

# PINAR SÜT MAMULLERİ SANAYİİ A.Ş

## Meeting Notes – August 9, 2017

**Speaker:** Mustafa Şahin Dal, Financial Affairs and Budget Control Analysis Director

Compared to the same period of last year, dairy market grew by 11.7% in turnover and its volume increased by 4.0%. The National Milk Council raised the base price of raw milk to 1.21 TL per liter as of January 2017, to 1.30 TL per liter as of August 2017. Though the total sales volume is 1% less than the same period of last year, both domestic and export channel sales volume growth is 1% YoY after excluding the school milk project effect which exists in direct channel. **[slide 1]**

Milk production, which was 8.4 m ton in 2002, has remained at an average of 18 m ton level since 2013 in Turkey. Compared to the other countries packed milk consumption per capita is very low in Turkey. Conversely there is a significant increase in the share of packaged cheese. Depending on the developments in market, as Pınar Süt we invested especially in cheese lines to increase capacity. We boosted cheese sales by focusing on cheese. **[slide 2]**

Raw milk prices increased by 5.2% on average in the first half of the year compared to the same period of the last year due to a raise in the beginning of the year. **[slide 3]**

In 2017, Pınar Süt maintained its leader position in UHT milk and spreadable cheese and continues its strategy that is intended for increasing the share in the cheese category. Pınar Süt grew rapidly especially cottage cheese category in which we are at the second position in the market. In total cheese market our market share has increased from 10.6% to 11.8% compared to the last year. **[slide 4]**

Pursuant to the strategy of differentiation with new and value-added products in the dairy market, which has a fierce competition, new products were introduced to the market. The most important one Pınar Protein Milk cocoa and vanilla presented to consumers' likeness. **[slide 5]**

37% net sales growth realized in traditional cheese category and cottage cheese made major contribution to the growth. Pınar Süt made investments to increase the cottage cheese production capacity in 2016. **[slide 6-7]**

Pınar Süt exports mainly to the Gulf countries such as Saudi Arabia, Qatar, BAE, Kuwait and the most important export product is Labaneh. Increasing export sales and accessing to the new markets are extremely important for Pınar Süt and operations continue within this framework. The share of exports in net sales reached up to 15.2% due to increase in export sales and exchange rates. **[slide 8]**

While net sales realized at TL 576.6 m in the first half of 2017, the company's gross profit decreased 3% for the same period due to a 8% rise in cost of goods sold. In this period, TL 30.6 m EBIT was generated thanks to R&D and general administrative savings. Compared to the same period of the last year, the financial debt increased due to investments and requirement for working capital and this situation increased the financial expenses. **[slide 9]**

Company's profit margins decreased slightly due to the impact of marketing expenses, decrease in affiliation profits and increase in financial expenses, YoY. In the first half of 2016, Pınar Süt profit margins were quite high. Compared to the second half of 2016, our margins increased by %1.5 in the first half of 2017. **[slide 10]**

The company's marketing activities were made mainly in the second quarter. With the dividend that the company received in the first quarter of the year and tax deductions, net profit margin was higher in 2017-Q1. **[slide 11]**

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When the financial ratios of Pınar Süt are analyzed, it is observed that the company has a strong balance sheet structure. [slide 12]

**Speaker:** Hikmet Altan, Yaşar Holding CFO

### Q&A

- 1. Rise in unprocessed food prices has pressured the costs what do you expect about these pressure in the second half of the year?**

The increase in food prices was around 27-28%, then the trend seems to move down slightly. Food prices have reached a certain level for this year so we do not expect any more dramatic increase. Raw milk base price are set at 1.30 TL/LT as of August 2017. We have taken all the necessary precautions for Pınar Süt. We adjusted the prices in July to neutralize the raw material price increases. If the conditions do not change, we will see the positive effects on the balance sheet in the second half of the year.

- 2. The share of Pınar Süt exports in total sales was disclosed as 15.2% as of the last quarter. What should be the expectation of export share in the turnover at the end of the year? Will the tension between Qatar and Saudi Arabia affect it?**

Pınar Süt is the Turkey's largest dairy products exporter with an amount of \$50-60 m per year and most of the export products are sent to the Gulf countries. Labaneh is an important product for Pınar Süt in its export sales and Pınar Süt is the market leader with labaneh in the Gulf countries; Saudi Arabia and Qatar. The crisis between Qatar and other countries created an extra opportunities and \$ 1-2 m increase has been realized in Qatar exports. However, sustainability in exports is the most important.

- 3. How will the profit margins be in the second half of the year?**

In the beginning of July, we increased product prices slightly. You will see its impacts in our year ended financial reports. We cannot share a clear margin figure because of the Capital Markets Law. However, we can say the margins will be better than the first six months of the year for each three countries.

- 4. What is the boycott effect in the figures?**

Despite it affected our sales in 10-15 days period then the effect decreased gradually. Economic developments, Turkey's growth, increase in raw material costs are much more dominant on our sales and this should be managed.

- 5. Do you foresee an increase in advertising expenses rest of the year?**

Our brands are the most valuable asset for our companies. Advertising and marketing activities related with brands are not compromised. Timing and types of advertising are determined according to economic developments and market conditions. There is no change in our basic strategy. I think, budgeted advertising expenses will be spent in the second half of the year and the amount of advertising expenses will realize at similar level with the first half of the year.

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### **6. What is the reason behind the pressure on gross profit in the second quarter of 2017?**

It is due to the price hikes in raw materials. Rapid price increases affected the second quarter of the year. We were not be able to reflect raw material prices increase to our sales prices simultaneously, this causes a pressure on the gross profit.

### **7. Pınar Et grew in discount store markets. Is it same for Pınar Süt?**

The growth in discount markets also applies to Pınar Süt but It is not as much as it occurs in meat segment, but I can say that it is similar for dairy as well as for all food sectors. Growth rate of discount markets seems to be decelerated. They reached many places geographically. However, they are still the major determinant of retail market.