

PINAR SÜT MAMULLERİ SANAYİİ A.Ş

Meeting Notes – August 8, 2019

Speaker: Gürkan Hekimoğlu, General Manager

Hello everyone, wish you have a good day. I would like to share with you the results of the first period of 2019, as the first 6 months. First of all, you know Pınar Süt, but it is worth repeating. As a result, Pınar Süt is a company that has begun its 47th year. It is a significant experience in both human and corporate life. We have a significant and strong brand. It is very important to make and strengthen this continuously. To sum it up very briefly, Pınar Süt is a company that takes good care of its producers, consumers, investors, brands and employees and that makes this good looking constant, on account of Pınar Institute is a company that educates producers and takes care of children for 32 years with its theater that tries to raise awareness. And not to give up these social responsibility projects, especially during the crisis years, is an added value. Because this provides to increase the morale of people, to increase the trust of consumers. Therefore, as Pınar Süt, we are present in every field of this. They are crowned. In 2018, the work of Capital magazine was crowned as the most admired dairy company. This makes us happy. Again, we try to carry out this together with our operational efficiency and our stakeholders under the name of sustainability. Therefore, we strive to reduce our carbon footprint and our water footprint. Both a cost advantage, on the one hand, from another perspective, but most importantly to prepare for the future. The dairy summit will be in Istanbul in September. Making this summit in our country is important both for dairy industry and for publicity. Fortunately, we are one of the main sponsors. Our Chairman of the Board of Directors İdil Yiğitbaşı also participates there as a panelist. This increases Pınar Süt's importance and value once again all around the world. I also wanted to share that. **[slide 2]**

As a result, we made a net sales of 779 million TL in the first 6 months. We have a turnover growth of 9.2% and a total EBITDA of 46 million, which I will go into details in a moment. We have \$ 22 million in exports. I'm gonna open up a little more when we mention export. Despite many challenges and the changing conjuncture, our goal is to increase our business. Our goal is to enlarge it. In a controlled manner, you remember last year, we completed our milk powder facility last year. We are now working to maximize our cheese capacity to grow the cheese business. But in this period, we are trying to make our investments more carefully. So we can see ahead. Therefore, we have an investment of TL 4.4 million. But in the second period, we will re-evaluate this and look at the conjuncture and use it for our needs. We have 1043 employees. We have 18,000 manufacturers. When we look at it, we touch a large area. **[slide 3]**

Of course, if we look at what dairy farming actually and periodically, the amount of milk in this period seems to be decreasing seasonally, according to TUIK data. This has two effects. Maybe we will view this effect in the world towards the end of this year. We're having an excessively hot year. There may be a decrease in the yield of animals in general not only in Turkey, for all around the World. Turkey is cooler than other countries. However, the impact of what we call crisis, which started last year, is seen. Turkey imported inputs, unfortunately, a very large proportion of the feed up to 65%. Of course, the situation affects our producer's costs and consequently, it reflected on our costs with the effect of price increases at the moment the producer is stuck but on the one hand, the quality of milk increases as the amount of milk is periodically squeezed when the producer cuts the feed, dry substance but also, the producer may tend to decrease in quantity. This is also the case in this world from time to time. But still, we are a huge country with ranked as 8th in milk production all around the world. In

addition, when we look at the sector in terms of the reflections of this increase, we can face a raise of 17.6% again in May this year came. This increase is over 30% if you look at the previous year. Of course, the low consumer confidence index narrows the market. We can see these effects. Therefore, there is a contraction in many sectors, or rather, in the product group. We are mainly a dairy factory, but we also produce fruit juice. Let me share some striking information about the juice. Between 20% and 23%, the market contracted in itself. So, I want to share this in the meantime. As Pınar Süt, we have taken many precautions. Our juice business isn't that narrow. But in terms of the sector, there is such a thing. There are some production decreases such as drinking milk 12, cheese 6, yogurt, buttermilk. But I think these are temporary. As the confidence index increases, we are gradually beginning to see its effect on them. But it's not at the level we want yet. I think these will turn towards positive. Of course, the rate of increase in our raw material from dairy products is also a requirement of the producer. The timing of the needs can be discussed, but for the reasons I just mentioned, it may need something. **[slide 4]**

In this case, what people are doing in the industry, what we say is moving to the side of cheese in the cheese business is increasing penetration of packaged cheese. Packaged products still reach for households. 93% ratio is very good rate for world-wide and also, for our country. But there's a whole heap more work to be done. Considering that 50% of the milk in our country is exposed, there is still potential for us to grow. In the cheese business, this rate goes even higher. In the dairy business, nowadays, it seems that the public generally trusts a little bit of street milk, maybe a little stable but I believe that with the arrangements it will turn towards positive. We, as Pınar Süt, are working on this. When we look at the turnover, there is a growth of 14% in the total milk market and 16% in the cheese market with the effect of the hikes. When you look at the country's overall production graph, there is no any huge change. From time to time, with the state's intervention here, during periods of excess milk, milk powder exports may interfere and exit. That's the part related to seasonally milk fluctuation. **[slide 5]**

When we examine our position in the market, we still maintain our leadership in UHT milk, light milk, kids milk and protein milk. We created that category. The competitors came as well but still we are the owner and leader of that category. Here, we call as cottage cheese, just as I mentioned before, we completed our investments in an area, where we increased our capacity 7th as a manufacturer company, we want to say that we are sitting second and growing market every day. You can already see the graphs of competitors. We have kefir in the fresh product category. Our investments continue on our probiotic product, fruity, viable product. Our investments are based on both marketing and product. We think it will grow on this channel. The ratios are high, but it's still in its infancy. Our goal is to make it run and raise more. Consequently, despite the contraction in the market and the crisis conditions, we still maintain our market share. **[slide 6]**

When we come to the product groups, 87% consist of our dairy products and the other part of sauces, fruit juices make up 13%. When it comes to export and direct sales, maybe I should give a very brief information about direct sales. Since no school milk tender was held this year, no company was involved in this project. Last year, we took part in this project up to 10,000 tons. Therefore, the reason why our direct sales decreased proportionally is that this project was not made this year. Our goal is to increase our export sales continuously. When we look at this many years ago, it was around 12%. We brought it to 16%. Our goal is to bring this up. Are we having trouble? We have difficulty from time to time. Let me share this information. You may also read from time to time in the newspapers. Qatar closed its door on dairy products. The country made some independent decisions from the Arab countries. Related institutions of the state are also working on this issue. We also do it. They are trying to correct this but we are still trying to wave our flag in the market with our different products, organic

products there. It was a little bit of a challenge. In the meantime, Russia, the European Union countries are among our targets. This includes the United States. We continue to develop serious products in these areas and our products that are suitable for them and consumers will like the products thanks to our R&D. **[slide 7]**

Consequently, what about our financials? I just mentioned it. We had a net sales of 779 million as 9.2%. But as you can see, although we do all our risk management, in the meantime, selling everywhere is a good thing but collecting money is another critical issue. We are trying to be very careful about these issues with our sales company's contribution. Because as you can see in our country, from time to time, there may be some undesirable and distressed situations. We pay attention to this. As you know, there have been cost increases in many things, especially energy and raw materials. On the one hand, new product studies by the way of R&D, operational efficiency and when it comes time to work with McKinsey, we look extra to find out where we have deficit and improve ourselves by benchmarking with other companies. We've been doing this all the time, but we have to look extra in this period. Balancing our costs, of course, affected us. When we look at the increase in our operating expenses, this is actually 4.4%. But in the end, our EBITDA occurred as 46 million, and our net profit for the period was 17.8 million. Especially in May of this year, the impact of the serious hike, it is not possible to immediately reflect the market, it is based on a phase. We'll get back to the effect already. It's not possible to be synchronized because there is a shortage related with purchasing power. I have said before. We are trying to do everything well for both the manufacturer and the consumer. There are many balances such as shrinking the market but keeping it in a profitable place, shrinking in the company and not leaving the producer as idle. We look at all of them as a whole and try to pass these difficult periods together without being harmed. The important thing is to win the trust of the consumer. Our aim is based on not to shrink our business and not to victimize the producer. Hence, it is our goal to maintain both our investor and our brand in a strong state. **[slide 8]**

You see net profit for the period. In the coming months, I can say that these will turn into an opportunity and at least in advance by the corrections and so, the confidence index will become better and better. **[slide 9]**

When we come to our gross profit ratio, we do not have any loss of turnover in our net sales, which is already reduced to 12.1, but the reason for the decrease is also the previous reasons and many financial effects when we look at our EBITDA. In other words, we did not go through a period in which the word of "crisis" was used for so long. But I think we're taking a new turn where we'll forget about it. **[slide 10]**

Generally speaking, I just said something about investments. We are very cautious this year as we have completed our work related with the capacity increase and market in the previous year. But in the second half, we need to evaluate the parts that will carry us to the future together. We will share these again when we have been with you for a long time. We will proceed by looking positive, not negative because after all, we are all consumers. We also know that this will affect our sales and profits. On this occasion, I shared this information. Thank you for listening to me. **[slide 11-12-13]**

Speaker: Hikmet Altan, Yaşar Holding CFO

Q&A

1-Where did Yaşar Holding obtain \$ 100 million funds related to tender-offer process of bonds? Domestic or overseas?

This resource is currently domestic. It is USD 100 million . We have already used as much of this \$ 100 million as we have bought back. The rest stands as a stock in trade.

2- The price difference between your company and market brands seems widening. What is the reason behind this?

On the part of the milk, maybe this could be said until May. Indeed, a difference was opened between us and market prices against our price. But especially after May, you know, Mr. Gürkan said, the increase in other production costs due to various reasons such as the increase in milk has now become a challenge for market brands. They had to adjust their prices. Therefore, when we look at it after May, the margin between us and the market brands continues in a similar manner to the previous years. Here, we can see different things. Wage increases in day by day and month by month and campaigns realized by us or by our competitors can reflect different things and situations. This is temporary indicator. But in general, we pursue this very closely and try to prevent this margin from opening as long as our costs allow.

3-After the factory investment in the Middle East, will Pınar Süt's export be affected negatively?

Products not produced by Pınar Süt will be produced there. For instance, we do not produce mozzarella cheese here. Mozzarella cheese will be produced in there. Cream cheese will be produced in a glass bottle. As an example, we produce cream cheese here, but we do not put in a glass bottle. Hence that glass bottle is already a separate investment. We'll make it. In other words, instead of adversely affecting Pınar Süt's exports, on the contrary, it will enable it to enter different channels with its product variety. We hope it will support the export from here. As you know, we export 90% of our products for labaneh. We will be in different segments as we will make product diversification under the name of Pınar brand here. In this respect, we think that exports will be affected positively, not negatively.