



TAT Gıda Sanayi A.Ş.

TAT Gıda Sanayi A.Ş First Quarter 2024 Financial Results Conference Call

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Conductors:

Ms. Başak Tekin Özden, Chief Financial Officer

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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 and Live Webcast to present and discuss the First Quarter 2024 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 will first briefly go over TAT Gıda in brief and then review the First Quarter financial results. And in the Appendix you may find the detailed financials for your analysis. First, a brief overview of the company. I would like to especially focus on the advantages or the strength points that we have that differentiate us in our industry and our competitive advantages in our operational processes from farm to fork.

First of all, high capacity and leading production facilities. We are the leader in tomato processing in Turkey with high capacity under one roof. Actually, we are the leader in Turkey, the fifth in Europe and 13th in the world. As you well may know, we have three facilities, all with an ease of reach to the supply chain and distribution networks.

One is in Karacabey, the other one is Mustafa Kemalpaşa, and the third one is in Torbalı, İZMİR. And we have made some growth-oriented capacity investments in the previous years and going over. Also, we have announced new investments this year to be finalized in 2025, which

covers investments in sauces, PET (sausage) filling and also in the ready-to-serve dishes categories.

We have an extensive supply chain and distribution network. Of course, Turkey is a global-wide advantageous position in the tomato category. As of last year, tomato processing ranking for Turkey was the fourth and Turkey's share of the global tomato processing was 6%. As regards to Tat Gıda, we are the largest company with a large portfolio of contracted farmers.

We have around 450 contracted farmers and each year the percentage may change, but in average approximately 50% of our input is supplied from contracted farmers. And we also have -- we make spot purchases during the season.

We are also the only company engaged in agricultural activities. And we use these agricultural operations as a benchmark to our contracted farmers because as we use digital agriculture applications, we have higher efficiency, which is 10-11 tons per hectare, which is higher than Turkey's average, which is around 7-8 tons per hectare.

So, we use these farms as benchmarks to our contracted farmers. But in all, almost 5% of our total supply comes from our own agricultural activities. Of course, our production facilities are in close proximity to Karacabey and Mustafa Kemalpaşa, areas which provide almost a third of Turkey's agricultural output. And we also have an extensive distribution network, which covers our warehouses and logistics operations.

And lastly, of course, we have a strong brand equity, number one in the market, in the domestic market, and also we have a strong reputation in our export market as well. In the domestic market, we have an extensive coverage in all sales channels, including discount markets, national and local chains, traditional sales points and Horeca customers.

And we are actually the first and the leader in household penetration in Türkiye. And as of sales channels abroad -- we have exports to more than 40 countries, and we already started participation to tenders abroad, and we have contracts with leading market chains in Europe for private-label exports as well.

In the domestic market, we have a sustained market leadership. We had almost ,we rank first in almost all categories. Depending on the local campaign, sometimes the market chains vary, but in the overall market and in the annual indexes, we are always number one in our category.

And I would like to remind you that we had a change in shareholder structure as of the 19th of February. Now our biggest shareholder is Memişoğlu Tarım. Still, Kagome & Sumitomo retain their 5.2% share, and also 41.4% is still on free float.

Coming to the financials, I would like to start with production. You may well know that we have been continuing in investing in growth projects, especially in unsaturated categories such as sauces and ready-to-eat dishes. And we see these investments bearing fruit now, and more importantly, in the coming quarters.

Just a reminder about the production in 2023. We had, in the last season, secured 17% of share in Türkiye's total processing market. And we processed 450,000 ton last year, which is 17% lower than 2022, but still remaining comfortably above the 350,000 to 380,000 tons pre-growth range before 2021.

As for production and sales volumes, you already know that our main production takes place in the Third Quarter due to seasonality. So, in the First Quarter, our production numbers remain small. And it is almost 12,000 ton for the third Quarter, 3% lower than the same period last year. And we had growth in sauces production with the investments we have made last year.

As for the sales volume, we see a deterioration in the domestic market while increasing in total by 5.3% to 37,000 tons, especially due to exports. Again, as a reminder, last year, in the production breakdown, you see that the sauces category has increased its share in our total production. And this trend continues over in the First Quarter.

And our aim is to continue this trend going forward with the new investments we are making. We have also displayed continuous growth in previous years also in exports revenues with expansion efforts in new markets. You see here the trend since 2019 in dollar terms.

And you see here that our exports revenues have risen from \$16 million to \$64 million last year. The cumulative average growth rate is 41.5%. And the growth in 2023 is 15% from \$58 million to \$64 million. This has been our strategic trajectory to increase exports.

And this has been shown in our numbers as well. We have made more efforts in acquiring new customers in new geographies and also making private label production for market chains abroad. To give you some numbers, last year we have added 28 new customers in our portfolio in 12 new countries. And these efforts bear fruits going over to the First Quarter as well.

Our exports revenues, both volume and price-wise, rose thanks to sauces categories, tomato products and paste categories. In the same period, our exports revenues in TL terms went up by 11.5%. And the share of exports in our total sales was 41.3%. Actually, this percentage was around 33-35% in the last year, in the annual 2022-2023. But in the First Quarter of 2023, it was 29% and now it's 41%.

Again, this elevated share can be attributed to our private label pizza sauce contract in the European market. Again, new contracts in the private label pickle manufacturing for France market. New distribution agreements in countries like the US, UK, Germany, Russia, France, Japan, Saudi Arabia, Australia and New Zealand. And also, improving and broadening our sales force and organization in Germany and Russia. So, these steps have also bear fruit to increase our exports as well.

In the domestic market, we have faced price pressures. And also, this increased price pressure and inflation indexation impacted our profitability. In the First Quarter of 2024, total revenues deteriorated by 20.9%, realizing at TRY1.5 billion. The continuing price sensitivity in the

domestic market directed consumers towards market brands and campaign products.

And this had a direct impact on our profitability and sales volume. So, consequently, domestic revenues slid by 34% year-on-year to TRY960 million. Rising export sales volume and revenues partially offset this decline. When we look at gross profits, our margin was 6.1%, falling by 9.4%. The main reasons behind this fall is, first, a higher indexation impact of inflation accounting in the First Quarter of 2024 with respect to last year's same period.

So, we see a larger impact here on our COGS in terms of inflation accounting. Also, an impact coming from last year's harvesting season cost increase. But on the other side, a price pressure, especially in the domestic market. And consequently, Gross Profit decreased by 68.8% to TRY19.4 million. In terms of EBITDA, the number came down to TRY77 million in loss due to declining revenues and rising COGS.

Total operating expenses increased by 14.9% to TRY280 million. Selling and marketing expenses was TRY144 million. In this period, we have carried out communication activities for Tat Ketchup Love Mark Communication. In fact, we saw quick results with this communication effort, and Tat Ketchup captured the largest revenue share for the last couple of years.

General administrative expenses rose to TRY130 million, mainly due to personnel costs. When we look at Net Profit, we see that the major impact with respect to the First Quarter of 2023 comes from the gap in Gross Profit, which I have tried to explain. Decreasing revenues due to

demand and price pressure coupled with the inflation indexation on COGS resulted in a net loss of TRY121 million.

Net financing loss further increased in the First Quarter due to rising interest rates compared to a year ago. The positive monetary gain due to inflation indexation continued to positively contribute to the bottom line with TRY22 million. And Tax Expense decreased due to Net Income loss for the period.

Coming to the summary of the balance sheet, we see that our ratios are improving here. As of the end of March 2024, our current assets stand at TRY4.9 billion and Non Current Assets are TRY1.9 billion, totalling TRY6.7 billion of total assets. Short-term liabilities stand at TRY2.7 billion and long-term liabilities stand at TRY1.3 billion and total liabilities coming down at TRY4 billion.

Our equity is TRY2.7 billion and total liabilities again TRY6.7 billion. You see here that the current ratio has risen to 1.79, liquidity ratio has been rising to 0.84, current assets over total assets is 0.72 and net financial debt over equity is 1.07. Actually, our net financial debt is TRY2.81 billion as of 31st of March, which was TRY3.3 billion by the end of the year 2023.

And we also see that the Net Working Capital is going down to TRY3.4 billion as of end of March and it was TRY4 billion as of the end of the year. Because of our seasonality, actually this is a normal trend for us after the Net Working Capital and Net Debt increases after the harvest season in the last Quarter and then slowly comes down until the next season.

And looking at our cash and debt composition, 35% of our cash is in TL and 65% is in FX. Looking at our total debt of TRY3 billion, 17% of our Total Debt is in TL and , sorry in FX and 83% is in TL. And our short-term debt is all in TL, whereas our long-term debt, only 54% is in TL.

I would like to close with an overview of what we have been -- our focus and growth strategy over the years and to try to share with you our strategic path going forward with the new shareholder, Memişoğlu Tat-Bakliyat.

First, I just want to remind you that in the years 2019 to 2021, we had a major restructuring effort in our business portfolio. As you may well remember, we had exited from pasta business and dairy business between the years 2019 and 2021. And in 2021, we have made an investment around EUR10 million to increase tomato processing capacity and also to increase our pickle manufacturing capacity and the launch of pickle manufacturing before it was outsourced. Between the years 2021 and 2023, I could say that we had a focused growth in top categories.

First, of course, we started to see the impact on production volume due to the new investment capacity investments in tomato and pickle manufacturing. Then in 2022, we have made investments in renewable maintenance and automation for a total of EUR12 million. And we had a new growth focus after growing in tomato and pickles.

Our new trajectory is actually growing in more concentrated categories, the new ready-to-serve dishes categories and sauces to be exact. And we have made

investments in these areas. And also, we have made investments in our invested growth and exports. Also, we have made investment capacity increase in sauces as well in 2023.

And now with the new shareholder, with Memiŝođlu Bakliyat, we have been focusing on new growth areas and on synergies between the two companies, let me say. First of all, we have already announced 10 million investments for capacity increases, again in sauces and also ready-to-serve meals where we see the most synergy in both companies' product portfolio.

Again, we have been looking forward to actually gaining new export customers because Memiŝođlu Bakliyat has coverage of almost 100 countries in their export portfolio. So, we aim to capture more new customers and new market entries in this respect.

Also, we see new export opportunities through international tenders where, again, Memiŝođlu's term is more strong and competitive. And we have seen , we already have announced some tender exports here around \$2 million in the First Quarter. So, we actually, step-by-step, started to see the actual results of these synergies. And we expect to see more in the coming quarters.

Also, there are opportunities in domestic markets, especially by joining forces. Of course, we have a wide and strong distribution network, but we can also take advantage of Memiŝođlu's strength in the Horeca market where we see growth opportunities and synergies. And also, we see more opportunities in distribution in the

eastern region of Turkey where we are weaker, but Memiřođlu's company is actually stronger. So, we see synergies and potential growth areas there.

And finally, we believe that the two companies' synergetic operations will elevate our efficiency and competitiveness in terms of our operations costs. So going forward, we see that we have , we will be able to gain sustainable and profitable growth with new products in new markets through a more balanced portfolio.

And these synergetic opportunities and the steps we have taken, we have already seen some proofs in the coming quarters. We will be seeing more of the realization of these synergies, and there will be more positive impacts in terms of profitability and growth step-by-step in the coming quarters.

Especially the Third Quarter, of course, with the new harvesting season. You know that every season has a story in itself, and we expect to gain more profitability and growth coming with the new season and ongoing with the last quarter of 2024.

And the new investments and synergetic steps and actions will be more visible, especially in the second half and going over to 2025. Well, thank you for listening and I can have your questions now. Thank you.

OPERATOR:

Ladies and gentlemen, there are no audio questions at this time. We will now proceed with the questions from our webcast participants. I will now pass the floor over to Ms. Özden.

ÖZDEN B: Yes, thank you. We have some questions here. First one is about inflation accounting. Which quarter will TAT Gıda start announcing positive EBITDA and revenue target for 2024?

Well, we don't give guidance, but again, we will be seeing improvements step-by-step in the coming quarters. But the main change, the main impact will come with the new season in the third Quarter because of the dynamics of the new season.

And plus, with the positive impact of the synergies with Memişoğlu and the investments we have been making last year and this year, we will see more positive change in the Third Quarter going over to the Fourth Quarter, of course. You know that in our seasonal pattern, our sales are mostly more higher in the last quarter and also our inventories as well. So, step-by-step, we will see improvements, but the major impact will come with the new season and in the last quarter.

Another question, with the completion of plans, EUR10 million capacity, what size of revenue contribution and what is the payback rate for this investment?

Well, I would like to give you the capacity increase, actually. So, last year we had increased our capacity in pet bottle source filling to 25 million units per year. And in 2025, this will be 120 million. And we have been using our capacity almost fully in sources. So, you can say that the capacity will turn to revenues and profits, all of it.

In ready-to-serve meals, the capacity will be 230,000 units per day. This is an area where we see real synergies

with Memişoğlu because they are also pretty strong in legumes, which is an important ingredient in ready-to-serve meals. And the international tenders, like the World Food Program, that they are a big partner and vendor, we also take advantage of this partnership.

So, there is also , we see, and we have already achieved some exports here, again, around \$2 million in ready-to-serve meals, and that's why we are raising the capacity. So, again, here we don't see any problems in fulfilling the full capacity. And in general, our investments, we make investments where we see returns, payback periods at worst four to five years. So, we can say that these investments are in line with our limits, let me say. Any other questions?

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

ÖZDEN B: Well, thank you again for joining our webcast and listening. We are always at your disposal for any questions and comments you may have. Thank you.