

# PINAR SÜT MAMULLERİ SANAYİİ A.Ş

## Meeting Notes – August 9, 2018

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

Pınar Süt collects about 500 million liters of milk from more than 18,000 producers. We process the collected milk in the 3 facilities of company which are approximately 100,000 m<sup>2</sup> indoor area in total in İzmir, Eskişehir and Şanlıurfa. We distribute our products to more than 150,000 sales point. This is the number of sales points reached by Yaşar Birleşik Pazarlama if we add export and direct numbers, we reach more. **[slide 1]**

Raw milk prices, which are very indicative for Pınar Süt, increased by 9.3% in the first half the year. The National Milk Council has increased the raw milk base price per liter from TL1.53 to TL1.70 as of August 15. According to Nielsen data, in 2018-H1 dairy products market volume expanded by 1.5% and its turnover grew by 19.1%, YoY. Pınar Protein Milk and Pınar Lactose Free Milk with Cocoa were granted awards in various categories. As new products, Pınar Kefir with plain and fruity varieties and Pınar Organic Strained White Cheese were presented to consumers' taste. **[slide 2]**

The growth in number of milked animals in Turkey realized at 13% in 2017 in parallel, milk production also reached up to 20.7 million tons. Recent developments in 2018 point out that these figures are even higher. Compared to the same period of last year, the raw price base price rose by 24.7% which exceeds inflation in 2018-H1. **[slide 3]**

The share of packaged milk products lessened from 37.5% to 36.5%. This can be perceived as a downward development however this is due to the base growth of animal numbers. That means packaged products grew in absolute amount but not as much as milk production growth. The share of packaged cheese has enlarged from 50.8% to 52.1%. Pınar Süt has given precedence to grow in value-added cheese categories in accordance with its strategy. Dairy market completed 2017 with a 7.1 billion TL revenue. The market had attained at 3.5 billion TL in 2017-H1 and now with an increase of 19.1% went up to 4.2 billion TL in 2018-H1. **[slide 4]**

Pınar Süt preserved its market share in dairy market at 13.2%. It has remained at the same level since 2016. Pınar Süt upholds its leading position in many product categories. Pınar Süt is a market leader in total UHT milk category and second in total cheese. **[slide 5]**

90% of Pınar Süt's sales consist of dairy products. The company owns also Pınar branded fruit juice, sauce, ketchup products. Although these products' market share is petite, they exist in the top 3 at the categories. 80% of sales are made mainly through our distribution company Yaşar Birleşik Pazarlama (YBP). The share of direct sales is 6% and vast of this consists of school milk. Also share of export, which escalated by 300 basis points YoY, attained at 14%. Our exports are slowly increasing every year. Of course, the upsurge in exchange rates affects this rise. An essential part of the 24.3 million dollar exports mainly to the Gulf countries and the most notable product is labaneh. We have some exertions on product diversifications and on-site production in these countries. **[slide 6]**

Net sales touched up to TL 713.6 m which is accounting for a 23.8% rise. In the second quarter, the growth in COGS is 1 pp more than net sales due to increase in origin prices and exchange rates. In 2018-H1, TL 121.2 m gross profit achieved. EBITDA realized as TL 61 m thanks to having operational expenses under control. Due to the better profit of YBP, shares of results of investments in associates have risen. There is a significant increase in financial expenses and vast of this figure consists of foreign exchange expenses stemmed from the purchase of machine investments. Pınar Süt has \$ 5.7 m Eximbank foreign-currency loan that does not create any exchange expenses. The company's other

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loans are TL denominated. There has been no increase in the amount of credit debt since the beginning of the year. Last of all, the company generated TL 24.8 m net profit for the period. **[slide 7]**

Certain sales like school milk projects and milk powder sales that we have expected to be made in the second quarter moved into the first quarter of the year that's why net sales were higher in the first quarter. Also profitability was better in Q1, some costs such as collective bargaining agreement costs altered in budget in Q2. Of course, these are particular reasons for Pinar Süt. In general, there exists pressure on profitability in Q2 due to various reasons. We foresee that certain part of the costs will be reflected into prices in the second half. Rising raw milk prices will be exposed in prices of all dairy producers. Efficiency and saving improvements will contribute to profitability. **[slide 8]**

EBITDA has grown in the first half of the year thanks to profitability increase and still debt amount. TL 12.1 m was invested in 2018-H1 while it had occurred as TL 55 m in 2017. Similar capex is planned for the period being however, we keep evaluations regarding on recent developments. We will postpone some uninitiated investments. The milk tower investment, which is the most important ongoing investment, is scheduled to be in operation at the end of this year. Other than this, there is no major investment activity recently. **[slide 9]**

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### Q&A

#### 1. Do you expect any more rises in raw milk base price after August?

We even did not expect for the last price increase under normal conditions that's why we do not anticipate for the near future too. However, it is necessary take into account the increases in milk production costs.

#### 2. Does the requirement for working capital increase due to the extending collection terms of Yaşar Birleşik Pazarlama?

The composition of sales channels changes in Turkey. The share of chain stores and discount stores is enlarging in sales. Their payment terms are long, thus our collection terms gets long while their share in our sales is growing. This increases the necessity of working capital. The maturity of our collections is 1-2 days longer than last year. Other than chain stores the dealer sales are secured.