

2020 9-Month Financial Results Bulletin

(TRY)	<u>9M'19</u>	<u>9M'20</u>
Revenue	114.9 M	121.1 M
Gross Profit	27.9 M	18.2 M
EBITDA	23.0 M	12.6 M
Net Income	13.3 M	6.9 M

30 October 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 nine month of the 2020 fiscal year ending September 30, 2020.

Sales revenues increased by 5.4% and net profitability maintained, despite the crisis and all adversities.

However, performance was below the Targeted Revenue and Profitability Levels and negative impacts of the outbreak were reflected in the financial results.

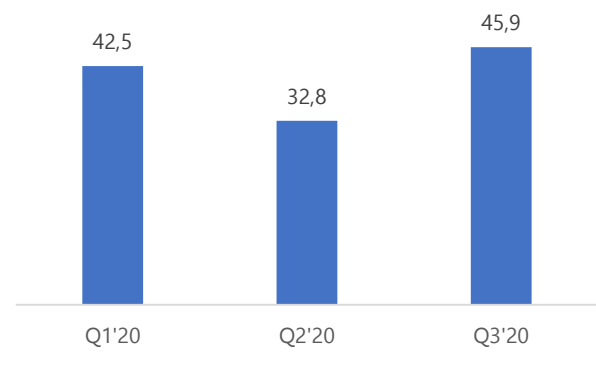
Introduction

- ❖ The health crisis caused by COVID-19 in 2020 had deep economic impacts all over the world. The economic effects that emerged in the first quarter of 2020, got stronger in the second quarter and diminished "relatively" in the third quarter, adversely affected steel production and consumption.
- ❖ The outbreak, which significantly affected the steel industry as well as the mold, automotive, automotive supply industry, machinery, defense, consumer durables and other manufacturing industries, which are among the target sectors of our Company, has significantly impacted the financial results of our company in the first-nine-month of 2020.
- ❖ Despite these conditions, our company recorded a sales revenue of TRY 121.1 million in the first nine months of 2020 with an increase of 5.4% compared to the same period of the last year. In this period, when our Company grew by 5.4%, the global steel industry contracted by 3.2% and the domestic steel market grew by 2.6%. In this respect, our Company differentiates positively in the sector compared to domestic and global markets.

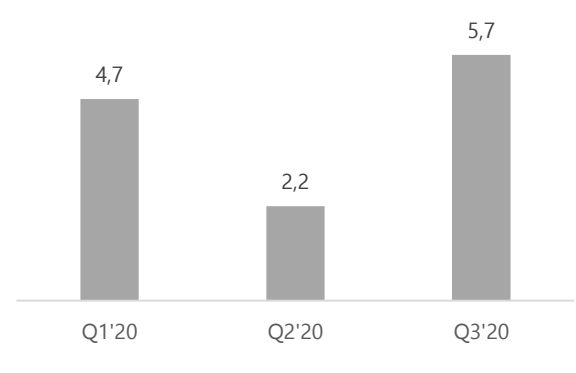
1. 2020/9-Month and 2019/9-Month Financial Data Comparison

- ◆ Yükselen Çelik registered TRY 121.1 million sales revenues in the first nine months of 2020 with an increase of 5.4% compared to the same period of the previous year.
- ◆ As seen below; while in the second quarter of 2020 sales revenues and EBITDA were adversely impacted by the outbreak that emerged in the first quarter of the year, it recovered in the third quarter of the year on the back of the "relatively" declining adverse economic impacts. The delayed demand from the the first half of 2020 has contributed to our sales revenues and profitability in the third quarter of 2020. It seems possible that revenue losses made during the first half-year may be partially compensated in the second half-year, depending on the performance in the last quarter.

Revenue (TRY Million)



EBITDA (TRY Million)



- ◆ Net profitability maintained in the first nine months of 2020 despite all adverse market conditions.
- ◆ The net cash position of the company as of 30.09.2020 was TRY 9,2 million (31.12.2019: TRY 17.0 million TRY net cash)

2. Consignment Supply Agreements and FX Accounting

- ◆ Our company hedged its foreign procurement-related FX short positions with derivative instruments in 2019 and before and did not hold a foreign exchange short position. However, the health-related crisis existed in the first nine months of 2020 created uncertainty in market and maturity conditions in all sectors and contracted consumer demand. As a result, maintaining our market share and the sustainability of our operations have become our priorities.
- ◆ Due to outbreak impact and increase in exchange rates in the first nine months of 2020, there was a significant increase in raw material procurement cost. Owing to the potential disruptions that may occur in routine supply chain operations, FX-based check and credit raw material purchases were made. In this

context, derivative instruments could not be utilized due to the uncertainty in the payment date of the products purchased within the consignment supply because of the reasons elaborated above.

- ◆ In order to avoid a similar situation going forward, it has been decided not to make a new consignment supply agreement, to prioritize fixed-term raw material procurements and cooperation with domestic suppliers.
- ◆ Due to the FX short positions that could not be hedged in this period, TRY 9.6 million FX loss negatively affected our profitability.

3. Increase in Domestic Raw Material Share in the Supply Chain

- ◆ Following the emergence of the COVID-19 outbreak, our Company management contacted reliable domestic suppliers and made some agreements to prevent any disruption in our supply chain, for the purpose of avoiding potential raw material shortages going forward and increasing domestic supplier's share.
- ◆ Within the framework of these agreements; TRY-based significant business processes, which will reduce our dependency on foreign suppliers, were developed with "Makina ve Kimya Endüstrisi Kurumu" ("MKEK") and "Kardemir Karabük Demir Çelik San. Tic. A.Ş." ("Kardemir"). The positive impacts of these agreements will begin to be seen by the last quarter of 2020 (including 2021).
- ◆ Contracts for the sales representation (dealership) in Turkey for the forged steels produced by MKEK have been signed. It is aimed to increase our sales revenues due to the limited number of dealers of MKEK and the domestic distribution through these dealers. On the back of a revision in Kardemir's discount rates and improvement in its product quality through an enhancement in the production range, our company procured some of its products, especially the carbon steels and the steel flat group, from Kardemir.
- ◆ We expect these business agreements, which we have made with our belief in the development of the domestic steel industry, to pave the way for new business agreements provided that they are sustainable.

Despite the contraction in world crude steel production, our sales revenues increased.

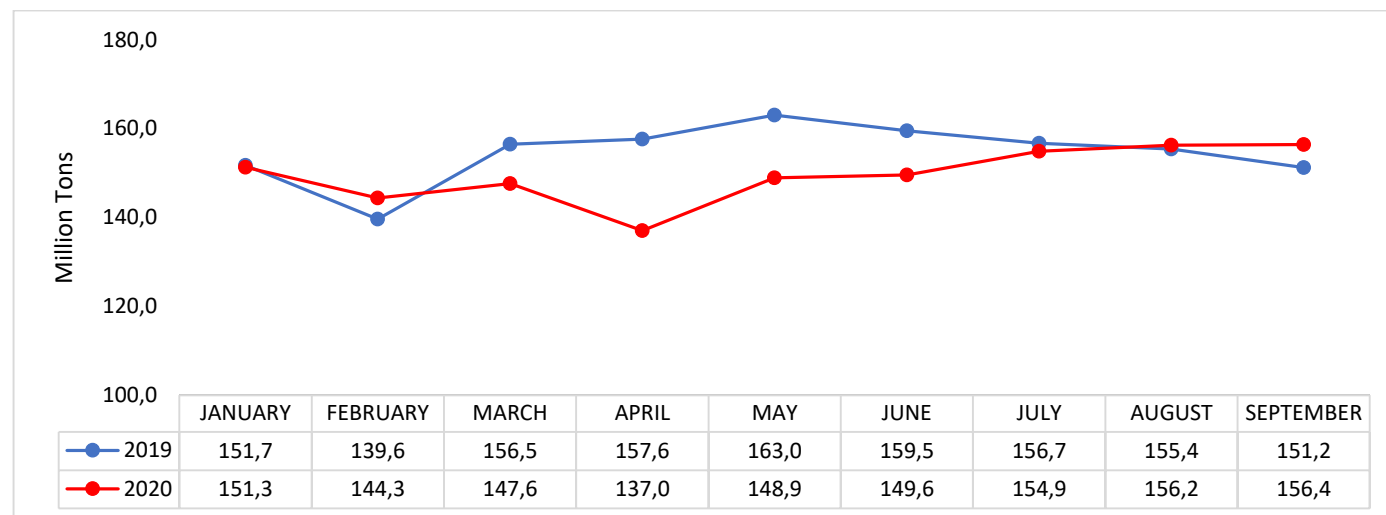
In order to increase market share and gain new customers, profit margin was partially waived. On the back of the sacrifice made for the promotion of our products, new customers have been gained, the loyalty of existing customers has increased and our product portfolio has expanded.

These actions taken during the outbreak are expected to contribute positively to market share, revenue and profitability in the medium and long run.

4. Contraction in Global Crude Steel Production

- ◆ World Steel Production was 1.347.4 Million tons in the first nine months of 2020, decreasing by 3.2% compared to the first nine months of 2019. China produced 782 million tons by diverging positively with an increase of 4.5% in the same period. Considering the relevant period, almost all countries except China have registered significant contraction in steel production.

2019 - 2020 World Crude Steel Production



Source: World Steel

5. Revenues Diverging Positively from Steel Industry

- ◆ Turkey's crude steel production reached around 26 million tons, increasing by 2.6% in the first nine months of 2020 compared to the first nine months of 2019. In the meantime, operations in the automotive, mold and many manufacturing industries ceased at varying times of 4-8 weeks in the first nine months of 2020. This situation lead to a sharp decline in our Company's sales, especially during the period when the operations in the manufacturing industry ceased.

6. Increase in Sales Price (In Tons)

- ◆ In line with our Company's sales strategy, the share of our high value added products in revenues increased. As a matter of fact, the revenue share of tool steel, which is the highest value added product, increased to 45.2% in the first nine months of 2020. (2019/9M: 35.8%) Despite the depressed price levels and contraction throughout the industry, thanks to the increase in the share of our value added products in total revenues, revenue per ton increased by 8.3% compared to the first nine months of 2019, reaching 6.937 TRY/ton. (2019/9M: 6.404 TRY/Ton)

7. Launching & Patent & Pricing Processes of Two New Products

- ◆ In line with its sales strategy, our Company has developed two new products in the "Tool Steel" segment, which is the leading product group with high "profit margin and value added". It has completed the launching and patent processes of these products developed.
- ◆ These products, which may be used in the fields of Mold, Automotive, Automotive Sub-industry and Aluminum Extrusion, started to be sold as of 01 January 2020. These product groups, the specifications of which were completely developed by our Company, were demanded seriously in "priority sectors" and started to be preferred over competitors.
- ◆ The prices levels of these products sold with a low profit margin during the promotion period are gradually increased and it is planned to reach the targeted profit margin by the end of 2020. In this context, through the expansion of our product portfolio and the improvement in our profit margin, there may be a positive impact on our profitability in 2021

Conclusion

- ❖ Notwithstanding the steel industry and our Company's target sectors were adversely affected by the COVID-19 outbreak in the first nine months of 2019; our Company was able to increase its revenues and maintain its net profitability during this period.
- ❖ During this period when global steel production contracted and significant raw material shortage existed, on the back of rapid adjustments made in time in our supply chain, our Company was able to expand its product portfolio and maintain its market share in this crisis period.
- ❖ Despite the underpricing strategy applied to new value-added products launched in 2020, as well as the contraction in the market and depressed price levels, our company increased the share of value-added products in total sales in the first nine months and registered an increase in revenue per ton during this challenging period. During the outbreak, our company has taken serious actions by focusing on the following issues:
 - Increasing the share of domestic raw material resources in the supply chain,
 - Promoting new products, obtaining the patent rights and pricing,
 - Gaining new customers and enhancing the loyalty of existing customers,
 - Increasing the share of value-added products in total sales.
- ❖ We strongly believe that these actions taken by our company, which increases its quality level and product range perpetually by making serious investments in high value added products based on the requirements of the sector and its customers, will positively reflect on our profitability in 2021.

Disclaimer: All data included in this informative bulletin consists of the Company's considerations, estimates and forecasts. It has no binding impact on our Company. All considerations, estimates and forecasts may vary depending on the dynamic market conditions.

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 special steel groups.

The Company's shares have been listed on the Borsa Istanbul since November 14, 2019 under the ticker 'YKSLN'. As of September 30, 2020, Yükselen Çelik registered TRY 211.5 million total assets. Market capitalization reached TRY 544.8 million as of 30 October 2020. For further information, please visit <https://www.invest.yukselen.com/> or contact Investor Relations Department.

For Further Information

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