

2020 / 1st Half-Year Financial Results Bulletin

	<u>H1'19</u>	<u>H1'20</u>
Revenue	TRY 74.9 M	TRY 75.3 M
EBITDA	TRY 16.2 M	TRY 6.9 M
Net Income	TRY 10.5 M	TRY 3.0 M

07 August 2020 – Yükselen Çelik A.Ş., the pioneer of technological transformation in the special steel industry and one of the major brands of the sector (“Yükselen Çelik” or “Company”) (**BIST: YKSLN**), published its results for the first half of the 2020 fiscal year ending June 30, 2020.

Net profitability continued with a performance below the targeted (desired) Revenue and Profitability levels.

1.0. Summary

In the second quarter of 2020, the worldwide economic impacts of the COVID-19 outbreak were felt much deeper than in the first quarter of 2020. The negative consequences of the outbreak, which significantly impacted the Steel Sector as well as the automotive, automotive supplier industry, machinery, defense and other manufacturing industries, which are among the target sectors of our company, has particularly affected the financial results of our company in the first half of 2020. Despite these developments, our Company recorded TRY 75.3 million revenues in the first half of 2020, with 0.5% increase compared to the same period of the previous year. The company registered 3.0 million TRY net income in the first half of 2020. Due to sustained net profitability, our company distinguished positively compared to other companies in the Main Metal Index and operating in other related sectors (which disclose net loss) as of 2020 first half year.

Despite the significant contraction in the steel industry, Yükselen Çelik registered revenue increase; while the desired profitability levels could not be achieved. Notwithstanding the partial sacrifice on profitability at the expense of revenue increase, the Company did not incur any loss.

2.0. Sector Overview

- ❑ **World Steel Production was 873.1 million tons by decreasing 6% in the first 6-month-period of 2020 compared to the first 6-month-period of 2019.** In the same period, China increased its production by 1.4% to 499.0 million tons by distinguishing positively. Almost all countries, except China, recorded significant contraction in steel production in the first 6 months of 2020.
- ❑ **Turkey's crude steel production (compared to the same period last year) in April 2020 decreased by 26.3% to 2.3 million tons; in May 2020 decreased by 25,9% to 2.3 million tons and in June 2020 increased by 4.1% to 2.8 million tons.**
- ❑ In this context, although officially not announced yet, **crude steel production in Turkey is estimated to contract around 13% in the second quarter of 2020.** Similarly, the contraction in the first half of 2020 is expected to be around 4%.
- ❑ Total volume of **steel products exports** were down by 33.4% with 1.4 million tons in May, and total value of steel products exports were down by 39.9% with USD 932 million. **In 2020 January-May period, compared to the same period of 2019, total volume of exports amounted 8 million tons with a decrease of 18.5%, and total value of exports amounted USD 5.6 billion with a decrease of 22.8%.**

Source: World Steel, ÇİB, Turkish Steel Producers Association

2.1. 2020 Overview

- ❑ As a result of the measures taken against the outbreak in our country, production in the sectors which are important for our Company; such as automotive, automotive supply industry, mold, machinery and consumer durables sectors, ceased their operations almost completely during April and May. In addition, in the Defense Industry and other manufacturing industries, production and operations were reduced partially by switching to the interleave model.
- ❑ During this period, only some medical equipment manufacturers have increased their demands. This situation indicates a contraction in the demand in our company's product groups during the second quarter of 2020. 29% decrease in automotive production in the first half of the year is an example of the contraction in our target markets (Source: http://www.osd.org.tr/sites/1/upload/files/06-020_OSD_Aylik_Degerlendirme_Raporu-5500.pdf)

2.2. 2020 / First Half-Year & 2020 / 2nd Quarter

- Although the outbreak in our country peaked between April 1 – May 20, 2020; Our Company maintained its sales revenues with 0.5% increase. Despite our performance below the targeted sales level set before the outbreak, growth was recorded in the first half of 2020 compared to 2019 first half-year. 2020 first half-year sales revenues were TRY 75.3 Million.
- In the first half of 2020, the product based sales breakdown changed significantly compared to the same period of 2019. The sales volume of tool steel, which is the highest value-added product, increased by 70.7%, and its share in the total sales volume (in kg basis) increased to 28% from 14%. The revenue share of tool steel, which has a sales price of TRY 13.525 per ton, increased to 51.2% in the first half of 2020 (H1 2019: 30.7%). This increase indicates approximately two-fold increase in tool steel sales revenues compared to the same period of the previous year. This is also in line with our strategy to increase the share of high value-added products in total revenues, as stated in the IPO prospectus. Following the reducing impacts of outbreak, an increase in the profitability of the company is expected as a result of this strategy.
- Together with the increasing trend towards value-added products, current launchings for the new products and the end of penetration pricing as well as the reducing impacts of outbreak, it is aimed to achieve the desired profit margins in the regarding value-added products.
- On the back of increasing share of value-added products in total revenues, total revenue per ton became 7,160 TRY/ton with an increase of 17.6% in the first half of 2020 (H1 2019: 6,090TRY/ton), in a period when price levels were depressed throughout the sector due to recent developments both at home and abroad.
- In addition, owing to the increase in exchange rates in the first half of 2020, raw material supply costs increased significantly, which affected the profitability negatively. In addition to the aforementioned cost increases, the foreign currency expenses registered due to fx-based current accounts related with Consignment Supply agreement, reduced the profitability this period particularly.
- Thanks to the proactive measures taken before the outbreak, no raw material supply shortage was experienced and the operations continued uninterruptedly with the raw materials supplied under the consignment supply agreements. Competitor companies that could not make these supply agreements had to interrupt their operations partially or completely (within certain periods).
- However, compulsory and temporary changes in the supply chain significantly increased the Company's costs. In addition to these, owing to the consignment supply agreements that were had to be made with fast and urgent resolutions due to our shifting supply chain dynamics during the outbreak; Our company could not hedge its foreign exchange risks in the first half of 2020. Standard derivative instruments could not be applied since the exercise date (sales term) of the product purchased in the consignment supply is uncertain. This situation caused the Company to bear the net exchange rate expense due to the increasing exchange rates and at the same time additional increase in the cost of sales.
- On the other hand, in a period when many competitors experienced raw material shortage, the Company made significant progress in its market share by prioritizing its customer satisfaction and loyalty. Risks regarding the raw material purchases were hedged as of the second half of 2020 and

necessary measures were taken in order to avoid any foreign exchange risk in the last quarter of the year.

- ❑ Derivatives required for our standard raw material purchases have been carried out for many years. Special attention is paid not to have short positions by using derivative instruments such as forward, etc. in our routine operations and fixed term purchases made from our ordinary suppliers.
- ❑ Following the foreign exchange expense incurred amounting TRY 5.1 million, the Company registered TRY 3.0 million net income in the first half of 2020.
- ❑ The net cash position of the company as of 30.06.2020 was TRY 24.1 million (31.12.2019: TRY 17.0 million TRY net cash). The company aims to purchase discounted raw materials and semi-finished products in the second half of 2020 and reduce the costs of sales by using its cash position.
- ❑ In addition, during the first two quarters, our Company has decided to slow down check and credit sales apart from DDS (Direct Debiting System) or Credit Insurance (Euler Hermes Insurance guarantee) sales for the purpose of preserving its balance sheet structure. Thanks to our successfully carried out payment collection management, no damage has been encountered in the collection of receivables for the last 3 years. In order to maintain this fine position, the relevant measures are applied with the utmost care. Currently, the amount of doubtful receivables in our company is 0.1% of our annual sales turnover, which corresponds to a very small amount.
- ❑ Our company does not have fx-based loans and holds a long position of TRY 9.4 million as of the first half of 2020.

2.3. Potential Outlook of 2020 / 2nd Half-Year

- ❑ As it is known, the ongoing global economic slowdown mainly stems from COVID-19 outbreak. Within this context, the economic recovery in almost every sector can only occur if the impacts of the outbreak ease.
- ❑ In our country, the impacts of the outbreak for the rest of the year still remain uncertain. Provided that the effects of the outbreak diminishes, a rapid recovery as of the third quarter of 2020 may be seen and losses made during the first half-year may be partially compensated. However, if the effect of the outbreak increases or more negative conditions arise, it may not possible to mention any profit compensation or growth plans.
- ❑ Except for the 2019 fourth quarter, which differentiated negatively due to geopolitical risks and military operations, historically; Our Company's revenues increased significantly in the last quarter of each financial year. In addition, delayed demand from the first half of 2020 is expected to contribute to our sales revenues and profitability in the second half of 2020.

3.0. Other Issues Concerning the Company

3.1. Completing the General Assembly Process

- ❑ The 2019 Ordinary General Assembly Meeting of our company was held on 11.07.2020 and the trade registration and announcement procedures were completed as of 20.07.2020.

3.2. Bonus Issue

- Our Company's Board of Directors resolved to triple its paid-in capital by making a 200% bonus issue through the resolution taken on 21.07.2020. Within this context, an application was made to the Capital Markets Board on 21.07.2020. Our Company's paid-in capital is planned to be increased to TRY 129,930,000 from TRY 43,310,000. The process continues at Capital Markets Board level.

3.3. Shares Purchased Under the Price Stability Fund

- Within the scope of the Price Stability Fund transactions, which our company carried out as one of the commitments in the IPO prospectus (within the first 30 days after the IPO), our 431,672 nominal shares were bought with an average price of TRY 5.34 by using a fund amounting TRY 2,305,645.
- Price Stability Fund transactions are the operations, which the Company can buy its own shares (in case the share price falls below the IPO price) for the purpose of protecting the investors and ensure price stability after the IPO.
- These shares, which are purchased within the scope of the Price Stability Fund, do not have any relation with the Company's main operations and in order to use the Company's funds in our main operation fields, they can be sold (in partial or block) during the second half of 2020, if deemed necessary.
- In an effort to use its fund on its main operations, our company will wait for the right time for the sale of these shares in order to use all of the IPO funds in favor of the Company. There is no decision taken yet on this matter. If any action is taken for this transaction, it will be announced immediately and all required legal obligations will be fulfilled.
- The proceeds from the sale of the Price Stability Fund shares are planned to strengthen the cash position of the Company.

3.4. Anticipation on Impermanency of Diminishing Profitability

- Due to the fact that majority of the payments under Consignment Supply Agreement have been completed and it has been decided to use the necessary derivative instruments for the new consignment goods supply agreements (even if the term of sale is uncertain) or to purchase the relevant products in Turkish Lira; the loss amounting TRY 5.1 million in the first half of the year is expected to decrease significantly as of 2020 fourth quarter. This may positively impact profitability in the last quarter.
- The Company's management and high-level employees were not able to adapt to working from home or interleave working model immediately. In addition, the major concern of the Company became taking necessary measures against the health crisis due to the increase in the effect of the outbreak. These two factors impacted Company's operations negatively. It is likely that profitability and sales revenues during the third and fourth quarters of 2020 will be positively affected when the management and the employees work free of health concerns.

About Yükselen Çelik

Yükselen Çelik is a special steel supplier and service center, operating in the special long steel sector and selling its own branded-products produced based on the specifications developed by itself. The company operates in Cold Work Tool Steel, Hot Work Tool Steel, Plastic Mold Steel, Other Tool Steels, Alloy Steel, Tempered Steel, Carburizing Steel, Carbon Steel and other other special steel groups. As of June 30, 2020, Yükselen Çelik registered TRY 75.3 million revenues with total assets of TRY 215.3 million. The Company's shares have been listed on the Borsa İstanbul since November 14, 2019 under the ticker 'YKSLN'. For further information, please visit <https://www.invest.yukselen.com/> or contact Investor Relations Department.

For Further Information

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