



TAT Gıda Sanayi A.Ş.

TAT Gıda Sanayi A.Ş. Nine Months 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



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 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 Nine Months 2021 Financial Results.

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

Ms. Camlitepe, you may now proceed.

ÇAMLITEPE B: Thank you very much. Good afternoon, everyone. This is Banu Çamlitepe. I am Head of Investor Relations at Tat Gıda. Welcome to our Third Quarter and Nine Months 2021 Financial Results Review.

Today our Chief Financial Officer, Mrs. Başak Özden will provide a brief update of our overall business performance, and before that I will go over some segment performances, and finally, we will conclude with the question-and-answer session. And you can access today's earnings presentation from our company's website at tatgida.com.

And now, we can start from Slide #4: We would like to highlight once again on our strength and confidence in the food sector. Tat has gone through a long path since its establishment and with 50 years of knowhow and experience, the company is by far the leading and well-known brand in its core business in

Turkey. Going forward, Tat focuses on Sustainable Agriculture and has been investing in digital farming since 2017.

Tat is the only company in this sector that has its own farming, and Tat not only achieves higher yields, via its own farming, but the company aims to be a model for its contracted farming, whom have been working with Tat for 3 generations. Based on Tat's tomato processing capacity, Tat is currently among the top European tomato processing groups. Tat exports to 35 plus countries, and mainly to Europe and Japan.

And last but definitely not least, Tat continues this path with its strong partners Koç Holding, who owns the majority shares in the company; and also with its strong business partners, Japanese Sumitomo and Kagome, whom are continuing working with Tat for almost 40 years.

Now, we can continue on Slide 5. We would like to mention the sector dynamics based on Nielsen data on this page. These are compounded annual growth rates of food sector in Turkey, and some categories that mainly Tat involves. As it is seen between 2017 and 2020, food sector compounded annual growth rate was 21%, whereas tomato paste compounded annual growth rate was 22%, sauces were around 28%, and tomato products were around 40%.

For ready-to-eat food and pickles categories that we also operate in, we have the Scantrack data which is for supermarkets and also shows a remarkable CAGR of around 48% and 31% respectively, and this is for the years 2018 and 2020.

As we move to Slide 6, we would like to present our domestic market share. In main categories, as you can see, our retail market share has continuously improved over the course of 2021. It's encouraging to see that almost every category is picking up shares in the first 9 months versus fiscal year 2020. We didn't have the 9 months results for the ready-to-eat food category and therefore we didn't include it in this page, but as you may recall, Tat ranks #1 in this category as well, with around 33% market share in fiscal year 2020. And with the contribution of our marketing investments, we would like to keep this momentum going, as we also see that September figures were higher than 9-month averages, mainly in tomato products, ketchup and mayonnaise categories.

And Slide 7 shows our recent harvesting season results. In terms of tomato processing, as you can see, Tat has processed 32% more tomatoes in this harvesting season, compared to the same term last year. Thanks to added capacity that we were mentioning in our previous notes as well.

And with that said, basically if you look on Page 8, Tat is among the top European tomato processing groups. We shared this slide with you before, and this shows that Tat approached one step with its capacity expansion investment and came closer to these groups with over 500,000 tons of tomato production in 2021.

And for the financial results, I just want to give you a summary for Slide 10. As we previously announced, we have divested our dairy business operations in March, and we have delivered a

good quarter against challenging market environment, with underlying yearly sales growth of 27% in 9 months of this year, and 51% in third quarter of this year versus the same terms last year.

We have disclosed in March that we have CAPEX investments worth €10 million to increase our pickle and tomato paste capacity. These investments were finalized in this quarter, and therefore we had a strong harvesting season with the tomato processing amount of 503,000 tons which is up by 32% year-on-year, and of this amount 481,000 tons realized in this first 9 months.

Production volume increased by 20% and reached 115,000 tons, higher volumes attained in the product categories that we have increased our capacity, which is tomato paste, tomato products and pickles specifically.

When you look at the cost side, challenging market environment due to elevated new season costs, and increased tomato purchases, and Turkish lira's depreciation, led to a pressure on our margins. Gross margin came in at 28% versus 32% in 9 months of last year, and coupled with higher marketing expenses, operating profit and EBITDA were down by 8% and 9% respectively in this first 9 months, versus the same term last year. And finally, due to the deferred tax income and higher net financial income, our net profits from continued operations reached 119 million versus 59 million last year.

And going onwards... I would like to now leave the room for our CFO, Mrs. Başak Özden to go over our financial details.

ÖZDEN B:

Thank you, Banu. So going over the details, I'll start with the tomato processing volumes again. This was actually a record year for us. Tat's production volumes for the 9 months versus the same term last year, you see a 25-increase year-on-year and we closed the season with 503k tons. The total production volume reached 115k tons, displaying year-on-year growth of 20%. This is a substantial increase and derives mainly from pickle production, tomato paste and products.

Going over to our net sales and sales volume figures, we realized sales volume growth of 15% in the 9 months of this year and a remarkable 41% in the third quarter. Exports were strong throughout the year, while domestic sales performance was better in the second and third quarter.

Our net sales stands at 735 million TL, displaying a year-on-year growth of 27%, while growth in the third quarter was 51% year-on-year. Specifically, domestic sales increased by 17% in the 9 months this year despite the 1% contraction in the first quarter and it was due to the COVID quarantine-based effect in 2020. But we see in the third quarter a 45% increase year-on-year in our domestic sales.

Going over to our exports, you see that we are growing strongly in exports. And our total revenue reached 194 million TL increasing 67% over last year. In U.S., dollar terms, the growth rate was 39%. In the third quarter, exports came in at 84 million TL. This is almost \$10 million displaying a year-on-year growth of 66% in TL terms and 40% in U.S., dollar terms.

By the end of the period, our share of exports stands at 26%. This is higher than last year by 6 percentage points and the main export markets were Europe with 44% share, Middle East and Central Asia with 31% share and Asia-Pacific with 23% share.

As an important part of our export strategy, we have been targeting new markets and new sales channels. The new agreements for branded and industrial tomato products both in Europe and Middle East has created a strong growth in our export sales compared to last year, and we will see the positive impact going forward this year and next year.

Well, we should also talk about the challenging operating environment in terms of our costs and the costs in the industry in general. As you can see here on the charts, the agricultural input price index in August increased by 28.7%, compared to the same month of the previous year, and the highest annual increase was 67% in fertilizers and soil improver's subgroup, then followed by the energy prices.

In addition, as you all well know, the Turkish lira depreciation continues to weigh on our costs. The impact of the depreciation of Turkish lira against foreign currencies and impact of inflation lead to a challenging market environment for all producers in the industry, for our farmers and also for the manufacturing industry as well.

And this had a negative impact on our cost of goods sold and operating expenses of companies in general. Consequently, we see higher COGS due to new harvesting seasons elevated

prices, increased volume of tomato purchase combined with a weaker TL leading to a pressure on our margins. In the first 9 months, due to an increase of 34% in our cost of goods sold, we generated 207 million TL of gross profit and our gross margin came in at 28%. Again, this is due to the elevated prices in the season, both in terms of the economic dynamics and the total tomato purchase and the weak TL and accordingly, in order to improve our margins, we reflected a 34% increase in tomato paste prices. And you will see the impact of this increase in the last quarter of 2021 and going over to next year.

Coming to the operating margins, we posted 87 million TL of operating profit, and this is lower compared to the same period last year by 8%. We realized a slight recovery of 1% in the third quarter compared to last year. Although sales revenues increased by 27% our marketing expenses increased more actually by 57% to 62 million TL. And again, this was due to the COVID-19 effect we had last year, which led us to minimize our spending's and also postpone our Marketing and Communications Plan to 2021.

This year, we're spending in line with our marketing strategy for the domestic international markets. You may already have seen or heard our new commercials on TVs, digital media and radios. So, while we're investing in capacity and production, we are also investing in our brands and we will see the positive impact going forward both in terms of our margins and in terms of our sales. And the general administrative expenses increased by 12% to 56 million TL compared to last year. So, we can say this is lower than inflationary effects.

Coming to EBITDA performance as a result of higher cost in OPEX, EBITDA was at 97 million TL in the first 9 months, lower than previous year by 9%. And the margin was 13.3%. Depreciation, amortization expenses increased by 10% to 10.5 million TL. So, again, with the impact of higher sales prices, we expect to have a positive impact on profitability going forward in the last months of 2021 and going forward in 2022. We talked about the capacity expansion investments, the total investments reached 118 million TL, it was only 17 million TL last year, same period. All the expansion projects have been finalized by the third quarter and the investment expenditure that was specific to the third quarter was 60 million TL.

So accordingly, our net cash position of 93 million TL at the end of the first half of 2021 turned into a net debt of 183 million TL. This is mainly due to first 60 million TL investment spending in the third quarter, another one, elevated new harvesting season costs and more importantly, the 122,000 tons of additional tomato purchase this year due to our CAPEX investments.

Nevertheless, our net financial debt versus EBITDA ratio stands at 1.47% which is a reasonable level. We achieved 119 million TL of net income from ongoing operations, which was 59 million TL in the same period last year. This is mainly due to higher net financial income, especially stemming from elevated FX gains, and tax income stemming from deferred tax income of 7 million TL from revaluation of assets and the impact of tax incentives. So additionally, the net income coming from discontinued operations stands at 66 million TL. So, the total net profit stands at 184 million TL by the end of the quarter.

Well, thank you. You can see the balance sheet and income statement summary in the appendix. And we can take the questions now.

Q&A

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

ÖZDEN B: Well, thank you for your interest and joining our webcast. And thank you very much again for taking time to be here. And if you have any further questions, you know my number and email address. I think, you can always reach me and thank you again. Thank you. We can now conclude the webcast.