



Tat Gıda Sanayi A.Ş.

Tat Gıda Sanayi A.Ş. Full Year 2019 Financial Results Conference Call

Thursday, 13th February 2020 (17:00 TR Time)

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 Konstantinos 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 2019 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 last quarter with successful results and now I will walk you through the details. My apologies before hand for any disturbances, because I've got a cold so my voice changes sometimes. Please excuse me for this.

I would like to start with the 2019 highlights. First, just to give you an overview of what has been important and significant developments in our business units. Starting with Tat business, this year...I mean, last year in 2019 we had a normal tomato season and the tomato production was 2.2 million tons. So this was a normal season and it was...we had...our results are as we had expected.

Our procurement was 340,000 tons and last year as you may well remember the season...the output of the season was lower in fact it was 1.3 million tons and this had an effect on our volumes in 2019. So now we have...our expectations have been realized in the last season and the...our tomato

procurement price was lower than last year around 500 TL per tons. This was also in line with our expectations.

We had our own farming this year 2,000 meter square. This is not much of a procurement, but this...we do digital farming on this field, and we had higher yields in this farm and we use this farm as a benchmark to other farmers in our sector. We use digital farming to improve our yields, and they see that they can also replicate this in their own farms. In fact we also have a mobile application for digital farming.

So this is what we are trying to expand in our farmers let me say network. Also; we had high margin private label agreements in the tomato category. Another development was that we had, we started in house production of pickles this year. So, this will affect our growth going forward. And throughout the year we had continuous brand investments in our Tat business.

Going over to Sek, we focused on branded growth this year. As you may well remember, we had exited the private label business towards the end of 2018. So what you'll see is all pure branded growth. How we did this, you will also see the numbers coming up in the next slide. We made marketing investments in selected categories like the yogurt or the quark category. We had a new yogurt plant at Çiftlik Yogurt, it was a successful product.

We had continuously listings in discount markets and high margin actions. So we improved our market share in discount market with branded sales. We also expanded our

dairy dealer network throughout Turkey, so this has an effect...the overall effect on our sales.

Another development in the market was that there were 2 consecutive price increases on raw milk price in May and November, and now we have the raw milk prices 2.3 Turkish Lira per liter.

For other...regarding the other developments, we had sold the Pastavilla brand and we terminated production, I will go over the details...coming up. And in terms of the financial loans and costs, we actually improved our interest rates from 25.61% to 16.97% by the end of the year.

We closed 2 separate loans totaling 70 million Turkish lira with an interest rate of 33%, this was done in September and also we rolled over 85 million TL of loans with lower interest rates. So we started the year with an lower average interest rate.

Going over the Pastavilla business, this is now shown as...reported as discontinued operations on our financials. Just to remind you of the milestones, we had an agreement with Durum Gida on the 2nd of August for the sale of Pastavilla, Kartal and Lunch & Dinner brand. Right of ownership of the brands was transferred on the 2nd of October for the, Durum A.S after we had the approval of the competition board.

On the 2nd of September, we terminated production in our plants. And we had an employment agreements with 81 of

our employees, including outsource employees. Now, a large part of the equipment is sold and we're starting...we have started preparations to sell the land and the remaining equipment.

On the right you see the separate P&L of the Pastavilla business as discontinued operations. The effects of ending employment agreements and notice payments were 4.8 mio TL on our P&L. And from the sale of brands, we incurred 8 million Turkish liras of income.

And you see here on the income from investing activities also we had almost 2 million TL income from sale of equipments. So overall, net income from the discontinued operations was 4.1 million Turkish lira.

Coming to our financials, let me remind you that these figures exclude the Pastavilla business as discontinued operations. Also there is a reclassification in our sales figures, last year 50.8 million TL of marketing expenses which were attributed to actual sale incentive contributions have been reevaluated as sales discounts. So currently they have been reclassified under sales.

Now, with the reclassification, our financial figures are on a comparable basis now. As you see on the chart, we closed the year with the net sales of 1.1 billion Turkish liras. Overall sales growth corresponds to 10% over 2018. So I can say that we maintained our growth trends.

Moving to the breakdown of our sales figures by product group, you'll see 2 different charts here. To make a like-for-like comparison in the second chart, we eliminated private sales...private label sales in Sek business from 2018 figures. So although you see our growth percentage as 2% on the left without the private label business in 2018, actually our branded sales growth corresponds to 35%.

And again, as I mentioned at the start of our presentation, this was achieved by increasing communication on focus categories, expanding our distribution network, making listings and discount markets and other pricing actions. We also achieved strong growth in the tomato business; in fact the growth rate is 19%. So the effect of the normal tomato season has an of course positive effect on this. Again, the...our supply and the prices are in line with our target.

Going over to the net sales breakdown by region, you see here 14% lower exports; you might see 96 million TL. Actually, this is because of a change of distribution partners in Middle East from private label to branded sales. So we aim to grow our exports to Middle East. This will have a important effect on our Tat business. So, before we had only private label sales, largely private label sales I should say.

Now we aim to grow with the full product line...full product, Tat product line and branded sales. And you will see the positive effects of going forward this year.

Looking at the profit figures, we generated 245 million TL of gross profit higher than last year by 38%. And we improved

our margins by 17 points to 21.5%. And we posted almost 107 million Turkish Liras of operating profit. This is ahead of last year, same period by 75%, 74%.

In terms of margins, you will see that the 9.3% of operating profit margin we achieved this year is well of over our performance in previous years. The major reasons for this performance is high growth in high margin Tat business, exiting lower margin PL business in Sek and focusing on higher margin branded growth, so there we have the advantage of favorable mix this year, product mix. We had also further operational efficiencies, especially in our Sek business as we exited the private label business.

Our EBITDA stood at 107 million TL, higher than last year by 100% and our margin also rose by 4.3 points. Depreciation and amortization expenses increase to 22.8 million TL from 15.9 million TL. Our investment expenses totaled 21.4 million TL this year and this was in line with last year figures. And we closed the year with 72 million TL of income before tax and our margins rose by 2.2 points to 6.3%.

This year our financial expenses were 36 million TL versus the 21.5 million TL last year same period. This is a result of the long-term financial loans we have been carrying since last year. As I had explained earlier our average interest rate is now lower. So this will have an favorable effect going on over 2020. When we look at...in any case, I will walk you through our financial debt position. Pardon me, I just said 66 million TL of net income by the end of 2019 and this is 72% ahead of last year same period.

Coming to our financial debt, by the end of December, our net financial debt is 194 million TL. As you well know, our tomato business has a seasonal pattern and we make payments in the tomato season to our farmers, so our net financial debt go up second half of the year. Since the tomatoes were in abundance this year, our supply was higher. This is why you see lower cash and higher financial debt versus the first half of 2019.

Overall, our net financial debt over EBTIDA ratio is 1.8% which is at the healthy level, and we are carrying around 75% of our total financial loans in long term debt, and they are all in Turkish lira terms.

Coming to the summary balance sheet, our asset stands at 1 billion Turkish lira, this is 19% higher than 2018. Again, important impact is on our inventories you see here, our inventories is 338 million TL by the end of the year. This is the reason...this is the result of the higher tomato purchasing and production in the season.

And as far the financial indicator, our current ratio is 2.84, liquidity ratio is 1.6, net financial debt over equity is 0.45, and our working capital stands at 542 million TL. I believe they are all at healthy levels and we aim to keep them as such. Going forward, our plan is to keep up with our growth trends in 2020, and we aim to improve our profitability as well.

Finally, I would like to take this chance to wish you a prosperous and successful 2020. We hope to keep the performance and the successful results going over this year. So we may pass over to the question session now. Thank you.

Q&A

OPERATOR: The first question is from our webcast participant Ince Baris with Garanti BBVA Securities. And I quote "Thank you for the call and taking questions. First, how is outlook for 2020? Second question, is there any change on Tat Gida strategy regarding private label business?

And third question, will Tat Gida be distributing any dividend? Fourth question and final question is what is the latest on Pastavilla land? Thank you.

ÖZDEN B: Thank you. Well, we have the result for the first month, but we are growing in line with our expectations. So, 2020 looks okay for now, again we aim to maintain our growth trend and improve our profitability this year. Tat Gida strategy regarding private stable business, we don't see the private stable business as a major strategic pillar for us. But, we...if there are commercial rationality, if the profitability is in line with our targets and the commercial conditions, we will be making agreements, private label agreements.

So, again I would not say we are...we are not going to make any private label agreements anymore, this is not the case. We can make agreements if the right economic conditions

occur, but again, it's not our major strategic pillar. So, our major strategy is growing with our brands, if the right economic conditions incur we can make private label agreements, and this is our strategy.

With respect to dividends, we will be acting in accordance with our dividend policy. And latest on Pastavilla land, well, we are...the land is...we are selling the latest remaining equipment and then we will pass on to the sale of the land. We hope to close the process...proceedings by the end of the year. So other questions?

OPERATOR: The next question is from our webcast participant Pokar Melis with OYAK Securities. And I quote "Is there any plan involving exit from any of your current business lines, do you plan to distribute dividends this year and do you high teens revenue growth likely in 2020 and improve operating margins further"? Thank you.

ÖZDEN B: Okay. There will be some repetitions, but dividends will be according in our dividends policy, we aim to... we expect to maintain our growth trends in 2020 and improve our operating margins. Now, as of today, we don't have any exit plans regarding our business lines that we should be announcing, so this would be my answer. Next question?

OPERATOR: The next question is from our webcast participants, it's a follow-up question from Ince Baris with Garanti BBVA Securities. And I quote "Does Tat Gida consider any acquisitions? Thank you.

ÖZDEN B: Well, we are always evaluating opportunities here especially in Tat business and especially in international markets. For now a significant project hasn't come up, but we are always looking out for opportunities, especially again in Tat business and especially in international markets, this is also in line with Koç Holding strategy to grow overseas.

OPERATOR: Ladies and gentlemen, there are no further questions at this time. I will now turn the conference call over Ms. Özden for any closing comments. Thank you.

ÖZDEN B: Thank you.