

**2022 H1 Results Webcast Transcript**  
**TÜRKİYE ŞİŞE VE CAM FABRİKALARI A.Ş.**  
**August 3<sup>rd</sup>, 2022**

**TÜRKİYE ŞİŞE ve CAM FABRİKALARI A.Ş.**

İçmeler Mah. D-100 Karayolu Cad.  
No.44A Tuzla İstanbul Türkiye

T 0850 206 33 74  
T 0850 206 31 08  
T 0850 206 26 57

sisecam.com.tr

**TÜRKİYE İŞ BANKASI**  
kuruluşudur

## Operator

Ladies and gentlemen welcome to Şişecam's first half 2022 financial results audio and webcast call. I will now hand over the call to Şişecam's CEO, Mr Gökem Elverici.

## Gökem Elverici

Thank you.

Good afternoon ladies and gentlemen, and welcome to the review of our first half 2022 earnings results webcast. I hope everyone is well and healthy since we last spoke. And today, I'm together with our CFO, Mr. Gokhan Guralp, and our IR Director, Ms. Hande Ozborecek.

For the review of our first six months results, I would like to leave the floor to our CFO, Mr. Guralp.

## Gokhan Guralp

Thank you very much, Mr. Elverici. Good afternoon ladies and gentlemen, and thank you for joining us.

In today's call, I will first, go through our 2022 first half financial and operational results, with the performance review on a business line basis. Afterwards, I will continue with our cash position and the capital allocation. Operational and financial review will be followed by Şişecam's approach to sustainability where I will remind you our strategy and provide you 2022 year-to-date progress report.

Before I start commenting on our results, please be reminded that all the figures I will be providing do include the contributions of the two acquisitions we have made in the last nine months, mainly US natural soda ash business, known as Şişecam Chemical Resources, and Italian refractory material producer, Refel.

For the audience to better compare our first six-month performance with the prior year results, I will be also be providing an organic & inorganic breakdown.

As always, we will be pleased to take your questions at the end of the presentation. Please be reminded that our presentation and the Q&A session may contain some forward-looking statements. Our assumptions and projections are based on the current environment and thus may be subject to change.

Moving to slide three. We ended the first half of 2022 with a record-breaking top line. Thanks to rapid demand of all our clients' industries, strong consumer sentiment, as well as the dynamic pricing model that we previously introduced for selected operations and implemented across all our business lines on the first day of this year, we managed to attain TL 40.2 billion, up by more than three times year-on-year. Organic revenue growth stood at 174%, while natural soda business and Refel added TL 5.2 billion to our top line. 84% growth recorded in euro terms translated into €2.5 billion consolidated revenue.

Despite the quite challenging high inflationary and uncertain global environment, and the steep rises in our production costs from raw materials to energy, and labor to packaging materials, our gross profit margin went up by 300 basis points to 39% thanks to our cost management strategies, as well as the contribution of US soda ash business.

Our adjusted EBITDA has tripled in TL terms. Organic EBITDA growth stood at 169%, given TL 1.1 billion aggregate US natural soda and Refel contribution. We ended the reporting period with 28% adjusted EBITDA margin, down by 100 basis points compared to the level recorded in first half 2021. Larger scale of operations, fully utilized capacities, accompanied by wide ranges of product portfolios, and hedging contracts on natural gas and electricity in EU-based facilities, on steam coal for Turkey-based synthetic soda ash production facility, and on commodities, such as silver and palladium used in auto glass production processes, not to mention the seller's market dynamics have all supported our profitability.

Backed by below the operating line FX gains and deferred tax income, driven by tax incentives on the fixed asset revaluation implemented in the first quarter, as well as on capital expenditures and FX-protected deposits throughout the first six months, our adjusted parent-only net income moved up by 229% to TL 9 billion. The acquisitions' combined contribution to our earnings was slightly less than TL 200 million.

Euro-based increases in one-off gain adjusted consolidated EBITDA, and parent-only net income were 76% and 92% respectively.

On slide four, you may see the individual performance of Şişecam operations portfolio components. And on slide five, their shares in Şişecam consolidated figures. I will be presenting the two slides in a combined manner.

As you may see, our portfolio performance was supported by all five business lines, thanks to sales volume growth and seller's market dynamics.

Chemicals business line took leadership and brought in the highest contributions on both the top line and profitability levels. Architectural Glass, on the other hand, stood as the largest EBITDA margin generator. Auto Glass contributions to our revenue and EBITDA was limited compared to other glass business lines, not because of broken demand, but due to the hardship the main clientele has been through for at least a year. With the exception of Architectural Glass, we have experienced the start of profitability normalization trend across all our operations portfolio, mainly due to production cost increases which have gradually

become visible on our cost of goods sold, as well as selling and marketing cost increases, driven by accelerated logistics and freight rates.

Architectural Glass business line had over performed the prior year thanks to rapid demand growth. Consolidated sales volume moved north by 7% on a year-on-year basis. Value-added glasses were once again the preferred product category in all geographies we have been present as local manufacturer, as well as supplier through exports. Supported by all client industries from construction to white goods and home appliances, total sales volume booked by all eight lines located in Turkey recorded an annual growth of 16%. Since the exported products share in Turkey-based production lines, output was flat at 15% year-on-year; exports were mostly made by the wholesalers with processing capabilities. And as you may guess, the most desired product types were the energy-efficient ones and solar glasses.

In Europe, bonus schemes in transforming construction materials into more energy-efficient ones have kept the demand for construction and renovation activities alive in spite of surging raw material costs, which is leading to heightened final product pricing. Still, Bulgaria and Italy facilities' combined sales volume were almost unchanged on a year-on-year basis, mostly due to production constraints and low inventory levels.

On the flip side of the coin, rising concerns on macroeconomic growth and respective monetary responses have put some pressure on our client industries' operations in India and in Russia, not to mention the Ukraine war, which has a negative impact on the latest sales performance. Consequently, architectural glass sales went down by 11% year-on-year in these regions. The business line, having recorded 209% annual growth in net external sales, stood as the second largest top line and EBITDA contributor. Thanks to the favorable global pricing environment, architectural glass segment EBITDA margin went up by 100 bps to 34%. I am sure you all consider the risk of a pause and even a slowdown in highly vivid European markets. You may think of product flows to Europe from low cost countries. We have different contingency plans, yet the one that we can share at this point is based on supplying our primary Ukrainian accounts, and to channel more value-added products to the region.

As you all know, automotive industry have long been challenged by supply chain and logistics disruptions. Ukraine war have put further pressure on the industry and OEMs responded by a series of strategic decisions ranging from exiting Russia to temporarily halting production in EU zone. Saving electronic chips for high-margin models through the cancellation of lower segments came in as the new tactical move of German and French automakers and help the industry to meet the demand to some extent.

Throughout the first half, Auto Glass business line has fully utilized its capacity at all locations. Supported by the OEM customers' backlog, and the auto replacement glass demand, sales volume went up by 4%. Period-end top line indicated 88% annual growth in net external sales, thanks to also the negotiation discussions with our main clientele.

Our portfolio component that is most prone to consumer sentiment has outpaced the prior year on the basis of net external revenue and nominal EBITDA. Thanks to strong commercial and consumer demand and increased sales volume to HORECA channel, as well as the dynamic pricing practices, external value revenue recorded by the business line increased by 133% to TL 4.3 billion. Meanwhile, revenue between domestic and international sales came at 56 to 44%. Glassware segment's contribution to Şişecam top line and EBITDA stood at 11% and 8% respectively.

Our Glass Packaging operations generated a top-line growth of 129%. Unsurprisingly, domestic demand for glass packaging continued to be extremely robust, leaving not much room for exports. Still, total sales from Turkey facilities went up by 9%. On the other hand, non-Turkey facilities have recorded 3% contraction on the same basis mostly due to secondary impacts of the Ukraine war, such as label and cap deficits, and also the decisions of European breweries to cease production of one or more brands in Russia. Consequently, Glass Packaging ended the period with 1% annual growth.

The lifting of 25% customs duty on colored glass containers imported to Turkey, effective from June, nourished the core of our Glass Packaging contingent plan, grounded on importing such products from Russia at competitive rates, as it is the lowest cost region in our portfolio. The plan will allow us to continue feeding our domestic market, while in the meantime, the way to satisfy our export markets further with the output of Turkey-based facilities.

Last but not least, Chemical business line revenue grew by 387% and organic growth stood at 186%. Synthetic soda ash sales were almost flat year-on-year, yet on the back of strong demand from client industries, accompanied by further tightened supply due to increasing production and logistic costs and shipment delays, we have seen the global pricing moving north consistently. In turn, our product prices went up by 37% in USD terms. US-based natural soda ash operations outpaced the prior year on the international sales volume, associated with the impact of direct sales to customers, and 46% product price increase in USD terms.

With the incremental production capacity, we took online in our Turkey plant, our synthetic soda ash capacity increased by 50,000 tons to 1.5 million tons. Together with the natural soda ash capacity that is fully consolidated in our financials, our global soda ash production capacity went up to 5,015,000 tons.

Chromium chemical sales contracted by 4%, mostly due to logistic constraints while still the demand at the end client industries, and the global cost inflation have led to an expeditious rise in pricing of all product types. Accordingly, annual increase in product prices stood at 52% on average in USD terms.

In the first six months of the year, consolidated top line and EBITDA contributions of Chemicals business line came in at 30% and 35% respectively.

Moving on the next slide. With our operations in 14 countries, a wide range of products in all business segments, and strong export capabilities, we continued to cater our products across the globe. In the first half of the year, we have generated 62% of our revenue from international sales. Export revenue, 48% of which was recorded on sales to Europe stood at USD 478 million. Including revenue generation of Şişecam facilities in the continent, sales to Europe accounted for 30% of our topline. Combined with the US market's exposure through exports and also sales from US soda ash facility, our sales to developed markets came in at 43%.

On slide seven, our strong liquidity position was sustained in the reporting period too. We ended the year with USD 1.3 billion cash and cash equivalents, including financial investments, namely the Eurobonds and FX-protected deposits. Net debt position stood at USD 996 million, and our low leverage was sustained at 0.9 times. Outstanding debt was USD 2.3 billion up by USD 270 million with a term structure of 47% short to 53% long and the remaining long. And interest rate structure of 56% fixed, and the remaining variable. Excluding hard currency and hard currency-linked financial investments, we carry 72% of the cash and cash equivalents in hard currency, as we continue to be short in TL to preserve our long position in hard currencies, and to fund our Turkish operations. Şişecam's net long FX position came in at USD 257 million. As of June 30, we are 697 million long in US dollar, and 453 million short in euro.

Moving on to slide eight. We have booked USD 189 million CapEx in the first half of the year compared to approximately USD 107 million in half one 2021. Considering the advances given for our investments and the cash payment, we made for Refel acquisition, total cash outflow stood at USD 257 million. Our working capital went up significantly due to inflated costs and currency devaluation, yet stronger operational performance has led to TL 6.8 billion higher net income on a year-on-year basis. Hence, we ended the first half with a positive free cash flow of TL 416 million (USD 28 million).

On a final note, we decided to invest in a new 180,000 tons per year capacity frosted glass furnace, and a new 20 million square meter per year capacity energy glass processing plant, within the site of our greenfield flat glass investment in Mersin, Turkey. As it was announced, estimated cost of the investment is approximately €185 million, including also working capital needs. And we plan to take the investment online by the end of 2024. The investment rationale is our aim to nourish our leading position in the rapid growing Turkish energy glass market, as well as to strengthen our competence further in evaluating export opportunities.

Moving on to the next slide. I would like to continue with updating you on our corporate sustainability progress.

As you would recall, we have launched our CareforNext 2030 Sustainability Strategy in the First Quarter of this year. Under this Strategy, we have 11 material ESG issues supported with clear targets/goals, which are covered under the pillars of Protecting the Planet, Empowering Society and Transforming Life. In support of these objectives, our growth journey with structural changes have been allowing us to align our executive action to our Corporate Sustainability Strategy in a fully integrated and accountable manner. In fact, we tied our leadership compensation to ESG metrics in terms of incentivizing our executives to improve performance on these issues in a measurable way.

Moving on to slide 10. We have issued the 9<sup>th</sup> Edition of our Sustainability Report for the year 2021 back in June. As a first-of-its-kind, practice at Şişecam, we have benefited from verification and assurance services by a third party on our sustainability progress and indicators. This practice not only allows us to build on our transparency, but it also built on our confidence by understanding and evaluating the broader value impacts, and outcomes of our sustainability performance, management, and reporting.

The verification consists of data validation of 10 sustainability KPIs within the framework of Global Reporting Initiative. The practice had a coverage of 48 manufacturing plants of Şişecam while onsite and comprehensive audits took place among 10 facilities in 3 different countries.

Let me share some of the key achievements of the year. Because of our recycling and reuse practices through manufacturing operations, we have saved 8 million m<sup>3</sup> of water. Our savings in the energy in the same year is equal to 600,000 gigajoules.

As part of our excellence model in waste management, we have continued robust implementations on waste segregation at source, supported with end-to-end digital monitoring practices in the selected plants. We are once again proud of having a measured and achievement far beyond against our target on the use glass cullet. In the reporting period, we have reached 26% of glass cullet in glass packaging production despite having operated in most challenging countries with deficits on glass cullet supply.

The achievements under the "Empowering Society", we have provided a total of 47 hours of training per employee across Şişecam. The ratio of our women employees increased to 23%. Out of this figure, women executives have representation of 26%.

We continue to incorporate robotic process automation into management processes, and overall equipment efficiency into operational processes. We have generated 7,762-megawatt hours of energy from our homegrown renewable energy sources. We used 28% of our R&D budget directly on sustainability-linked developments.

Moving on to slide 11. I also would like to share brief highlights on the current and future milestones. With the vision of becoming a net zero company by 2050, our data gap analysis has been completed for value chain emissions of Şişecam. We will continue with in-depth analysis of mitigation potentials to unleash across our value chain.

As part of our leadership contribution on the International Year of Glass, we have been supporting several initiatives, and will pioneer some others taking place in several countries.

With an aim of exploring opportunities in reducing our environmental and social footprint. Starting from product design phase, we have finalized the lifecycle analysis studies and in-house capacity-building activities for selected products for the segments of Flat Glass, and Auto Glass, Glassware, Glass Packaging, and Chemicals.

As mentioned earlier, we have deployed our strategic goals to C-level executives. Our micro webpage on sustainability, which covers A to Z content of ESG topics, is now ready and will be launched soon this month.

Before I end my words, I would like to thank you and our entire stakeholders for placing confidence in us towards our growth journey that creates shared sustainable value.

Since I have completed sharing the comments and slides with you, now we can move forward with the Q&A session.

## Q&A

---

### Cemal Demirtaş, Ata Invest

My question is related to the following quarters. How do you see the outlook at least for third and quarters? Any indication, domestically or international-related recession? And I see that your margins in the Chemicals side looks impressive, do you think those margins are sustainable or not? Thank you.

### Görkem Elverici

Looking from where we are standing and considering that we are also almost halfway through the third quarter, I can say that although there was a mild softening on the demand side, I can still say that the demand is strong and it's a seller's market. But for sure, we need to consider all the geopolitical crises happening at the same time, plus the worldwide expected recession. Each and everyone around the globe is expecting too, as it was the case that we experienced before, there is a high or increased chance that the demand may continue to slow down.

When you consider the level of demand, and the amount of capacity or the available supply in the global market, not only in our own industry but also in so many other industries, still I believe we should be able to have a strong second half in many of the sub-industries that we are operating in. There might be some volatility differentiated between the geographies, but we have to see whether the expected recession is similar to a perfect storm where some of the market players are expecting, or a milder one. Unfortunately, it is not bound to what we can do with our own operations, but it is more on the geopolitical scene, including the Central Banks and the Governments' decision.

When you look at what the world has been going through, and Şişecam specifically, since the beginning of the pandemic, and even considering the geographical volatilities we are experiencing in Turkish operations starting from 2018, we are already in a crisis management mode. We will continue with this. Every day, all the executive team is going after what could be the alternative scenarios that we should put in place when there is a softer demand in the market. But until the day we see that there is a real coming from the market that the supply and demand balance is moving into the unfavorable areas for suppliers like ourselves, we will continue to deliver the better results.

Looking at the soda ash market, it is a supplier to main markets like glass and chemicals industries, as long as the demand continues to be strong, for sure, the delivered results will continue to be strong. But as I mentioned, this is totally based on what will be happening elsewhere in the world, especially in a business like soda ash where you are catering globally.

### Cemal Demirtaş, Ata Invest

As a follow-up related to your financials, we see financial income in the second quarter versus loss in the first quarter. Could you further elaborate that, what was the reason? The other question is related to your effective tax. We see lower effective tax. Should it be attributable to the international operations? These are my last two questions, thank you.

### Görkem Elverici

The financial gain is mainly coming from currency moves in our favor, plus the deferred tax income that we have been able to generate due to multiple reasoning, but the strongest one being the tax incentives that we have been able to put in place with the new investments that we have announced.

And can you please come back with your second question for the international one? I couldn't get it.

### Kayahan Demirak, Ak Invest

Could you give us color about the impact of the rise in natural gas prices in Europe on your operations? The prices are very cheap relatively speaking in US. Also, Turkey should be more competitive. How do you see this going forward for your Europe-based operations?

## Görkem Elverici

I believe this is a very wide topic that we can spend hours on. But to give a summarized answer, the first thing is the pricing, the second is availability.

For the sustainability of natural gas and some alternative energy types that are suitable for our operations, we have done each and everything to mitigate our risk, and we feel ourselves as comfortable as we can be considering everything happening at the same time. We will continue our operations.

For the pricing, we have almost 70% hedged our energy prices, especially in Europe. So, that is one of the areas that we can continue to feel ourselves much more comfortable. But I need to mention that all the hedging contracts are getting smaller and smaller by tenure. Most of the hedging contracts are until the end of this year. For sure, we are looking for additional opportunities to secure both the pricing and sustainability of our energy needs, not only in Europe but for all around the globe where we have operations.

The US market seems to be one of the most beneficial ones, but I need to remind you that if there's an energy crisis globally, for sure when the demand goes up, especially the private suppliers are looking for better opportunities in the market. So, we are also trying to hedge our positions in US also, similar to the rest of the world.

So, it is the demand and supply balance, plus cost and pricing balance that you are utilizing in each and every business line and in geography. I do not want to go into that for each and every specific segment. But please let me remind that the dynamic pricing models we are using are securing us, as much as possible, for keeping up with the margin targets that we put in place. And we believe, and will continue to do our best operationally to keep up with our margins as long as it is possible, and it could be digested with the market by the demand parameters.

I hope this is comprehensive enough.

## Kayahan Demirak

And as a follow-up, I understand you're making dynamic price adjustments, and it's somehow based on cost plus. Assume that you do not have any hedges and you're purchasing energy at the current market price, what would be the impact of that situation on your margin?

## Görkem Elverici

I can say easily that the margins will be hurt to some extent, and this is differentiated by the energies' percentage in the overall inputs. So, for further details, you can reach to our IR team, so they can provide you some ranges of impact that might happen in differentiated business segments. But let me remind you that looking as an overall, the Chemicals segment, especially soda ash will be the most hurt one, followed by the Flat Glass, then Glass Packaging, due to the amount of exposure that they have in natural gas.

## Kayahan Demirak

One more thing. Given the post-energy crisis and plus labor in Europe, could we assume that the corporates in Turkey are very competitive compared to Europe, and you can increase the exports at the current environment if the domestic market weakens.

## Görkem Elverici

I believe it will not be fair to make this comment considering the logistics costs. When you look in some segments, selling to the proximity, especially with the surrounding conditions is much more profitable than anything else. For sure, when you look cost to cost, that might be the case, but let me remind you that the customers also have all the information and know-how that we have, so they keep on bargaining on the prices that you have on the costing side. I believe it is much more fair to say that we are trying to do the cherry-picked sales, especially for our international sales, while trying to keep the balance of keeping our markets and especially our main customers supplied enough, so that they can continue their business, especially in the main markets that we operate.

## Ergun Unutmaz, Individual Investor

Since two years, we are living unprecedented events and Şişecam navigated through turbulent times with great success. When it comes to recent financial results, one thing is clear to me, cost efficiency and pricing power. And you managed to utilities those at the same time, that's great. So, before my question, I would like to share my appreciation and thank you very much, Görkem Bey, on behalf of Şişecam for the success.

My question is on energy crisis and market share in Europe, which you have already touched upon. Due to soaring prices, many European companies are having trouble nowadays here. So, is this an opportunity for Şişecam to enhance its share in these markets? Or is the vulnerability of Şişecam based on energy prices and its exposure to this energy prices crisis? Thank you very much.

## Görkem Elverici

Before providing my answer, first, I would like to thank you for your kind words and compliments. Also, I need to remind that we are waiting for your review of our financials that you will post, hopefully, within today or tomorrow.

Well, looking at the market dynamics, I can easily say that in almost all of the segments, this is a seller's market. We are able to sell everything that we can produce plus transport. So, there is a challenge, as you know, still ongoing for the supply chain. Although it has been easing to some extent in the last couple of months, it's still an issue, especially considering that there's a huge conflict going on in our surrounding region.

And for us to grow our market share, we are continuing to build some greenfield investments, so that we are increasing our market share with the rise in demand in differentiated geographies. So, we have already kicked off our investment in Glass Packaging for Europe, which will provide us an increased market share beyond what we have been getting from exports from both Turkey and Russia until now.

And also, some of the capacities that we are building in Turkey for Architectural Glass, plus the energy glasses, the frosted glass and the energy glasses will be directed to the international markets, especially to the European one. And apart from some possible acquisitions that will be done in a cherry-picked manner like we did before, that might happen in the coming future, unfortunately, it is not easy to say that we can continue to grow our market share, especially in Europe, considering that with the increased market expectations, especially starting with the Turkish market, it's not easy to provide additional capacities to the European market.

And considering what is going on in the European market, we would like to also manage our risks well and mitigate any dependency to the European market or anything that might happen in any of our main markets in the coming future. That's why we are trying to continue to divest our markets for each and every business segment. So, wherever there is an opportunity, especially for an optimized return generation, for sure, considering the customer relations and delivering up to our commitments on one side, but we will continue to stick to our strategy to be agile enough and flexible enough to cater to anywhere around the world based with our financial and operational targets.

## Conclusion

---

## Görkem Elverici

Thank you very much for your attendance to our half-year results webcast call. As we have tried to summarize, we are living in a totally VUCA world where there is volatility in almost everything. But I need to remind, starting with our board and especially executive team and operational teams, we are trying our best to get prepared for any additional volatilities that might come, and to take all of the necessary risk management and risk mitigation actions to continue to deliver strong results. And I hope everyone will stay safe and healthy until we meet next time, where we will be discussing, hopefully, again a strong year-end financial result webcast call.

Thank you very much.