



TAT Gıda Sanayi A.Ş.

TAT Gıda Sanayi A.Ş First Half 2021 Financial Results Conference Call

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Conductors:

Ms. Başak Tekin Özden, CFO

Ms. Banu Çamlıtepe, Investor Relations.

Conference Call Conducted by Chorus Call Hellas



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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 and live webcast, to present and discuss the First Half 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. 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 Half with successful results, and I will walk you through the details, and answer any questions you may have at the end of our presentation. But before that, I would like to introduce you to Banu Çamlıtepe. She joined our team as Head of Investor Relations in June. Welcome Banu.

ÇAMLITEPE B: Thank you very much Başak Özden and thank you all for joining us today. Some of you may already know me, and I'm sure that I'll meet the rest of you soon. In order not to take your time, I would like to start going over the presentation. But you can always reach me later on to get more information.

As you may all noticed, we have revised our Investor Presentation. In addition to first half review, we also included some pages to describe our business and operations. I believe you are waiting to hear more about our financial results, therefore I want to emphasize important points in some of these pages and Başak Özden will continue for the first half results review later on.

I would like to say couple words on page 4. Tat is a well known & reputable brand with leading market shares in domestic market. Not only on the sales side, but also on the supplier side; Tat has long standing business partners such as contracted farmers that has been with Tat for three generations. And strong partnership structure, including Koç Group who owns the majority shares and also its business ties with its Japanese partners, Kagome and Sumitomo, business partnership that goes back to early 1980s.

On page 5, we provide our market shares for fiscal year 2020, based on Nielsen report. Tat has leading market shares in tomato products with 61%, and 35% in tomato paste, which Tat ranks #1 in both. In brief, Tat commands a leading market share almost in all categories including tomato paste, tomato products, ketchup, pickles and ready-to-eat products. In addition, our market share has also improved in this first half as well.

On page 6, you can see some of TAT's products, but definitely not all are shown here. You can find more details basically on TAT's website.

As you can see on page 7, we provide a time line for Tat Gida. Since 1967; Tat has 50 years of know-how in this business. You can find details about the establishment of its plants, and investments that has been going on.

On the next page, we tried to summarize the recent transactions. I am sure you all know the sale of SEK business that has been completed in March. Prior to SEK sales, Pastavilla brand was sold in the fourth quarter of 2019, and its land was later disposed in 2020. Now, Tat Gida concentrates further on investments related to its main line of operations. We'll talk more about investments later as well; but as you know, we had disclosed the capacity expansion project in March 2021 that has been currently ongoing.

We mentioned Tat's shareholder structure previously, you can find more details on page 9. Koç Holding is our majority shareholder with 44% stake, and the free float is 41%. As we mentioned, Kagome and Sumitomo are our Japanese shareholders and also trade partners that has initiated since 1983.

On page 10, TAT's Historical Financial Results for its Continued Operations for the years 2017 and 2020 are provided. For the years between 2017 and 2020, the CAGR in net sales was 31%, CAGR in gross profit was 30% and its EBITDA CAGR was 56%. These results reflect sustainable growth and improvement in margins in TAT's operations,

and this also justifies its decision to continue its own business line.

TAT's share performance has been provided on page 11. Tat has been trading on Borsa Istanbul since 1993. There is a steady dividend distribution over the years as you can see on the chart, except for one year in 2018 earnings. Currently the market share is around \$144 million. As we mentioned before, the free float is 41%.

We included couple pages to give you an idea about the sector. Turkey is well positioned and ranks in top 5 in global tomato processing sector: In year 2020, Turkey, with a total processing amount of 2.5 million tons versus global tomato processing amount of 39 million tons, took 6% share in the total global production. When we look at TAT's performance, which was 381,000 tons in 2020; TAT took around 15% share in Turkey with this processing figures.

As seen on page 15, among global tomato paste exporters, Turkey ranks seventh worldwide. Turkey's tomato paste exports was 160,000 tons and commands a 5% share globally. Turkey takes a high share in overall tomato business, and has more room for growth in exports. Final page on sector, page 15, shows European tomato processing groups based on 2020 figures, and TAT ranks seventh among those.

On page 16, we would like to summarize Tat's process from farm to production plants and distribution to consumers. The

harvested products come from contracted farmers, TAT's own farming and direct purchases on spot market. The processing goes through Mustafakemalpaşa, Karacabey and Torbalı Plants; two are in Bursa and the last one in Izmir. Distribution takes place mainly via Düzey Tüketim in domestic market and export markets via Ram Dış Ticaret; both are Koç Group Companies.

The following page summarizes Tat's operations and the impact of seasonality. The production as you all know is seasonal. The process starts in November via market research and planning, then agreements with farmers takes place. Later comes the preparation of the soil, drip irrigation instalments, planting and finally harvesting. Currently, harvesting season at at our plants. Following harvesting, production takes place and the products sold starting from September, for 12 months; basically all year round.

TAT's historical production figures are summarized on the next page. You may all familiar with these figures as these are also provided on annual reports as well. In brief of FY2020, TAT processed 381,000 tons of tomatoes and produced 106,000 tons of products. Tat's export performance in provided on the next page. We'll talk more on exports on the first half results section. But briefly, looking from 2019 to 2020, TAT's exports has been on an increasing trend. In 2020, Tat's exports share in total sales from continuing operations was 26% versus 16% in 2019.

Well, this is actually the last page that I will mention, but definitely not the least. We are the only company in our sector with agricultural activities. And the first one who initiated digital farming in our sector. This supports our sustainable agricultural policies to increase yield and use of resources efficiently. You can find more details on digital farming operations on this page and also in our 2020 annual report. And actually, this is all I want to summarize for the first part of our presentation.

Now, I would like to turn the conference over Başak Özden, and she will guide you through our first half results. Başak Özden...

ÖZDEN B:

Thank you, Banu. Hello again. Well, just to give you the highlights of the period. As we had previously announced, we divested our dairy business operations in March. The SEK business financials are now grouped on the discontinued operations in our first half results. From our continued operations on the TAT brands category, our revenues reached 454 million TL. So our net sales increased by 15% year-on-year. Net profits from continuing operations were 89 million TL versus 44 million TL last year same period and total net profits stands at 155 million TL.

We had disclosed in March that we have CAPEX investments to increase our pickle and tomato paste capacity. These investments are ongoing. And as of end of June, we have a net cash position of 93 million Turkish lira despite the total

dividend distribution of 42 million TL in March, and total investment expenditure of 58 million TL in the first half.

Going into further details, as you see on the chart on page 23, the overall sales growth was 15% over the same year last year. This is thanks to better performance in the second quarter. And this is also based on the fact that we had strong sales performance last year in March and April due to the initial outbreak of COVID-19. So, in the second quarter, we see net sales growth at 25% year-on-year.

Total sales volume in the first half increased by 4%, and by 17% in the second quarter year-on-year; thanks to strong exports in the overall periods and better local sales performance in the second quarter.

As you see in our previous year performance and also continuing going on this year, there is strong export volumes as shown on page 24. Our exports revenue totaled 110 million TL increasing 69% over last year, and in U.S. dollar terms the growth rate was 38%.

In the second quarter, exports came in at 58 million TL displaying year-on-year growth of 90% in TL terms and 56% in U.S. dollar terms. Again, this is the base year's effect, and also, I mean, we were also growing last year in exports. So, this is attained on top of the growth we have achieved last year.

As a result, the share of exports stands at 24% and this is higher than last year by 7 points. As an important part of our export's strategy, we have been targeting new markets and new sales channels. The new agreements for branded and industrial tomato products in Europe and Middle East has created a strong growth in exports compared to last year.

Looking in into the domestic markets, we see a 5% increase in domestic sales in the first half. In Q1, there had been a slight 1% contraction in our domestic sales and higher growth attained in the second quarter. Again, this is against the COVID effect in 2020 and also against the 9% contraction overall tomato paste demand we see in the markets.

As shown on page 25; It's a fact that total market conditions put pressure on margins. We generated 135 million TL of gross profits and our margin is 30%, this is 2 points lower than previous year. Again, we are witnessing also on our profitability; COVID-19 high base year effect impact in 2020. After the COVID impact, demand in national key accounts and online channels continue to be strong, while the Horeca markets remain depressed due to COVID restrictions. Therefore, there's different sales channel mix in our portfolio.

Additionally, we're facing a tougher competitive environment. The macroeconomic difficulties put pressure on purchasing power, as we all know. And accordingly, we

cannot reflect all cost increases to product prices. But still our margins are maintained at a sustainable level.

In terms of operating profits as shown on page 26, we posted 62 million TL and this is below of last year same period by 12%. Although sales revenues increased by 15%, marketing and distribution expenses increased more, in fact, by 40%, to 36 million TL. Last year, again due to COVID impact, we have kept marketing spending at minimum levels; we have reviewed our marketing plans and postponed some of them to 2021. So this year, we are spending in line with our marketing strategy for the domestic and international markets. You may well have heard and seen our advertising campaign, and new jingle on national TV channels and radios. I hope you did, you will be seeing and hearing more of such in the coming months as well.

In terms of general administrative expenses, it was 36.5 million TL in the first half, this is 27% higher than last year. In addition to the inflationary impact, the growth rate can also be attributed to several special obligations incurred because of downsizing in the headquarters due to Sek exit. And also again, like we had in marketing and sales expenses in 2020 because of COVID measures, we had maintained a low base of spending as all other companies did. So this creates another base effect on our profitability.

As shown on page 27, strong sales volume in the second quarter supported our EBITDA performance. Our EBITDA

stood at 67 million TL in the first-half. This is lower than last year by 10% and the margin is 15%. Depreciation and amortization expenses increased by 11% to 5.1 million TL. However, due to strong sales performance in the second-half, the EBITDA increased by 6% year-on-year, and the margin reached 16.4% in the second quarter versus the 14.7% in the first quarter.

Our net cash was 93 million TL by the end of June, versus net financial debt of 170 million TL by the end of the year 2020. Again, this is mainly attributable to income from the sale of SEK business. With, of course, ongoing investments and new harvesting season on the way, we can expect the net cash to decline in the second half. But our Net Financial Debt over EBITDA ratio will be kept at a healthy level.

You see on page 29, the CAPEX investments. The total investment spending was 58 million TL in the first half; whereas the same period last year, which was only 7 million TL as we had also kept a check on investments last year as well. And this growth in investment expenditures is a result of ongoing capacity expansion projects as we had announced earlier.

And finally, we achieved 155 million TL of net total income, 66 million TL of net income comes from discontinued operations. And thanks to higher net financial income and the impact of tax incentives, we posted 89 million TL net income coming from continued operations, versus 44 million TL last year same period, and the margin is 19.6% versus

11.3% last year. You'll also see a summary of our income statement, and finally, a summary of our balance sheet in the following pages. And you'll see that our assets now stands at 1.2 billion TL. And our ratios are maintained at healthy level.

And this is all. Thank you and I can now take your questions.

Q&A

OPERATOR: The first question is from the line of Demirtaş Cemal with ATA Invest. Please go ahead.

CEMAL D: Thank you for the presentation. My first question is about the volume and price changes in second quarter. This year revenue growth of 25%, and the volume growth of 17%, it shows that the price increases were very limited. Could you further elaborate the pricing dynamics, and the volume trends overall and how do you see the output for the second half of the year. And do you expect any new trends after COVID, regarding the Horeca consumption. Thank you. And also congratulations for a good year.

ÖZDEN B: Thank you for the question. Well, let's start with volume and prices. As I had briefly mentioned, our export volumes are higher. The growth in our export volumes are higher in the second quarter, but also, we achieved growth in the domestic market as well. In the domestic market, the volume growth is limited because again there's a base year

effect from last year and also related to the fact that the market is contracting. And as the purchasing power, and the demand is lower than previous years, we cannot reflect the cost increases we see in our prices. But also as you well know, we are in the harvesting season. The new season's conditions will be more important in our pricing strategy going onwards in the second half.

As for now, we are witnessing a normal season, normal, meaning that there seem not to be any major obstacles. So we're expecting a normal level of tomato output. Of course, the prices will bear some inflationary effects. So, our prices actually will be moving in direct dynamism, let me say; with the pricing and the cost we will see in the harvesting season. As you may have monitored yourselves, the inflation in the consumer and the manufacturing side is different for almost all industries and this is also the case for our investors and our company. So, the inflationary effects and the FX changes had a direct impact on our costs, but we don't reflect them on our prices. This actually explains the gap between the consumer prices and the production prices. Again, this is a general condition of the Turkish economy. But going on, towards the second half, based on the seasonal prices and seasonal costs, we will arrange our prices accordingly.

CEMAL D: Thank you. And then, as a follow-up question regarding your brand; you have a top brand, a very prominent name, a very good name, in the markets. Did you have any valuation for your brands, just you know, I am curious,

about that in the past. And do you own all the brands as TAT's...you know, the TAT Gida.

ÖZDEN B: Yes, sure.

CEMAL D: And the other question is about the operating expense, you know, that, that's one of the key area the leverage...operation leverage isn't always important. Do you see any room of improvements in that area for the future? Thank you.

ÖZDEN B: Okay. Thank you. Well, we own TAT brands, of course, but we didn't have any valuation because we don't have the aim to sell the brands or the business. So, we didn't have a valuation. But, we are investing to increase our manufacturing capacity and also we are investing on our brands, this is why I said you will be seeing and hearing more of us, more of TAT brands. We have planned an overall brand communications plan, last year, but because of the COVID reality we had postponed the communications to this year. So we started with the sauces as you might have seen it. We changed the packaging as well, and we have a new jingle and a marketing communication. You will also be seeing more top brands communication in the coming months. The season, of course, the new harvesting season is critical for us. So, we plan the communications accordingly in line with the seasonal calendar. So we are investing both in our production and in our brands. We are also expanding our marketing and sales in international markets as well. So overall, we aim to enhance the value of

our brands via investments; as you have said we are lucky to have such a strong brand as Tat. Tat is a well-known Turkish brand for more than 50 years and being a leader in the market.

CEMAL D: Thank you.

ÖZDEN B: Thank you.

OPERATOR: We have a follow up question from Demirtaş Cemal with ATA Invest. Please go ahead. Mr. Demirtaş, can you hear us?

CEMAL D: My question is about to the Horeca business area and industrial sales versus consumer. How was the trends in the sales channels?

ÖZDEN B: On the consumer side: After the restrictions being released, we see some movement in the Horeca markets, also because of higher tourism activities and more summer spending. We see some increases, but we cannot say that all Horeca market is operating at full capacity like it did before COVID period. But, I talked about consumer prices more, not industrial.

CEMAL D: Thank you. Thank you very much.

ÖZDEN B: There are some missing questions. I'll try to give you some more information about ongoing investments and expected contribution in the upcoming quarters; top export countries, total share of exports, effective tax rates for 2021. Well,

yes; our investments are ongoing and expected to be completed during the season. We will see their contribution in the last quarter of 2021, but the sales trends will not immediately reflect the capacity expansion. We will see growth more spread over in like two or three seasons, as we reach the full capacity. But in any case, you will see our sales increasing after the seasonal production.

Our top export countries are, of course, our biggest customer is Japan because of our shareholders. Iraq is a biggest importer of tomato paste in the region, and we had a new distributorship last year, so we expanded there. And in Europe I would say Germany is the largest importer. So these are our major markets. And the effective tax rate for this year is 13.2%, so actually you see the impact of our incentives on our overall tax and cash.

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 all for your interest. We are always ready to answer your questions throughout the year. Thank you.

ÇAMLITEPE B: Thank you very much as well. I would like to remind that if you have any further questions, you can always reach me, and I am looking forward actually to meeting you all in the coming days.