



TAT Gıda Sanayi A.Ş.

TAT Gıda Sanayi A.Ş Nine Months 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



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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 Nine Months 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: Hi, good afternoon and welcome to Tat Gıda's nine-month 2023 earnings conference call. And I'm Banu Çamlıtepe, Investment Relations Manager at Tat Gıda. And Ms. Başak Özden, our Chief Financial Officer, is joining me today.

ÖZDEN B: Hello, thank you for joining our webcast, today. Well, I'm sorry to say that I've got the flu, so Ms. Banu Çamlıtepe will be going over the presentation. And excuse me, if you hear a few coughs during the presentation. Thank you.

ÇAMLITEPE B: As Ms. Başak Özden mentioned, I will go over the presentation pages today, and then we will leave the room for your questions. So now, let's move to slide four and start our presentation.

In this first Nine Months, we have processed 422,000 tons of tomatoes and reached a production volume of 118,000 tons. These are not the final volumes of the tomato season yet.

As you know, this harvest season continues in October. And we'll go over the final figures in our fourth quarter results

presentation. In this nine months, our net sales increased by 87% and reached TRY3.3 billion. Our domestic sales drive the growth, registering 96% growth versus the same term last year.

Looking into gross profitability, we mentioned in the previous quarters that stable FX rate and last season's high costs, together with lackluster demand in local market, had pressure on our gross margin since Third Quarter of last year. However, gross margin came in at 28% in Third Quarter of this year, higher than 25% levels attained in first half of this year, and close to 29% levels attained in fiscal year 2022 level.

We continue to focus on cost savings in the operating expenses level. Despite higher personnel expenses in the first Nine Months of this year due to inflationary impact, our operating expenses as percentage of net sales was 15% this year versus 17% of the same term last year.

Our EBITDA increased by 107% to TRY667 million, in the first Nine Months, with the contribution of higher other income from operating activities. EBITDA margin came in at 20% versus 18% in the last Nine Months, 2022.

Last season's high costs led to an increase in our financial debt as of Third Quarter of last year, and as a result of high financial debt and elevated interest rates, our net financial expenses was TRY391 million in first Nine Months of this year, versus TRY58 million in the same term last year. And our net profit came in at TRY195 million, which is lower than the figure attained last year as a result of elevated net financial expenses, and as we mentioned, due to higher interest rates and debt position.

And as disclosed previously, Koc Holding has initiated a project regarding its shares in Tat Gıda to explore strategic alternatives, including their sale, but there is no additional news at this time that we can share so far with you on this issue.

On slide 5, as in previous quarters, we included Agricultural Input Price Index on this page to explain the impact on raw material costs, and Agricultural Input Price Index annual growth rate peaked in September of last year, reaching 138%, and the highest annual increase was in fertilizer and soil improvers subgroup, which was 227%, and diesel subgroup with 237%. And this jump in agricultural input prices, which corresponded to our harvesting season last year, led to an increase in raw material costs, which eventually increasing the financing need: around 4x higher financing needed to manage 2022 crop season.

And looking into this year, we see that there's a declining trend from September 2022 till June of this year, and Agricultural Input Price Index in August, which is the latest one, increased by 41% annually. And among the subgroups, fertilizer and soil improvers with 15%, and plant protection and pesticides with 30% were the subgroups that indicated low annual increase versus the index.

And moving on, we wanted to share information on Turkish tomato paste market. As you can see on the graph, based on Nielsen report, which is for total Turkey, including discount markets, according to Nielsen, the Turkish total tomato paste market contracted by 2% year-on-year in volume terms in the first Nine Months versus last year, whereas there was a yearly growth of 18% in Nine Months of 2022.

This slowdown in local demand made it difficult to reflect price adjustments in the local market. And on the other hand, despite the contraction in the market, TAT was able to increase its market share in the same term by volume growth, actually. And TAT's market share in tomato paste in value terms increased by 1.5 percentage points.

On slide 7, you can see the market shares of TAT in its own categories. These figures are from Nielsen nine-month report, including discount market. TAT continues to be the market leader in domestic market, as in the previous quarters. And for the first time this year, ketchup category was included in MediaCat's Lovemarks survey. And we are happy to see that, by far, TAT ketchup became the Lovemarks brand of this year.

And moving to slide 8, you can see summary of our three-year financial performances, based on nine-month results. We continue with our strong growth path. Our net sales grew at a compounded annual growth rate of 28% in US dollar terms. And our EBITDA growth was even higher at 47%. While you see a contraction in nine-month results of our net income, the extraordinary hike in the working capital requirements during the last season, in 2022 season, had a negative impact on our net income, as you see.

And moving more details on our financials, if you move to slide 9; in the first Nine Months, our net sales increased by 87%, compared to the same term last year, and reached TRY3.3 billion. Total sales volume in the first Nine Months decreased by 5% versus last year. And this was mainly due to lower exports, especially in first quarter of this year, year-on-year.

However, sales volume in Third Quarter of this year was up by 9%, compared to the same term last year, owing to strong, local sales volume. And domestic sales increased by 96% in these first Nine Months, led by higher volumes and prices. And exports was up by 69% in TL terms. And we will talk more on exports on the next page. So, we can go to slide 10 for exports.

In the first Nine Months, as we mentioned, our exports reached \$45 million, displaying 21% year-on-year growth in US dollar terms. We have mentioned in previous quarters that it has been tough for exporters, as in second half of last year, and first half of this year, FX rates have been stable compared to high inflationary environment. And, therefore, export share in total sales for our case was 30% in this first Nine Months versus 33% in the same term last year.

But looking in the Third Quarter results, we see that export share was again higher at 29% levels, versus 26% in the same term last year. And we will continue to focus on exports by adding new export destinations and strengthening our share in existing ones.

And now we can move to slide 11. On this page, we would like to emphasize on our production volumes and recent investments. In the first Nine Months, we have processed, as I mentioned in the first page, 422,000 tons of tomatoes, 15% lower than the figure attained last year in the same term. But our production volume at 118,000 tons was only 7% below of last year due to product mix.

In line with our growth strategy in condiments, our production volumes in this category increased by 12% year-on-year. And we have been investing both in production and marketing in condiments segment. This year, we have invested in a new sauce filling line. And with this investment, our annual pet bottle sauce production capacity reached 75 million units, up from 45 million units. And you may also notice that we have renewed our labels in our packages, and we launched an advertising campaign for condiments this year as well.

Moving to slide 12, we would like to mention about our cost of goods sold on this page and gross profit. We had a surge in costs in 2022 harvesting season in raw material purchases and energy costs. And this led to a pressure on margins in the second half of last year and first half of this year results.

And as we mentioned in previous pages, Agricultural Input Price Index reached its peak in September of last year, impacting negatively our farmers' costs. Now we continue to see prices to increase, but at a much lower speed. And looking into our cost of goods sold, our COGS increased by 100% to TRY2.4 billion in the first Nine Months, whereas the annual increase in Third Quarter was 54%. And our gross profit increased by 57% year-on-year to TRY860 million in the first Nine Months, while gross margin came in at 26% in the first Nine Months, versus 31% in the same term last year.

And looking into Third Quarter results, we have seen an improvement in our gross margin. Our gross margin was 28% this quarter, higher than 24% level, attained in second quarter of this year, and 26% attained in Third Quarter of last year.

And moving to slide 13, our operating expenses in nine-month results increased by 69% year-on-year. And looking into Third Quarter results, the increase was 98%. These increases were mainly due to higher personal expenses, as we mentioned also in the first page. Inflationary trend had a negative impact on all cost items, including the personal expenses, and plus items such as shipping, logistics, subcontracting expenses as well. As the negative inflationary impact was partially offset with operational efficiencies, our OPEX to net sales ratio was 15% this year, compared to 17% in the same term last year.

Moving to slide 14, we'd like to talk on our EBITDA. Our EBITDA at TRY667 million in these first Nine Months displayed a year-on-year increase of 107%, while EBITDA margin was 20% this year versus 18% last year in the same term.

And net income from operating activities was TRY251 million in the first Nine Months. This was higher compared to the same term last year due to higher term differences, interest income, and a fixed gain on trading activities. And looking at Third Quarter results, EBITDA margin was 18% in this Third Quarter, which was 16% in the same term last year.

On slide 15, there's a summary of our net debt position. Due to seasonality and elevated harvesting season costs last year, our net financial debt increased and reached TRY2.2 billion at fiscal year 2022 end. And when we look at this year, as of September end, our net debt was at similar levels at TRY2.2 billion. But net debt will increase in fourth quarter, as we expect, as season production and related payments continue in October. But expected to be on a declining trend starting in first quarter of 2024.

Meanwhile, we have diverse funding sources and try to extend our credit terms. And as of September end of this year, 18% of our TRY2.5 billion financial debt is in a fx denominated, which is EBRD loan, and the rest is in Turkish liras.

We continued our investments in innovation, quality, infrastructure, and maintenance this year. In addition, as we mentioned, we have increased our annual pet bottle source production capacity to 75 million units from 45 million units. And our total investments in this first Nine Months was TRY206 million, versus TRY147 million last year in the same term.

And moving to slide 16, final word on net income. Our net profit was TRY195 million in these first Nine Months, compared to TRY228 million attained in Nine Months of last year. This is mainly due to higher financial expenses this year, as we mentioned.

Our total taxes was TRY34 million this year, which was TRY12 million last year in the same term. And our current period tax expense was actually TRY90 million. And as we have given in our first half financial report, TRY22 million of this was from fiscal year 2022 taxes stemming from earthquake tax, and remaining TRY23 million was coming from 15% investment contribution implementation that no longer expanded after December end of 2022. And we had deferred tax income in these first Nine Months was TRY55 million.

And as a final note, if we move on to slide 17, going onwards: agriculture inflation indices roving at a lower pace this year,

coupled with expected higher tomato output in the new season in Turkey limited the increase in tomato prices as expected.

Narrowing gap between season costs and the devaluation of Turkish lira against US dollar may increase Turkish exporters' competitiveness in next quarter. And as currency movements are more favorable versus 2022 harvesting season, exports and margins anticipated to gear up in the coming quarters. And demand dynamics and inflationary movements in the domestic market may create room for further price adjustments.

And finally, net debt, as we mentioned in the previous page, is likely to increase in fourth quarter as season production and related payments continue in October. But going onwards, expected to be on a declining trend starting in first quarter of 2024.

With this said, this is the final page of our presentation. And now we can have questions. Thank you very much.

OPERATOR: Ladies and gentlemen, there are no audio questions at this time. We'll now proceed with any written questions from our webcast participants.

I'll now pass the floor to Management. Thank you.

ÖZDEN B: Thank you again for joining our webcast. We're always ready to address any of your questions.

ÇAMLITEPE B: Thank you again for joining today.

OPERATOR: There is one written question that just came up, if you would like to address it?

ÖZDEN B: The question is on 2023 year-end guidance. Well, we haven't closed the new season yet, we'll be giving the new season's information with our next webcast. Thank you.