



## ADEL KALEMCİLİK (BIST: ADEL.IS) Jan.-Sept. 2019 EARNINGS RELEASE

(000 TL)	3Q2018	3Q2019	%	9M2018	9M2019	%
Net Sales	103.417	101.497	-1,9%	353.904	296.311	-16,3%
Gross Profit	45.733	45.851	0,3%	163.390	140.670	-13,9%
EBITDA	32.901	27.282	-17,1%	91.458	73.957	-19,1%
Net Income (Loss)	7.452	4.622	-38,0%	36.133	4.658	-87,1%
Fres Cash Flow	-23.727	-2.856	N.A.	-232.091	-102.466	55,9%

### A - NET SALES

Adel Kalemcilik (Adel) announced net sales of TL 296.3 million in 9M2019, down by 16.3% compared to the same period of last year.

In the domestic market, due to the severe FX fluctuation back in August 2018, suppliers entered 2019 with high inventories. On the other hand, higher perception of economic risks in 2019 drove suppliers act more cautiously, which stands out to be the major reason for the pressure on the domestic revenues.

Despite the 16.3% contraction at the top-line for the nine month period of 2019, campaigns related to boost the sales and other measures slowed down this decline and net sales decreased merely by 1.9% y-o-y in 3Q 2019. Additional campaigns and measures planned for fourth quarter of the year are predicted to have a positive impact on the sales and Adel is expected to reach its net sales target, which is in line with last year's figure.

### B - EBITDA

EBITDA declined by 19.1% y-o-y in 9M2019 due to lower sales in the same period. However additional sales campaigns in 4Q2019 are predicted to boost the sales and EBITDA for the year-end is estimated to be flat vs. 2018.

### C - FREE CASH FLOW

Due to higher cash requirement during January-September period, free cash flow of Adel is in red, but cash inflow in the final quarter of the year leads to positive free cash flow position. Despite the high working capital and negative free cash flow in the nine month period, Adel generated TL 3.4 million positive free cash flow in the third quarter thanks to the measures taken.

Cash requirement of the company decreased by TL 135.9 million in January-September 2019 period. Free cash flow is estimated to be positive at year-end which is in line with the improvement in the net working capital requirement.

Free Cash Flow (000 TL)	2018	2019
1. Quarter	-111.792	-57.118
2. Quarter	-96.572	-42.492
3. Quarter	-23.727	-2.856
1 January - 30 September (Cumulative)	-232.091	-102.466
4. Quarter	166.913	
1 January - 31 December (Cumulative)	-65.178	

## 2019 EXPECTATIONS

- Flat Net sales and EBITDA compared to 2018 year-end levels
- Positive FCF generation via lower inventory and trade receivables (2018: TL -65.2 million)
- Net debt to be lowered (2018-end: TL 160.9 million)

## RISKS

**Financial Risks:** While interest rates, which were above 30% at the beginning of the year, have dropped to around 15%, they may still fluctuate along the course of geopolitical risks and important macroeconomic indicators. Thus, the company plans to increase its maturity profile.

**FX Risks:** 50% of sales are generated through the sale of manufactured products. Commercial goods sold are foreign based. Thus, the company is prone to FX volatility. FX volatility may increase from time to time depending on geopolitical risks and macroeconomic indicators. Our company will continue to use hedging instruments in 2020 for its short FX position in line with its risk policy.

**Receivables Risk:** Collections are recognized with the cheques received from retailers. As the drawer of the cheques received are the clients of the dealers, risk allocation is ensured. Thus, the company does not face material risks related with the receivables. As collateral, our company takes into account "Letter of guarantee", "mortgage" and "DBS". Our company has increased the amount of collaterals through years.