year, because they have been I mean it's on our books, but in our presentations, we will make...we can make like-for-like comparisons. That would be our preference.

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

ÖZDEN B: Well, thank you once again for joining our webcast. I would like to underline that me and my team will be at your disposal throughout the year. So, please contact us anytime. Thank you.