



Tat Gıda Sanayi A.Ş.

Tat Gıda Sanayi A.Ş. Third Quarter 2018 Financial Results Conference Call

Wednesday 14th November, 2018 (17:00 TR Time)

Conductors:

Mr. Ahmet Çağışan Yılmaz, 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 Gelly your Chorus Call operator. Welcome and thank you for joining the Tat Gıda Sanayi A.Ş conference call to present and discuss the Third Quarter 2018 Financial Results.

At this time, I would like to turn the conference over to Mr. Ahmet Çağışan Yılmaz, CFO.

Mr. Yılmaz, please you may now proceed

YILMAZ C: Dear participants, hello first of all, and welcome to the Third Quarter Financial Results of Tat Gıda. I would like to begin with our representation, and after that we will pass to the Q&A session. In the Q&A session, please feel free to send your questions, via email or in verbal form.

Let me start the presentation. The first slide is about net sales breakdown by product group and which gives you some illustration year-by-year.

As you see from this graph, Tat Gıda finished the third quarter with 884 million Turkish lira of sales. This figure in 2017 third quarter on cumulative basis was 788 million Turkish lira. The quarterly growth on cumulative basis indicates a percentage growth of around 12%, and you can also see this steady growth of turnover in the previous 3 years. The compound annual growth rate of Tat Gıda corresponds to 11% on a long horizon basis.

I can shift to another slide which will give you more illustration about our quarterly results. In this slide, you can see the net sales breakdown by categories. This is the total cumulative figure for Q3. Total sale realized as I indicated is 884 million lira which refers to a growth of 12.2%. By segment split, I can state that we have grown the Tomato sales 34% and we realized the sales of 372 million Turkish lira in 9-month period.

In Dairy category, we have another stable outlook which shows 1.5% of sales growth. Total sales of Dairy in the Q3 cumulative is 466 million Turkish lira. In Pasta, which is rather a small segment for us, we experienced a contraction of 9%. Pasta sales are 46 million Turkish lira in the nine-month period of 2018.

I would like to state the internal shares of these categories. The internal share of Tomato is 42% in 2018 so far in the 9-month period. The internal share of Dairy is 53% within the Tat Gida sales in the 9 months' period, and the share of Pasta in our total business is 5%.

In quarterly basis also, I would like to state the sales figures on Q3 quarterly basis. The total sales in Q3 is 338 million Turkish lira, and this corresponds to a total growth of 25%. In Q3, we realized a strong growth on quarter basis, and this is mainly driven by the Tomato category. In Tomato category in Q3, we have realized a total sales of 164 million Turkish lira. The sales growth in Tomato is 66% in Q3. In Dairy, we realized 159 million Turkish lira of sales in Q3 on only quarter basis, and this is indicating a stable outlook with respect to the

previous year. Pasta turnover is 15 million lira in Q3 which indicates a growth of 8%.

As I stated, the total turnover of Tat Gida on quarter basis grew 24.5% which is pretty much better than the previous two quarters, and we believe in turnover-wise, we have shown better results in this quarter. The internal share of Tomato in Q3 grew to 49%. This is indicating to a rather strong Tomato quarter.

Let me give you some segment overview by segments for you to better understand the outlook in our main categories.

In Tomato, the quarter was pretty strong, especially due to lack of product supply and strong exports. The growth was rather strong and the unit prices increased pretty sharp due to the cost pressures, which all the processors have experienced. All the players in the market in tomato season have experienced strong cost pressures.

And as you remember, tomato is a seasonal business in which the season starts in July and ends in September and you build up the inventory in this season. Due to low crop activity and also some season diseases which the farmers faced, the output of Turkey dramatically fell down and this made a strong imbalance between supply and demand. And the prices of raw tomato increased sharply in the tomato season, even more than two-folds let me say.

And apart from that, as you remember, on the 10th of August the sharp depreciation TL occurred against the hard currencies,

euro and dollar, and this has also made some cost pressures on the packaging side. And also energy costs increased. So from the cost perspective, this season was very irregular or very odd amongst all seasons for all the players in the market. And it is not only the cost but also most of the players had some hardness or difficulty in reaching to the raw material, to the industrial tomato. So they have experienced problems.

But at Tat Gida, we were able to process the necessary amounts to secure the demands of our branded products in the domestic markets. And not only that, also we secured to process the necessary amounts of products to serve to the export market as well. So this was a successful year for us, which we can state despite all these difficulties, despite the supply and demand imbalances, the year was rather okay for us, but with the higher costs.

With the higher costs, all the players have shifted the cost pressures to their retail prices and the shelf prices in tomato increased sharply due to the input costs which I had mentioned, (packaging, raw material, the tomato and also the energy.) All these increases have increased the shelf prices sharply and this recently at this moment haven't been price sensitive on the end user side, so we are rather seeing a stable market and the good start in demand.

And whatever stock or inventory we have, we believe that we will not have any difficulty in selling. So we will be having enough necessary products throughout the year, throughout the crop year to secure our sales in Tomato.

As I stated, the Tomato growth momentum has played a major role in the recovery of Tat Gida sales.

Let me briefly state about our Dairy sphere. In Dairy there are also strong cost pressures happening in the market and the main triggering factors of this is the depreciation of Turkish lira which really led to a high increase in the packaging costs. Raw milk prices is another factor. Two year period increase in raw milk is more than 50% and also the energy costs have played a major role that the players' costs increased.

So all these inputs costs now like in tomato have led to cost pressures in the Dairy. Nevertheless, all the players have experienced some difficulty in shifting these cost pressures to the market prices in Dairy in the Q3. And due to this, some of the sales are lost. Not only that, we saw a tendency on the end user side to make a trade down especially due to the shrinking disposable income and the consumer confidence fall.

Due to this, we were very diligent in this quarter on dairy side, not to increase our quantities sharply in order not to experience excessive returns or excessive sales problem. So we rather passed this quarter with a stable outlook. As I indicated in the quarter of Q3, the sales of Dairy is almost the same internal wise with the previous quarter three in 2017.

So this daily cost pressures had a relief at this moment due to the stop in the depreciation of Turkish Lira, and the market is step-by-step stabilizing whilst still there are pressures from the private labels and we see the continuation of the trade on activity of the consumer.

And in Pasta, the outlook is rather stable. As I mentioned, in the third quarter, we experienced a sales growth of 7.6%. I can briefly state that the domestic market is rather stable. What is referring to our sales growth is mainly exports because in exports we have strong export contracts which are boosting our sales at the points needed and Q3 was rather a better year, better quarter from the exports point of view.

After giving a brief outlook about our three segments tomato, dairy and pasta, let me pass to the gross profit evolution of Tat Gida. In this slide, you can also see the evolution starting from 2013 until 2018. I indicated the pluses and minuses of the Q3 compared to the previous quarter of 2017. In Q3, we experienced a contraction of the gross margin around 0.7%. The upside in here was the tomato sales. The downside was the dairy sales cost pressures which was pretty hard to pass to the market, but we rather took the precautions in order to cope with this situation in the Dairy sphere. And as I indicated in Q4, we are rather experiencing a stabilizing market and we have the precautions alive in this segment.

The next slide is about Operating Profit. In operating profit, we managed to protect our margins with respect to the previous year. We realized around a stable 3.7% of operating profit margin in this hard year. 2017 operating profit margin was 3.9%.

I would like to give you some evolution of our EBITDA in TL as well. We have generated an EBITDA of 45 million Turkish Lira in the nine-month period. And this corresponds to a margin of

5.1%. With our cost cutting measures and with our recent pricing policy, and also let's say precautions, we have managed to keep all EBITDA level steady. It's around 5% in the total nine months period of 2018. I can state that the Q3 2018, in case on an EBITDA level of 6%. Especially the contraction, as you remember was, due to the weak Q1 and Q2, and in Q3 we experienced let me repeat in Q3 we experienced a EBITDA margin of 6%.

This is also some kind of a better progress in our EBITDA margins, which I would like to indicate. The total EBITDA generated in the Q3 by the company is 20 million Turkish Lira, which is more than 40% of the total EBITDA generated in the nine-month period.

Let me tell you some insights about income before tax. In income before tax, we have experienced an amount of 33 million lira which corresponds to 3.8% of income before tax margin. Increasing interest rates are the main reason for a relatively weaker profit before tax margin.

Let me tell you some brief information about our net income. This deterioration in profit before tax is not reflected fully to the net income evolution. The net income is rather better and we have experienced a 31 million lira of net income generation in the 9 months' period.

Net income generation in the 9-month period is 31 million lira that corresponds to 3.5% of net income margin. And the next slide, let me briefly tell you about our debt structure, because it's very critical in this perspective. As you see, in net financial

debt to EBITDA we are recently holding a net financial debt of 142 million Turkish lira, despite all the difficulties, all the increases in interest rates and other things TAT Gida has a policy not to take open positions. All financial loans are in TL terms. The company is not exposed to FX risk.

That's why we are pretty much immune to any kind of depreciation of Turkish lira and the interest rates exposure is rather limited thanks to the position of financial loans. We are carrying around 50 to 70% of our total financial loans in long-term debt. So, the total TAT Gida financing expense cost is at around 21% to 22% at this point.

I can clearly state that we are not hit with the huge shock of increasing interest rates and depreciating currency at the moment due to the measures that we have taken.

The net financial debt to EBITDA is at this point around 2.1 as a ratio, which is still pretty healthier from our point of view. And please don't forget that this is the point where we see the higher net financial debt to EBITDA, because the net financial debt is at the highest point.

There are two reasons for this, one is the seasonality which we have been experiencing all the years, in all the years at the end of Q3, due to the payments of the tomato. As tomato season finishes at the end of Q3, due to the end of the season, we always pay the tomato debt to the farmers at the end of Q3, The inventory which we have built up hasn't been realized as sales at that moment yet. So, we are going to hold the inventory, throughout the year we are going to sell it, and we

are going to collect our money. So, that's why the debt is at its highest at the end of Q3.

And one thing I mentioned that in this year, the price of raw tomato was so high that in order to fulfill our production quantities, we have invested a huge amount of money to tomato which also increased our debt structure. So, I would rather say that it's a temporary issue, which we need to be recovering soon as soon as we sell the tomato inventory.

And I would like to mention about our financial position one more time that TAT Gida doesn't carry any kind of open exposures to FX and we carry our long-term debt, which is around 50% to 70%. Now, at this point around 70% of the net financial debt is on long-term maturity.