



# TAT Gıda Sanayi A.Ş.

## TAT Gıda Sanayi A.Ş Full Year 2021 Financial Results Conference Call

Monday, 14<sup>th</sup> February 2022 (17:00 TR Time)

### **Conductors:**

***Ms. Başak Tekin Özden, CFO***

***Ms. Banu Çamlıtepe, Investor Relations***

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](http://www.choruscall.com)

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 and live webcast, to present and discuss the Full Year 2021 Financial Results.

At this time, I would like to turn the conference over to Ms. Başak Tekin Özden, CFO & Ms. Banu Çamlıtepe, Investor Relations.

Ms. Çamlıtepe, you may now proceed.

ÇAMLITEPE B: Good afternoon and thank you for joining us today to discuss Tat Gıda's financial results for the fourth quarter and full year 2021. And joining me on today's call is Mrs. Başak Tekin, our Chief Financial Officer. I will begin with introductory pages and then Mrs. Başak Tekin will review our financial results, before turning the call over to question and answers. I think now we can start by going into Slide 4.

In the last 2 years, Tat Gıda has reshaped its portfolio and increased its investments in its core area and Tat's brand. We have reshaped our portfolio by selling our pasta and dairy products businesses, as you all know, and through these asset sales we generated cash inflow for our CAPEX investments in our core operations which have higher margins. Now, in our portfolio, we have mainly plant-based products. Considering the increase in consumer interest in health focused and sustainable products, especially during this COVID period, we believe plant based products are primed for growth.

And we have revitalized our core operations by investing a total of €13 million this year, mainly to increase our tomato products and pickles production capacity. This led to higher production volumes in last harvesting season as we have announced in our 9 months results.

In addition, we have started to produce pickles in-house versus sub-contracting before, and now we are focusing on new products in ready-to-eat segment. And finally, we are trying to expand our capabilities in terms of sustainable agriculture with digital farming, and more balanced domestic and export sales mix as you can see from our financials.

Moving to Slide 5, these are Tat's financial results for its continued operations. This reflects sustainable growth and sustainable margins for Tat, especially if you can see for the last 2 years, we have realized strong sales growth for 45% in 2020 and 36% this year in 2021, and between 2017 and 2021, Tat achieved net sales compounded annual growth rate of 32% and when you look at the gross margin, our gross margin was 29.2% in 2021, and whereas between 2017 and 2021, the average was 30%. In addition, the compounded annual growth rate for EBITDA was 44% between 2017 and 2021.

Now let's move to Slide 6. Turkey is well positioned geographically in terms of tomato production. In terms of processed tomatoes, Turkey is the top 5 tomato grower in the world, and when we consider both processing and fresh tomatoes, actually Turkey ranks third in the world. And based on again preliminary data in 2021, global tomato processing

amount was around 39 million tons, and Turkey processed around 2.2 million tons. And when we look at Tat's results following the added capacity, Tat processed this year in 2021 32% more tomatoes and reached a record level of 503,000 tons, taking a 23% share in Turkish total, which was at 15% last year.

And on Slide 7, we wanted to emphasize on recent investments versus our historic figures. Investment expenditures reached 134 million TL in 2021, this was only 37 million a year ago. In 2021; out of the total €13 million investments, €10 million was related to our CAPEX investments. Considering historical figures regarding our investments on continued operations, there was not any major investments in our core business since 2016. And thanks to recent CAPEX investment, as we mentioned, we have processed 32% more tomatoes in this harvesting season.

Looking into Slide 8. These are the major European tomato processing groups and their annual tomato processing amounts and based on the year 2020. We don't have the updates yet for 2021, but with the current Tat figures, Tat has come one step closer to these groups, with it's over 500,000 tons of tomato production in 2021. In addition, based on with its daily production capacity, Tats ranks 10<sup>th</sup> among global tomato producers.

And on Slide 9, we would like to show our process from farm to our production plants and to consumers. We would like to mention here especially our production. As you can see, COVID pandemic has also affected the global supply chains. Tat benefits by supplying some portion of its products from its

contracted farmers and a small portion via its digital farming. As we always mention some of Tat's contracted farmers are working with Tat for three generations and Tat is a trustable buyer in the sector since its establishment with 50 plus years of knowhow and experience.

As we move to Slide 10, we would like to present our domestic market share in main categories. As you can see, our retail market share has continuously improved over 2021 in almost all categories. We had the highest ever market share in tomato products at 63% and when you look at the categories Tat basically ranks #1 in almost all its categories. When you look at pickles and ready-to-eat, we see slight declines, especially for the pickles segment. This is due to higher allocation to export markets.

And when we look at the ready-to-eat sector food category, basically, it's one of the fastest growing food categories now and our current market share losses due to well-known ready meal brands strong marketing investments in 2021. But we are expecting to regain our market share with new product launch that will take place at these coming months. And overall, with the contribution of our marketing investments, we would like to keep this strong market share momentum going for 2022, as well.

With Slide 11, we aim to demonstrate a growing trend in our exports; our export share in total sales was 16% in 2019, which came to 26% share in 2020. Currently, 31% of our total shares is coming from exports in 2021. And thanks to its well-known brand and quality that has been established for 50 plus years of

knowhow, Tat currently exports to 26 countries and 40% of its exports are directed to Europe and our main export markets this year in 2021 was Italy, Germany and Japan.

And this is the last Page 12 that I will mention before I hand it over to Mrs. Başak Tekin, Tat is the only company in our sector with agricultural activities and the first one who initiated digital farming in its sector. This supports our sustainable agriculture policies to increase yield and use of resources efficiently. And as you can see, in 2021, Tat achieved a yield of 11 tons per decare with its own digital agricultural practices on an area of around 2,500 decares. And this is the above average yield of 7 to 8 tons in Turkey and also similar to benchmark values.

Now I will turn the call over to our CFO, Mrs. Başak Tekin and she will guide you through 4th quarter and full-year 2021 financial results. Mrs. Tekin, now I will give the floor to you.

ÖZDEN B: Okay. Thank you, Banu. And thank you all for joining our conference call. I'm happy to share that we closed the 2021 with strong sales and market performance and now I will walk you through the details and answer any questions you may have at the end of our presentation.

Moving on to Slide 14, our financial review reflects the fourth quarter and the full year 2021 financial results, which reports SEK our daily operations business and discontinued operations. As we have previously announced, we have divested our dairy business operations in March.

Going through the points here, we have delivered a good quarter against challenging market environments with underlying yearly sales growth of 36% in full year and 60% in the last quarter. We have invested €13 million in total last year and increased our pickle and tomato paste capacity. And these investments were finalized in the third quarter.

Therefore, we had a strong harvesting season with a record tomato processing amount of 503k tons, up by 32% year-on-year. Production volume increased by 25% and reached 132k tons. Higher volumes obtained in the product categories that we have increased our capacity. We were able to partially offset the negative impact of challenging market environments due to elevated new season costs, increased tomato purchases and Turkish lira depreciation. Gross profits increased by 65% in the last quarter, and 26% in full year 2021. Gross margin came in at 31.5% in quarter four.

EBITDA came in at 151 million TL in FY2021, up by 13% year-on-year; while growth in the last quarter was 97% year-on-year. Due to deferred tax income and higher net financial income our net profits from continued operations, reached 158 million TL versus the 71 million TL full year 2020. Going on over the next page.

Now, we can look into the details of our operations. So last year with the contribution of our CAPEX investments we processed 32% more tomatoes and produced 25% more and reached the production of 130k tons. There is a substantial increase in tomato products and pickle production mainly coming from the investment capacities.

On Slide 16, let's review our sales performance. We realized sales volume growth of 20% last year for the full year and 33% increase in the last quarter. Exports were strong throughout the year, while domestic sales performance was better in the second half of 2021.

Our net sales at 1.1 million TL for the full year 2021 and this was a year-on-year growth of 36%; while we attained a remarkable 60% growth in the last quarter. Domestic sales increased by 29% full year, year-on-year. And this is despite the 1% contraction in the first quarter as you may well remember due to the COVID quarantine base effect in 2020. And when we look at the fourth quarter, domestic sales increased by 72% year-on-year.

Going over the exports, our exports revenue totaled 341 million TL increasing 61% over last year. In US dollar terms, the growth rate was 26%. In the fourth quarter, exports came in at \$18 million, displaying a year-on-year growth of 28%. Share of exports in total sales was 31%, which was above 26% attained in 2020. Main export markets were Europe with 60% share, Middle East and Central Asia with 34% share and Asia Pacific with 24% share.

As an important part of our export strategy, we have been targeting new markets and new sales channels and the new agreements for branded and industrial tomato products in Europe and Middle East has created a strong growth in our export sales compared to last year and we aim to achieve further growth in 2022 as well. Well, before looking into our

costs, I would like to share some data to explain the challenging market environment in terms of costs.

As you can see on Slide 18, agricultural input price index in November increased by 36% compared to same month of the previous year and the highest annual increase was 121% in fertilizer and soil improver subgroup then followed by the energy prices. Of course, this picture has a significant impact on our farmers and our costs overall.

When we look at Slide 19, here I would like to share our gross margin improvement. Mainly in the third quarter during our new season period, higher cost due to new harvesting seasons elevated prices and the increased volume of tomato purchase combined with the weak Turkish lira led to a pressure on our margin. In contrary, in 2020, we had favorable costs from the 2019 harvesting season and higher product prices due to strong consumer demands, thanks to the pandemic. Therefore, we had a high base year effect.

As we have mentioned in our third quarter results, we reflected a 34% increase in tomato paste prices in September and we have seen the impact of this increase in the first quarter on our results. Consequently, our gross profit increased by 65% year-on-year in the last quarter, and our gross margin came up to 31.5% versus the 26% in the third quarter.

On Slide 20, you can find the details on our operating profits. Marketing and sales expenses increased by 74% to 103 million TL in full year 2021. This is also mainly due to the low base year effect. Operating expenses were kept lower in full year

2020 because of the pandemic and due to the uncertainties related with the COVID period. And all the marketing expenses initially planned for 2020 has been postponed to 2021. So this creates a strong base year effect. And this year, I hope you have all seen that we have made changes in our labels and packaging, and also launched advertising campaigns for our sauces and tomato paste products, mainly in the third and fourth quarters. Also in line with our expansion strategies abroad, our marketing and other expenses also increased in export markets. Therefore, our operating profit stands at 131 million TL and with just the growth of 9% year-on-year in full year 2021.

We further concentrated on marketing efforts following the new harvesting season, so thanks to strong sales performance our operating profits were up by 77% in the last quarter year-on-year and our general administrative expenses increased by 13% to 83 million TL in the full year period.

I will go over our EBITDA performance on Slide 21. Our EBITDA stood at 151 million TL for the full year 2021 and higher than previous year by 13%; and the margin was 15% in the fourth quarter versus the 11% in the third quarter and the 12% in last quarter 2020. Depreciation and amortization expenses increased by 39% to 90 million TL due to our investments in the period.

And moving to Slide 22, our net debt position was 293 million TL at full year end, which was 170 million TL at previous year. This is mainly due to 134 million TL investments spending last year, also elevated new harvesting season costs and more importantly 122,000 tons of additional tomato purchase this

year due to the finalized CAPEX investments. Our net financial debt over EBITDA ratio is 1.8% is also at a reasonable level.

Going over to our net profit on Slide 23. We achieved 158 million TL net income from ongoing operations in full year 2021 which was 71 million TL in the same time last year. This is mainly due to better operational performance due to higher sales volume and prices, higher net financial income coming from elevated FX gains and tax income coming mainly from tax incentives. And also you can see our balance sheet and income statement in the appendix.

Well thank you for listening. I also would like to say a few words on 2022 going forward. Well, we are starting the year with strong confidence, let me say. As we have a stronger portfolio with a focus on a higher margin products and strong top line growth delivered with added capacities in both export and local sales, we have an advantage as our product mix is plant based which is an increasing trend among consumers. And we are more comfortable in terms of supply guarantee thanks to our contracted farmers, and with our own digital farming practices. And finally, managing through a challenging economic environment with strong financial structure and competitive advantages, I think makes us unique in the industry as we are also the market leader in almost all our segments.

And just a few words about our future vision. We want to be the healthy eating partner of our consumers by supporting sustainable agriculture while growing our sales multi-nationally. We have 3 main pillars going forward, culture, focus areas and sustainable profit growth. So on the culture, we aim to create a

digital company investing more on our digital competences and infrastructure, and we aim to build an agile organization and winning company culture. Our focus areas will be as always, customer first, value of leadership in the industry, sustainable agriculture and pioneering R&D. And we aim for sustainable profit growth via growth in exports markets, strengthening leadership in domestic markets, expanding sales on Horeca channel and also focusing on digital farming.

So this is the end of my presentation. And I would like to hear your questions, please. Thank you. Thank you for listening.

#### Q&A

OPERATOR: Ladies and gentlemen, there are no further audio questions nor any webcast questions at this time. I would now turn the conference over to Ms. Özden for any closing comments. Thank you.

ÖZDEN B: Well, thank you again for joining our call. Of course, throughout the year we are ready to answer any questions you may have. Thank you. We are looking forward to a New Year with strong results. Thank you.

ÇAMLITEPE B: Thanks again for joining us today.