

Kordsa

3Q'23 Financial Results

Earnings Release

November 3, 2023

Sales revenues of Kordsa, which is a tire, construction and composite reinforcement leader decreased by 16% in the third quarter of 2023 compared to the same period last year and realized as 241 million USD due to shrinkage in the tire reinforcement sector, price competition in the sector and decreases on raw material prices compared to 2022.

Sectoral pressures on sales revenues has also affected our profitability levels. The negative effects of shrinkage with high rate in tire reinforcement sector especially in our operating regions (15% shrinkage in EMEA and North America compared to 2022), the excess inventory level in Chinese tire reinforcement companies and price competition coming from this situation and mismatch between exchange rate and inflation in the EMEA region has continued in the third quarter of 2023 as same as the first and second quarters of 2023. In this context, Kordsa's earnings before interest, depreciation, tax and amortization ("EBITDA") realized as 22 million USD. As a result of the increase in financing costs, net profit for the period was 3 million USD.

FINANCIAL DEVELOPMENTS

- In the third quarter of 2023, sales revenues decreased by 16% in USD compared to the same period of the previous year and reached 241 million USD. Although the shrinkage in the tire reinforcement sector, the competition brought by the high stock amount of Chinese manufacturers and the decrease in freight costs increased product mobility, the volume in the second quarter of 2023 was maintained with the competitive price policy and the advantages of the global footprint. During the same period, revenues from the composite segment increased by 36% compared to the same quarter of the previous year and reached 50 million US dollars. The synergy created with Microtex Composites Srl, the acquisition of which was completed in August 2022, continued in the third quarter of 2023 and the company's contribution to the turnover was 9 million US dollars. The construction reinforcement segment created a turnover of only 1.8 million US dollars in the first quarter, as the construction industry was channeled to the region after the Kahramanmaraş-centered earthquakes on February 6; It achieved a turnover of 3.3 million US dollars in the second quarter and 2.6 million US dollars in the third quarter, increasing by 9% on an annual basis.
- EBITDA of 22 million USD was achieved in the third quarter of 2023 in line with the first two quarters of 2023, as a result of the sectoral contraction in the tire reinforcement segment, the pressure on profitability from high competition created by the high stock levels of Chinese manufacturers, and the increase in inflation-related expenses in the EMEA region and the mismatch in the USDTRY exchange rate. In the light of this information, in the third quarter of 2023 compared to the same quarter of the previous year;

- There are negative variances amounting to 0.5 million USD coming from sales (including raw material, packaging and freight) and,
- 2 million USD coming from labor and energy.
- Tax effects arising from the differences between our consolidated financials prepared in Kordsa's functional currency US dollars, and the Tax Procedure Law financials prepared in Turkish Lira, are classified as deferred tax income/expense. Due to the increase in the value of the USDTRY exchange, deferred tax expense accrued in September 2023. As a result of the improvement in the profitability level in response to the increases in financing costs, our quarterly net profit was realized as 3 million USD.
- In the first nine months of 2023, an investment of 31 million USD was made for machinery and product sustainability.
- With the effect of financing working capital and growth-oriented investments, financial debts amounted to 367 million USD, while the net debt/EBITDA ratio decreased to 3.8 on an annual basis with the improvement in net working capital and effective investment management.

SUMMARY FINANCIAL RESULTS

	USD Financials (MUSD)						
	Sep'22	Sep'23	Δ	4Q'22	1Q'23	2Q'23	3Q'23
Sales	885	772	-12.8%	269	276	255	241
Gross Profit	173	115	-33.5%	39	41	37	37
Gross Margin (%)	19.5%	14.9%	-4 pts'	14.5%	14.8%	14.4%	15.2%
OPEX (%)	9.3%	10.5%	1 pts'	11.5%	10.2%	10.8%	10.5%
Operating Profit	90	40	-55.8%	14	14	11	14
Operating Profit Margin (%)	10.2%	5.2%	-5 pts'	5.4%	5.1%	4.2%	5.7%
EBITDA	92	64	-30.0%	16	23	19	22
EBITDA* Margin (%)	10.4%	8.3%	-2 pts'	6.1%	8.3%	7.5%	9.2%
Net Income	82	6	-92.1%	13	5	-2	3
Effective Tax Rate (%)	-17.3%	-57.2%	-40 pts'	366.5%	-21.9%	-149.7%	-38.1%
Net Income (%)	9.3%	0.8%	-8 pts'	4.9%	1.7%	-0.8%	1.3%

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