



Tat Gıda Sanayi A.Ş.

Tat Gıda Sanayi A.Ş. Full Year 2018 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 Gelly your Chorus Call operator. Welcome and thank you for joining the Tat Gıda Sanayi A.Ş conference call to present and discuss the Full Year 2018 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. Hello, everyone. Thank you for joining our webcast. I'm happy to be addressing you as the new CFO of Tat Gıda. I hope to meet you all in person and strengthen our conversation going forward.

Let me briefly introduce myself, I have been with the Koç Group for 20 years now. I have worked at the Koç Holding and at Tofaş Car Company our JV with Fiat and Chrysler. I have extensive experience in strategy, business planning, corporate finance, financial controlling, planning and reporting.

And now, let me walk you through the 2018 Full Year results, and I will answer any questions you may have at the end of our presentation. As you see on our first chart, we closed the year with the Net Sales of 1.155 million Turkish liras, and this corresponds to 7.6% growth over 2017. I can say from this picture that we maintained our growth trend last year.

As you may already know, the food industry faced many challenges last year, and I will go through them along our

presentation. However, as we have a diversified portfolio of food products, we finished the year with a minimum impact and we're happy with the results, overall.

If we look at the breakdown of our revenues, you will see that we achieved solid growth in the tomato business. In fact, the growth rate was 28.7% in the segment, due to low crop output this year because of climate conditions and some diseases tomato demand surpassed supply and the prices of raw tomato went up. But still we could secure the volumes we needed both in the domestic and export markets, and we did achieve higher sales growth.

In Dairy and Pastavilla businesses, we saw 3.7% contraction, especially in the last quarter, we started to face a difficult operating environment due to the Turkish lira depreciation, rising inflation and increasing economic uncertainties. Consumer demand started to weaken and the price sensitivity of our consumers increased. We see from research that it actually increased from around 60% levels to 90% levels and accordingly, the share of discount retailers and their private label products got a largest share of the market. So there was pricing pressures on all food companies, as well as on us.

Continuing with our gross profit margins, because of rising costs and the pricing pressures, the margins were squeezed in the overall industry. But we generated 236 million Turkish liras of gross profits and we maintained our gross profit level in terms of Turkish liras. However, we lost 1.8 points in margins.

On the cost side, raw milk prices rose from 1.2 Turkish liras to 1.7 Turkish liras in August, actually the prices increased by 50% during the last 2 years. Additionally packaging costs increased due to the Turkish lira depreciation. And the rising energy costs had a negative impact on our cost structure.

On the pricing side, as the high discount retailers gained market share, and the consumers were more price sensitive, producers like us couldn't increase their prices, as much as, the cost hikes and the competition got tougher.

Additionally, in the... again in the last quarter, the private label business started to underperform in terms of profitability, and we were moving away from our targets, so we decided to stop the PL business. So for this year, you will see us more focused on growing our branded sales in main categories. And in January I can say that we're seeing positive results, so we're happy with our decisions as of today.

Moving to our operating profits, of course the margin loss on the gross profits had a negative impact on operating profit, but we still posted a 60 million of operating profits and there was the one-off item specific to last year's, you know, due to the SAP launch, our IT spending were higher than our previous year's spending. So this was a particular effect last year.

In terms of the costs, the changing cost structure and the increasing costs, of course, we are keen on our cost reduction programs and targets, so we aim to improve our margins despite the difficulties in the markets.

Going forward with the EBITDA slides, our EBITDA stood at 51 million TL, and were marginally down by 1.5 points. And income before tax, we closed the year with 41 million Turkish liras, obviously rising interest rates in the last quarter created a high financial burden for companies as it did it for us. This was a difficult period for us due to the fact that the tomato business, the seasonality effect in our tomato business, our borrowings increased towards the end of third quarter and the last quarter as we make payments to our farmers. So we saw the negative effects of the rising interest rates on our income before tax.

Well, accordingly our net financial debt rose to 128 million TL. This was because of the higher raw materials price both in tomatoes and the dairy business, we needed higher working capital and accordingly, we have to increase our borrowing. As our EBITDA was lower last year's, the net financial debt over EBITDA ratio came out to be at 2.5, but still within limits.

We are carrying about 60% of our loans in long-term loans , and all our financial loans are in TL terms, so we don't carry any foreign exchange risk, and we aim to remain within risk limits going forward this year. You see here the net financial debt over asset ratio and it was 14.8%, 2.5 points higher than 2017, because our assets base grew by 10% to 864 million Turkish liras.

Finally, we registered 39 million Turkish liras net income last year. Looking forward to this year, we expect the tomato business to remain strong. In the dairy business, 2019 will be a recovery year without any private label business. We will focus

on our branded sales. Again, we started the year with good results. We are expecting to meet our targets.

We aim to maintain the performance in the Pastavilla business, although its contribution is low on our financials and as of today, it's hard to say, it's difficult to forecast, but as of today, we do not expect any dramatic highs in raw material costs as we experienced last year. But again, this is difficult to forecast, but the fight against inflation program would help us keep our costs with... in parallel to last year's figures.

Actually, I'm over with the presentation. So if you have any questions, I'm happy to answer them.

Q&A

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, if you have any questions either now or later, we're always ready to support you with any feedback and information. Again, I'm happy to be here addressing you. And I wish to meet you in person throughout the year. And I wish to deepen our conversations with you. So please let us know if you have any special requests or questions, we're at your disposal.