

PINAR ENTEGRE ET VE UN SANAYİİ A.Ş.

Meeting Notes – August 9, 2018

Speaker: Tunç Tuncer, General Manager

Pınar Et is the first private integrated meat processing plant and maintains its leader position in the market. The company persists its operations with 824 employees and produces average 350 products in 5 different categories. **[slide 2]**

Red meat prices had lessened relatively in the last quarter of 2017 thanks to the rise in livestock and carcass meat via importation; however, the prices went into an upward trend once again and increased by 10.5% in the first half of 2018. The meat imported from abroad by Meat and Milk Organization are in sales for 29 TL/KG as minced and 31 TL/KG as meat cubes in BIM, A101 and Migros stores. The demand of turkey meat has increased due to the elevated red meat prices. A substantial increase (+71%) noticed in turkey meat production after this rising demand. Compared to the 2017-H1, the total processed meat market achieved 2.1% volume and 10.1% turnover growth in the first half of current year. **[slide 3]**

Compared to 2016, red meat production declined by 4% in 2017. According to TSI data, red meat production increased by 9% compared to the first quarter of 2018 and reached 253 thousand tons. Turkey meat production soared by 12.6% and realized at 52.4 thousand tons, while chicken meat production came about 2.14 million tons in 2017. Unprocessed food prices occurred above CPI. The outcomes of rising origin prices and FX rates started to be experienced in the second quarter. Red meat production remains to be dependent on importation. **[slide 4]**

The proportion of packaged products has soared. The weight of soudjouk in portfolio continues by 44%. The processed meat market achieved 2.1% volume and 10.1% turnover growth in 2018-H1 and grew by 2.5% in volume and 11.3% in turnover basis in 2018-Q2, YoY. The growth is arising from the sausage and salami categories in discount markets. Pınar Et also participates in activities with its branded products at discount stores from time to time. **[slide 5]**

Pınar Et maintains its market leader position in soudjouk, salami, sausages and total processed meat categories. «Pınar İllaki» group including soudjouk and meatball varieties and «Pınar Aç Bitir» series with thin and large slices salami varieties introduced into the market. New products have been presented to the consumers with new advertising campaigns. **[slide 6]**

Based on product groups, 75% of net sales consists of processed meat products and 21% of total are made up of unprocessed red and turkey meat. 71% of net sales are through YBP Company. The direct channel sales are at around 26%. **[slide 7]**

Net sales occurred TL 338.4 m which is accounting for a 8.5% rise, YoY. Market growth was around 10% thanks to affordable products in discounts stores. Discount stores continue to cannibalize sales of other sales channels in the market. Hikes of raw material prices and exchange rates had an effect on costs adversely. Cost increases have been covered by savings and not reflected into the end-prices yet. In 2018-H1, TL 48.3 m gross profit obtained with a 5.4% rise under these circumstances. R&D expenditures have increased by 63.7%. The reason behind this rise is R&D Center went into operation in 2017 November and those expenditures has not capitalized. Sales, distribution and marketing expenses are coming from marketing activities and direct unprocessed meat sales. General administration expenses increased by 6% thanks to savings. As a result of these effects, EBIT was realized as TL 20.5 m that is lower than last year. Net profit for the period achieved TL 28.6 m thanks to increase in profitability of subsidiaries compared to the same period of the last year and successful

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financing activities. We foresee that profit margins better, if cost increases could be reflected into the sales prices in the second half. **[slide 8]**

Fluctuations in company's profit margins as a result of raw material and other cost increases can be noticed from the table. We anticipate the margins will rise after the reflection of cost increases even with a time difference. We have been observing the positive indications of this since July. **[slide 9]**

Speaker: Hikmet Altan, Yaşar Holding CFO

Q&A

1. Will the importation of red meat continue? What is the portion of import in total red meat consumption?

If meat importation carries on in this way it points to 4% of total. Our domestic production is around 95-96%. It is crucial to import livestock and support domestic production via these animals instead of carcass meat import.

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.