



# Tat Gıda Sanayi A.Ş.

## Tat Gıda Sanayi A.Ş First Quarter 2020 Financial Results Conference Call

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**Conductors:**

***Mr. Başak Tekin Özden, 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](http://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 First Quarter 2020 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, operator. Hello everyone. Thank you for joining our webcast. I am happy to share that we closed the first quarter with successful results. I will walk you through the details now and answer any questions you may have at the end of our presentation.

I will start with the highlights of the first quarter. We are all facing the new... the challenges the new COVID-19 has brought to our lives, on a personal level, on a corporate level, I mean, business wise and also socio economic wise. First of all, I hope all of you and your families are healthy and safe. This has now become everyone's #1 priority.

On a business level, I can say that as Tat Gıda we learnt fast and we adopted fast. We took all necessary actions in time to maintain our operations without any disturbances and also we ensured that our workforce is safe and healthy.

So, to give you a summary of the first quarter, we had already started the year with strong growth in both categories. Sales gained further momentum with the impact of COVID-19 in mid March. Demand accelerated especially for those categories with long shelf life such as canned food, tomato products and ready-to-serve dishes.

We saw accelerated growth in national key accounts, discount markets and online stores especially, and sales were down in the Horeca market due to the lockdown on restaurants and cafes, so this part we all know from our personal lives, as well, I guess.

Coming to our operations, all our operations in manufacturing in production and supply chain, we are up and running. Actually, we are running faster because of the higher demand. We took all necessary precautions to maintain our operations as before, and to keep our employees safe and well. Also, a significant topic for us is the agricultural processes. We don't see any disturbances there, no disruptions, so we see that agriculture processes continue as expected.

Coming to our financials, we closed the first quarter with a net sales of 377 million Turkish Lira. This corresponds to a growth of 44% over same period last year. If we have a look at the breakdown by product category group, the SEK segment, our dairy business growth reached 27% in Quarter 1.

I want to remind you that last year in the first quarter, we had seen 25% growth in branded sales in SEK business. So, growing further 27% this year I believe is quite an achievement.

As I had explained in our earlier webcasts, last year we obtained this growth through increasing communication on focused categories like the Çiftlik Yogurt we had launched last year. We expanded our distribution network and we made listings in discount markets. This is how we improved our branded sales.

This year in March we started a new private label business in the yoghurt segment, but the turnover as of March is 7.6 million TL, so it's a small part of our... small percentage of our total business. So, I would like to emphasize that although we may start some private label businesses where we see attractive financial conditions, our strategic target is still to grow our branded sales as we have done last year and this year first quarter.

In the tomato business, you see here 63% growth. We started the year with growing sales because we had quite a good tomato season last year. The amount of tomatoes we had supplied, and the prices were in line with our target, so we started the year with a strong performance. COVID-19 had a significant impact, of course, in March, you see here on the chart in this category in TAT business, especially tomato paste and ready-to-serve dishes.

You see here on the chart that our March turnover is 89 million TL with a growth rate of 57% higher than February. Well, depending on how COVID-19 remains or leaves our lives, we expect this trend to cool down as normalization begins in the second quarter. And then we will be entering this year's tomato season, and everything is going well in this respect again, there are no disturbances as of today.

When we look at our export's revenue, we see 19% growth over last year. And our turnover is 35 million Turkish Lira, as an important part of our export strategy, we made new distribution agreements in Iraq and in Europe by this year. Our new distribution in Europe covers eight countries. And the main aim, our strategy is to expand our branded exports. We started to see the initial effects on our figures, and we will continue to see further growth in the year.

Worldwide many exports operations have been disrupted because of COVID-19 in the last month, but we didn't experience any such disruptions in our export operations. And again, we will see further growth going forward in the year.

Coming to our profit numbers, we have the advantage of favorable product mix and also operational efficiencies on our side, which had a positive effect... impact on our profitability. We generated 85 million TL of gross profits higher than last year by 43%.

Our gross margin is 22.4%, this is almost the same as last year. Our operating profit stands at 48 million and this is ahead of last year's same period by 88%. In terms of margin, you will see that the 12.7% of operating margin is well over our performance in previous years.

The major reasons behind this performance is, again a favorable product mix high growth and high margin TAT business. Also, we had some further operational efficiencies and especially in March due to the new COVID-19 circumstances, we put some

brakes on some of our expenses. So, some of the efficiency here can be attributed to COVID impact especially in March.

Going over to the EBITDA figures, we stand at 49 million TL higher than last year by 112%. And our... the margin is 12.9% this is 4 points higher than last year. Depreciation and amortization expenses increased to 5.1 million TL this year from the 4.4 million TL we saw last year same period. And our investment expenses decreased to 1.6 million TL from 2.2 million TL 2019. So, we also put some brakes on the investment because of the COVID-19 challenges. And we'll see ahead after the normalization, we will keep up with our investment plan.

And we closed the quarter with 39 million TL of income before tax and our margin rose by 3.8% to 10.8%. The first quarter financial expenses were 8.9 million TL versus 9.1 million TL last year same period. So, despite the 44% increase in our turnover, financial expenses stayed at the same level, in fact a bit even lower.

So, when the interest rates started to come down last year, we managed to close some bank loans at... with higher interest rates and renew many others with lower interest rates. Accordingly, by the end of March, our average interest rate is down to 13.7%, in fact today it is even lower. And this rate was... our average interest rate was 25% by the end of Quarter 1 last year, and it was 17% by the end of 2019. So, I can say that effective management on financial expenses also had an impact on our income before tax performance.

Well, accordingly we registered 29 million TL of net income by the end of the quarter, this is ahead of last year, this is 109% ahead of last year's same period. Let me add here an information about our tax rate, last year first quarter, our effective tax rate was 13%, this year it's just 20%, this is due to the remaining balance of investments tax incentives, as our remaining balance decreased, our tax rate increased accordingly. So we will see a 20% tax rate this year going forward. We are proud to pay our taxes, so I don't see any problems here.

So coming to the financial debt and our cash position, the high increase in our turnover also increased our working capital. By the end of March, our net financial debt is 190 million TL, since our average interest rate has been lower. The company's financial expense has not increased, and our profitability is also improving. Overall, our net financial debt over EBITDA ratio is 1.4%, which is at a quite healthy level.

Well, in summary, in fact the company Tat Gida met the need for a larger working capital need, at the same cost with last year. The reason behind the larger working capital need is the fact that our business growth is quite high and also the fact that we had a good tomato session last year with higher tomato output than we had in 2018.

And higher tomato output led to higher inventory and higher cash payments to our farmers. So also looking from a macro-perspective, I think this is better for our farmers, for us and for the consumers as well, and also for the economy in general.

You see here summary of our balance sheet, our assets stands at 1 billion TL almost and this is 18% higher than last year. And you see here our financial indicators. And you see that they're all at healthy level, and we came to keep them as such. Of course, our... going forward, our plan is to keep up with our growth and profitability trends.

Under the current conditions related with the COVID-19, it's really hard for everyone to predict what's ahead of us. Of course, we hope to see some normalization in summer. And this will also result in normalization in our sales figures.

But again, even despite the COVID-19 phenomenon, we had started the year with strong growth. And we aim to maintain that.

Thank you for now, and I can take the questions now.

## Q&A

OPERATOR: We have a question from our webcast participants. The first question is from Mr. Hafizoglu Erdem from company BGC. And the question is, and I quote. Our first quarter 2020 margin is sustainable or temporary?

Do you expect similar margins in remainder for 2020? What is your long-term EBITDA margin target, is 15 feasible? Is there any progress on the sale of Izmir land or pasta equipment?

ÖZDEN B: Okay, well the figures here that you saw, as for the COVID effect is especially has impacted us in like mid-March. So, we

believe that our margins are sustainable going forward throughout the year.

About the progress on the sale of Izmir land and pasta, because of the current situation right now, we're waiting for a bit for the sale of land. We're waiting for the normalization of COVID-19 circumstances. About the equipment, we almost completed the sale of equipments, and in this quarter the profit that we made from those operations were 582,000 TL.

So, for the land, again we're waiting for the COVID-19 to normalize, and to go back to our normal life and normal economic situations, let me say.

OPERATOR: Thank you. We have another question from our webcast participant Uguroglu Pinar from the company TEB Portföy. How sustainable is your margins, can we expect last year's good harvest continue impact margins positively?

ÖZDEN B: Yes. Again, we aim to maintain our margins. We expect our... we believe that our margins are sustainable, of course, again this year's tomato harvest will make...will be significant, but for now... I mean, as for now the... again, agricultural processes are going... continuing as expected and we expect a similar season like last year. So, going forward we look positively, so the harvest this year.

There is also a question about the working capital... about this year's tomato harvest. So, if our expectations are true and that this year's harvest is similar to last year, we won't have a negative impact, but we will see a similar trend that like we...

this last year, in terms of inventory and the cash payments. But we are selling our inventory, so there is not a problem on reducing our inventories now, both in the domestic market and also in the export market. So, we don't expect anything negative.

OPERATOR: Thank you Ms. Özden.

ÖZDEN B: There is another question about revenue growth target for 2020, and again working capital. Well, I don't... we don't usually give guidance, you know but again, we aim... we expect our growth performance and our margin performance is sustainable. So, I don't want to give a guidance on the targets. I think the questions are similar almost.

Just in summary, I think everybody is asking about the same things. In summary, the figures you saw here, the impact is almost is like mid-March also there is, of course, COVID-19 impact on April and maybe lower in May. So, we see some normalization in May, and we expect normalization going forward in the second quarter.

But again, as we start to see here with strong growth apart from the COVID-19 impact. We expect to maintain our growth and also our margin.

There is a question about raw milk price hike for 2020. Well, we... last year, it was... the price hike was done in May, so we didn't... and the last one was in November, so our expectation was again around May or June. We expect that there may be another milk price hike, but I mean we manage our pricing

strategy accordingly in line with the impact overall milk price on our costs. So again, as we did last year, we will move with the markets with regards to the raw milk price hike.

OPERATOR: Thank you Ms. Özden. 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 again for your interest and for joining our webcast. I hope everybody stays safe. We can always answer your questions anytime you want. Thank you. Bye-bye.