

PINAR ET 2014 EARNINGS PRESENTATION

March 3, 2015 10:30 AM



Speaker: Tunç Tuncer – General Manager

We will now take a look at our company's 2014 results. Ever since it was first established, our company has always been the sector's leader with its product portfolio and high brand equity. It has introduced more than 300 products based on superior quality, R&D and production capabilities. Our products reach more than 155,000 points of sale in Turkey via Yaşar Birleşik Pazarlama, the Group's marketing and distribution company. Giving priority to quality and food safety in every phase from the supply to finished product, our company's activities and quality management systems have been certified.

To evaluate 2014 from the standpoint of market dynamics, I find it useful to first take a look at the past briefly. As you will remember, we launched an import initiative in 2010, which lasted until February 2013. From then on, import was discontinued, including that of calves for breeding. Raw material prices took an upturn from the second half of 2013. This trend continued through 2014. We see that calf prices went up by 23.6% according to National Red Meat Council data. When we consider the annual inflation, overall inflation, food inflation that was 12.7%, we see that the increase in meat prices was much higher. When we look at TurkSTAT data for livestock assets, we see that the number of cattles decreased by 2%. But meat production quantity went up 1.2%. We can suggest that this was a result of increased productivity. Governmental authority gave conditional permission for importing livestock for breeding by early February in order to support the demand.

The delicatessen market on the other hand grew 24.9% and reached nearly 80,000 tons. In terms of turnover, that corresponds to a turnover of 1.9 billion liras. In 2014, we saw mergers and acquisitions take place. We see that, in the last quarter of 2014, overall processed meat market grew by 0.8% in terms of quantity and by 14.2% in terms of turnover as compared with the previous period. As Pınar Et, we increased our market share in the delicatessen segment by 1.8% on an annual basis. With a 24.8% share in turnover, we maintained our leadership over our closest follower by a three-fold margin. When we look at the shares on the basis of segments, on the basis of product groups, we see that we continue to lead through increases in all delicatessen products market.

Looking at our products in 2014, we see that thick sliced BBQ, grilled toast pizza and gourmet lines expanded. Our company continued in 2014 to watch market trends, and to respond to them with new tastes that strengthen our expertise. When we take a quick look at our campaigns, we see that our gourmet soudjouk advertising started airing in March and our film for "aç-bitir" single-serving salami packs made a hit. It was admired by advertisers and the Advertisers Association, and was awarded Golden Effie in the Effie Turkey advertising competition event.

In 2014, 87.3% of our total sales came from processed products and 8.9% from fresh meat. At Pınar Et, we kept concentrating on the strategy of focusing on the sales of high processed food products. We are delivering 78% of our products to our customers through Yaşar Birleşik Pazarlama, the Group's distribution company.

When we look at growth of main product groups, Pınar Et achieved 15% growth on the basis of main groups, in processed products and fresh meat.

Let's get to our financial business results now. Our Company's net sales increased 12% over previous years. Our turnover in 2013 went up 14.9% in 2014 and reached TL 550.9 million. Our growth was driven by price and product mix. In previous slides, we have seen that increase in raw material prices continued all throughout the year. It was a high 23.6% at the end of 2014, and this fast rise in prices reflected on the market gradually. We will see that it was balanced in the last quarter of the year through improvements in operational costs to support them and price revisions toward the end of the year. In general, we see that the rapidly increasing raw material prices put pressure on the profit margins of other companies operating in the industry.

When we look at our income statement, we see that our net sales reached TL 550.9 million. Due to the pressure in raw material prices I just mentioned, our gross profit was TL 82.3 million. Owing to improved operational costs and to increased income from affiliates, our pretax profit increased by 8.5% to TL 49.4 million, and our net profit increased by 15.7% to TL 44.3 million. Our Company's shareholders' equity was 344.4 million.

Analyzing our growth, we see that the main drivers were price and product mix. As we did not work with some of our direct customers, our 2014 quantities stood somewhat below the previous year's figure. In terms of our profit margins, gross profit, operating profit and EBIT margins through 2014 were slightly lower as compared with the previous year. We mentioned that raw material price increases that continued throughout the year came in phases. When we examine the statement on the basis of quarters, all parameters showed improvement from Q3 to Q4 2014, as well as when compared to 2013. They improved by at least two percentage points.

We are thinking that the effect of this phase difference can spread through 2015. We see our key ratios in this chart. We managed the working capital through effective balance sheet and liquidity management in 2014. In terms of dividends, the chart here also shows the dividends in earlier years. We have been regularly paying high amounts of dividends for the past ten years.

When we evaluate the year 2014 in general, we can say that Pinar Et grew 14.9% annually despite the uninterrupted increases in raw material prices.

Pinar Et continued to focus on high value-added products and to reach consumers by developing products in smaller size packs in line with the purchasing power of our customers.

Looking at our strategies and goals, we target to remain the market's leader by outgrowing the market thanks to our extensive distribution capability, effective inventory management, and our product portfolio addressing diverse needs in the market. This slide here shows the shareholding and participations structure. You can see the stock performance in this slide. Thank you for your time.

Q&A SESSION

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Speaker: Hikmet Altan – Yaşar Holding CFO

1- What is your anticipation for the course of raw material prices in 2015?

Meat raw material prices hiked in 2014. Like Tunç said, there was 26% increase. Speaking in general terms, we do not anticipate a price increase of the same extent in 2015. There are several reasons for that: we are not having a dry season, therefore cost of feeding the animals will not increase too much. There is not so much increase in the prices at origin of (imported) animal feeds. Furthermore, both the government and the authority began making things easier conditionally in the importation of livestock for breeding. Therefore, we are not projecting a significant increase in 2015. It could be in parallel with the inflation.

2- What should we expect in terms of investments in 2015?

There are no special plans. Investments for renovations and eliminating bottlenecks will continue as they did in earlier years. Our investment amount will also be realized in parallel with the previous years.