TAT Gıda Sanayi A.Ş.

TAT Gıda Sanayi A.Ş First Half 2023
Financial Results Conference Call

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Conductors:

Ms. Başak Tekin Özden, Chief Financial Officer

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 Maria 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 2023 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. Çamlıtepe, you may now proceed.

ÇAMLITEPE B.: Thank you very much. Good afternoon, everyone, and thank you for joining today with us to review Tat Gıda's First Half 2023 financial results. I'm Banu Çamlıtepe, Investment Relations Manager at Tat Gıda, and joining me today is Ms. Başak Tekin Özden, our Chief Financial Officer.

If we start on slide two, you can see today's agenda. I will go over financials in brief and provide you with some sectoral information. Ms. Başak Tekin Özden will then discuss the financial results of the First Half in detail. And then we will leave the room for Q&A.

And with that, please let's move to slide 4. In brief, in the First half, our net sales doubled to TL2.1 billion. Our domestic sales drive the growth and registering 135% growth versus the same term last year and reflecting inflation-driven higher prices which partially offset the negative impact of elevated 2022 seasonal costs. And our exports were $33 million and it was up by 25% in US dollar terms and our export share in total sales was 30% versus 38% in the same term last year.

Looking into gross profitability, our gross profit margin came in at 25% in First Half of this year, compared to 34% in First Half of last year, but close to 26.5% attained in Second Half of 2022. And stable FX rate versus last season's high costs and lackluster demand in local market continue to have pressure on gross margin.

We continued to focus on cost savings in the operating expenses level. Despite higher personnel expenses in First Half of this year due to inflationary impact, our operating expenses as percentage of our net sales was 14% in this First Half versus 19% in the same term last year. Our EBITDA increased by 54% to TL253 million and our EBITDA margin was 12% this year, down from 16% of last year.

Elevated season costs and higher amount of tomato purchase in the last season also led to an increase in our financial debt as of Third Quarter of 2022. And as a result of higher financial debt and elevated interest rates, our financial expenses increased. Our net financial expenses was TL240 million in this First Half versus TL15 million last year. Our net profit came in at TL174 million, almost the same level attained in First Half of last year as a result of higher financial expenses.

And as we disclosed in May 2023, our parent company, Koç Holding, has initiated a project regarding its shares in Tat Gıda to explore strategic alternatives, including their sale, and a mandate was provided to get financial consulting services. And today, Koç Holding disclosed that non-binding offers received from various international and local potential buyers have been evaluated and the second phase, which will include detailed due diligence and binding offer submission stages, has been initiated with the suitable candidates.

To give you an initial view, for the new harvesting season in the world, let's move to slide 5. These data are derived from World Processing Tomato Council and Tomato News website. According to latest news flow, the amount of tomato for processing in the world expected to increase by 12% to 42.6 million tons this year. And the biggest increase is expected in California and China's estimates, while Turkey's processing amount is expected to reach 2.6 million tons, which represents an increase of 11% year-on-year. But as a reminder, initial expectations for 2022 harvesting season was also higher than the actual figures.

And in the second graph, World Processing Tomato Council also provided the expectations for worldwide average field gate value of tomatoes for this season, and it is expected to be at around $136 per ton, which is up by 40% versus 2022 level, and 60% higher than the overall average price for the previous three years.

On slide 6, you can see Turkey's monthly tomato paste exports provided by Turkey's Statistical Institute. Turkish food exporters have been negatively affected by the rising raw material costs in the last harvesting season against stable currency which has lowered their competitive advantage. Turkey's tomato paste exports in volume terms in the first five months of this year was down by 72% to 32,600 tons.

And in addition to monthly tomato paste export figures, we included in this graph, the annual increase of monthly average US dollar-TL rate and annual increase of producer price index of agricultural products. As it is seen, the gap widened following our harvesting season. Despite the negative market conditions, Tat continues to focus on its long-term export growth strategy and still having high export to total sales ratio versus its peers.

On slide 7, we include the Agricultural Input Price Index chart. This is a similar page that we have included in our previous presentations as well to explain the impact on raw material costs last year. Agricultural Input Price Index annual growth rate peaked in September 2022, as you can see on the graph, reaching 138% growth yearly.

And the highest annual increases were in fertilizer and soil improvers subgroup with 227% and in diesel subgroup with 237%. This jump in agricultural input prices led to an increase in raw material costs, which eventually increased financing need around 4x to manage 2022-year harvest season.

Looking into this year, we see that there is a declining trend. As you can see, in May 2023, Agricultural Input Price Index increased by only 33% year-on-year and by 88% compared to 12-month moving averages.

Moving to slide 8, we wanted to share Turkish tomato paste market. Based on Nielsen report, which is for total Turkey, including discount markets as well. Turkish total tomato paste market contracted by 3% year-on-year in volume terms in this First Half, whereas there was a yearly growth of 14% in the same term last year. This shows a slowdown in local demand and that made it difficult to reflect price adjustments.

On the other hand, despite the contraction in the market, Tat was able to increase its market share in this First Half by volume growth and Tat's market share in tomato paste in value terms increased by 2.3 percentage points.

On the next slide, you can see the market shares of Tat in its own categories. These figures are also from Nielsen, excluding hard discounters. Tat continues to be the market leader in domestic market in almost all its categories.

With that, moving to slide 10, I am pleased to turn the call over to Ms. Başak Özden to discuss the financial results of the First Half in more detail.

ÖZDEN B.: Thank you, Banu. Thank you all for joining our webcast. Well, as you see on the charts on the screen, we continue with our strong growth path and the cumulative average growth rate in our net sales is 30% in US dollar terms. As Banu highlighted, the unfavorable FX conditions for the exporters in general and the contracting domestic market has been putting some stress on our margins. But still we have an average growth rate in our EBITDA as 27%, again in US dollar terms.

On the other hand, the extraordinary hike in the working capital requirements during the 2022 season had a negative impact on our net income. And going forward, we expect more favorable conditions in the macro environment as we go through the new season, which I will explain in more detail at the end of my presentation.

Well, going over the details, starting with the revenues now. Our net sales doubled in the First Half of the year, compared to the same term last year and reached TL2.1 billion. Total sales volume in the First Half decreased by 11%, compared to the same term last year. This was mainly due to lower exports, especially in the First Quarter of this year, compared year-on-year growth. And sales volume in the Second Quarter of 2023 was almost in line with the level attained in the Second Quarter of last year.

Domestic sales increased by 135% in the First Half year-on-year, owing to stable volumes and higher prices against a contracting market environment as Banu emphasized. And as we mentioned earlier, as the domestic demand is low, this puts pressure on pricing and volumes.

On the other hand, exports was up by 67% in TL terms. And going over the next page, I will talk more about the exports. As you may recall, our exports had declined by 4% in US dollar terms in the First Quarter of this year. Because in the First Quarter of 2022, there was a base year impact as our clients chose to build up inventory in that quarter.

In the Second Quarter of this year, our exports year-on-year growth was 77%. And overall, exports in the First Half reached $33 million displaying 25% growth year-on-year in US dollar terms. We have mentioned in previous pages that it has been tough for exporters since the Second Half of 2022 as FX rate has been stable, compared to high inflationary environment. Therefore, our exports upward trend has slowed down in this First Half of 2023. And export share in total sales was 32% in the Second Quarter versus 46% in the First Quarter of 2022 and 29% in the Second Quarter of 2022.

Export shares in total sales may change depending on market conditions and client orders both in domestic and export markets. However, our growth trajectory in exports is still viable. And we still increase our exports by adding new destinations and new clients and strengthening our share in the existing ones. So our growth strategy and our trajectory remains solid.

Going over to the cost side, we had a surge in costs in last harvesting season as you all know, especially in raw material purchases and energy costs. This led to a pressure on margins in the second half of 2022 and First Half of 2023. As we had mentioned before, Agricultural Input Price Index had reached its peak in September '22, impacting the agricultural costs negatively in the middle of our tomato season. And now we see that the prices continue to increase but at a much lower speed.

Additionally, the stable FX rate versus last season high cost and the lackluster demand in local markets continues to have pressure on gross margin. And as a result, our gross profit increased by 53% year-on-year to TL532 million in this First Half, while our gross margin came in at 25% in the First Half versus the 26.5% in the last quarter of 2022 and 34% in the First Half of 2022.

When we look at our operating expenses in the Second Quarter of this year, our opex increased by 76%, compared to the same term last year, mainly as a result of higher personnel expenses due to inflationary impact. The effect of this increasing personnel expenses were partially offset with operational efficiencies and as a result, opex to net sales ratio was 14% in the First Half of this year versus 19% in the First Half of 2022.

Comparing the Second Quarter of this year with the First Quarter, there's a TL25 million increase in our opex, and this is mainly due to new advertising campaigns in our sauces business and additional severance payments. I hope you saw our new advertising campaign that we launched in the Quarter for our sauce product line with the slogan, "the taste that's not fade on the plate", in April this year on various channels, including TV, radio, and outdoor. And we had a renewal of our packaging range. So, this has an impact on our marketing expenses in the Second Quarter.

Our EBITDA stands at TL253 million and displays a year-on-year increase of 54%, while the margin was 12% in the First Half, and 9% in the Second Quarter this year. It was 16% in both the First Half of 2022 and the Second Quarter of 2022. As we mentioned, the decline is mainly attributable to lower gross margin.

When we compare the two quarters in 2023, there's a total of TL75 million decline in EBITDA versus the First Quarter of 2023. And TL51 million gap is led from lower gross margin. And the remaining gap is coming from higher OPEX as I have explained earlier.

Coming to net financial debt, again, due to seasonality and elevated harvesting season costs, our net financial debt reached TL2.2 billion at the end of 2022 and came down to TL2 billion at the end of First Half of 2023. We tried to diversify our funding sources and extend our credit terms, and we have issued some bonds and obtained an EBRD loan in the period. As of June-end, 20% of the TL2 billion financial debt is in FX, which is the EBRD loan, and the rest is in Turkish liras. And the 50% of our financial debt is long-term debt. While with higher net financial debt and interest rates, this led to an increase in our net financial expenses.

And looking over to the investments, this quarter we continued our investments, which was TL112 million in the First Half of 2023 and TL76 million in the same period last year. Finally, the net profit was TL174 million in the First Half, and it remained intact at the levels attained last year in the same period, mainly due to higher financial expenses.

Going forward we see that the coming season seems more favorable for us for the reasons that I will try to explain now. Firstly, you see that the Agricultural Inflation Indices are still growing but at a lower pace than last year. And also coupled with the expected higher tomato outputs in the new season, we see that these two inputs or dynamics may limit increases in tomato price in the new season in Turkey. Also, you've seen that the expected global tomato purchasing prices are higher in the new season, almost 40% as expected, which will be more favorable for the Turkish exporters.

The expected global tomato yields may be lower due to high temperature levels in Europe, which may also increase demand for Turkish exporters and of course, increasing the prices for the global market. And additionally, as currency movements are more favorable now versus last harvesting season, we anticipate our exports and margins to gear up in the coming quarters.

Regarding the domestic market, demand dynamics and inflationary movements again in the market may create room for further price adjustment. And we see these upsides as a potential to improve our bottom line in the coming quarters, looking forward.

So that's the end of my presentation. I can address your questions.

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

ÖZDEN B.: Well, thank you for your interest and joining our webcast. We're always ready with Banu to address any of your questions. Thank you.

ÇAMLITEPE B.: Thank you.