

Borusan Birleşik Boru Fabrikaları San. ve Tic. A.Ş. 1H 2024 Earnings Announcement

Borusan Birleşik Boru Fabrikaları San. Ve Tic. A.Ş. (BIST: BRSAN) ("Borusan Boru") announced its second quarter financial results for the year 2024 on August 9, 2024.

Management's Evaluation

«We concluded the first half of 2024 with financial results in line with our expectations despite the weak demand outlook in our main operating markets, pricing pressures from falling raw material prices and increasing competition, and high costs.

In the first half of the year, we managed to balance the downward risks in the industry by operating in various markets and business segments. During this period, the contribution of Berg Pipe, acquired in 2023 and consolidated into our financials as of April 2023, and ongoing projects in the infrastructure and project segments supported our financial results. On the other hand, i) prices returning to their long-term average in the energy segment due to the supply-demand balance, ii) weak demand outlook in the industrial and construction, as well as automotive segments, iii) the real appreciation of the Turkish lira and increased labor costs in Türkiye resulting in higher dollar-based labor costs, iv) challenging competitive conditions in our export markets emerged as other factors affecting our financial results.

Despite all these challenges, in the first half of the year, we increased our sales volume by 42% compared to the same period of the previous year, reaching 619 thousand tons, and our sales revenue by 20% y-o-y, reaching \$941 million. Our profitability, which was above average in 2023 due to the energy segment, normalized in line with our expectations in the first half of 2024, approaching the average of previous years. During this period, i) the pressures on pricing caused by increasing competition and falling raw material prices, ii) rising dollar-based labor costs, iii) rising financing costs were factors that suppress profit margins, while i) increased sales volume, ii) cost-reducing measures and effective management of expenses, iii) balancing weak demand conditions by operating in different business segments and geographies led to our EBITDA margin aligning with our expectations at 9.1% in the first half of the year.

In the second half of the year, we expect the weak demand outlook, cost pressures, and tight financial conditions to continue impacting our operations. With our vision of having the most competitive cost advantage across all our products and our focus on sustainable profitable operations in all our business segments, we will rapidly implement measures to reduce working capital needs and costs while enhancing efficiency. »

1H 2024 Summary of Financial Results

(million \$)	1H24	YoY Δ	1H23	YoY Δ	1H22	2Q24	YoY Δ	2Q23	YoY Δ	2Q22
Revenues	940.7	20%	784.7	36%	575.4	411.4	5%	390.8	25%	312.7
Gross Profit	86.7	-61%	220.9	244%	64.2	43.7	-59%	107.8	138%	45.3
EBITDA*	85.7	-60%	214.4	190%	73.9	39.3	-61%	100.5	119%	45.9
PBT	31.4	-82%	170.9	415%	33.2	11.3	-86%	79.0	243%	23.1
Net Profit	20.3	-84%	128.5	395%	25.9	8.4	-85%	57.1	214%	18.1

Sales Volume

('000 tons)	1H24	YoY Δ	1H23	YoY Δ	1H22	2Q24	YoY Δ	2Q23	YoY Δ	2Q22
Sales Volume	619.1	42%	436.4	9%	401.6	261.8	19%	220.1	7%	206.6

Margins

(%)	1H24	YoY Δ, pps	1H23	YoY Δ, pps	1H22	2Q24	YoY Δ, pps	2Q23	YoY Δ, pps	2Q22
Gross Profit Margin	9.2%	-19.0	28.2%	17.0	11.2%	10.6%	-17.0	27.6%	13.1	14.5%
EBITDA Margin	9.1%	-18.2	27.3%	14.5	12.8%	9.5%	-16.2	25.7%	10.7	15.0%
Net Profit Margin	2.2%	-14.2	16.4%	11.9	4.5%	2.1%	-12.5	14.6%	8.8	5.8%

(*) EBITDA is calculated including Net Operating Income, (Income from Investment Activities and excluding Extraordinary Income (Expense). The financial results presented here have been prepared in accordance with the Turkish Financial Reporting Standards (TFRS).

1Y 2024 Highlights

- In the first half of 2024, our sales volume increased by 42% compared to the same period of the previous year, reaching 619 thousand tons.
- During this period, our sales revenue increased by 20% y-o-y to \$941 million, driven by a 42% annual increase in sales volume despite heightened competition
- The share of sales revenue from global markets in total revenue increased by approximately 3 percentage points compared to the same period last year, reaching 81%. In terms of regional distribution, the highest share was attributed to the USA market at 71%, followed by Turkiye with a 19% share. The share of sales to other regions within the total sales is at the level of 10%.
- In the first half of 2024, the highest contribution to sales revenue by business segment came from the infrastructure and project segment with a 52% share. The energy segment accounted for 21%, the industrial & construction segment for 15%, and the automotive segment for 12%.
- Despite the increase in sales revenue during this period, gross profit decreased by 61% y-o-y to \$87 million due to ongoing cost pressures and the high base from the previous year (Gross Profit; 1H23: \$221 million, 1H22: \$64 million).
- Six-month EBITDA decreased by 60% y-o-y to \$86 million, also impacted by the high base from the previous year (EBITDA; 1H23: \$214 million, 1H22: \$74 million).
- PBT decreased by 82% y-o-y to \$31 million due to increased cost pressures and the high base effect, while net profit amounted to \$20 million (PBT; 1H23: \$171 million, 1H22: \$33 million - Net Profit; 1H23: \$129 million, 1H22: \$26 million).
- The Net Debt/EBITDA¹ ratio, one of the debt indicators, rose to 2.0X during this period due to increased net working capital requirements and the decline in EBITDA. (End of 2023: 0.7X)

Sectoral Outlook

- In the second quarter of the year, global steel prices continued to decline as a result of the slowdown in demand. In the first half of 2024, the average HRC (hot rolled coil) price per ton decreased by \$127 in the US to \$860, by \$111 in Western Europe to \$727, and by \$43 in China to \$458 compared to the same period last year. As of the end of June, the HRC price per ton was \$705 in the US, \$670 in Western Europe, and \$443 in China².
- The price of Brent crude oil increased by 6.1% y-o-y, averaging \$85.3 per barrel in the first half of 2024. Fluctuating in the first six months of the year, the price of Brent crude rose to \$88.8 by the end of June due to the extension of OPEC+ production cuts and a decrease in oversupply in the markets (June 2023: \$74.7).
- As of the end of June 2024, the global number of rigs³ decreased by 92 y-o-y to 1,707. During this period, the number of rigs in the USA decreased by 99 compared to the same period last year, reaching 588⁴.
- World crude steel production remained unchanged y-o-y at 954.6 million tons in the first half of the year. During this period, crude steel production in Turkiye increased by 16.9% year-on-year to 18.6 million tons. However, the consumption of finished steel products decreased by 4% year-on-year in the first half of the year, dropping to 19 million tons, affected by annual declines of 14%, 16%, and 13% observed in April, May, and June, respectively.
- In the first half of 2024, Turkey's steel pipe exports increased by 10.1% y-o-y to 1.1 million tons. Romania, the USA, and the United Kingdom stood out as the most important export markets.

(1) Net Debt/EBITDA ratios are calculated using EBITDA for the last twelve months.

(2) Data has been sourced from SteelBenchmarker.

(3) It shows the total number of gas, oil, and other rigs.

(4) Data has been sourced from Baker Hughes.

1H 2024 Business Segment Developments

- **Infrastructure and Project:** In 1H 2024, sales volume increased by 411.9% y-o-y, while sales revenue increased by 579.4% y-o-y, reaching \$488.4 million. This growth was driven by the consolidation of Berg Pipe into the financial statements from April 2023 and ongoing projects in the USA.
- **Industry and Construction:** Despite the weak demand outlook in the markets where we operate, sales volume increased by 15.8% y-o-y in the first half of 2024. During this period, despite the weak demand outlook and increasing competition, sales revenue increased by 2.7% y-o-y to \$144.9 million.
- **Automotive:** Despite the weak demand for pipes in the automotive market, sales volume increased by 11.8% y-o-y in 1H 2024, and sales revenue increased by 7.7% y-o-y to \$107.7 million.
- **Energy:** In 1H 2024, sales volume in the energy segment decreased by 32.6% y-o-y due to the high base from the previous year, the fluctuating energy prices, and the declining number of rigs. During this period, sales revenue decreased by 57.7% y-o-y to \$199.6 million, impacted by the normalization of supply-demand conditions in the market, prices returning to long-term averages, and the decrease in sales volume along with the base effect.

Revenue Breakdown by Business Segment

(million \$)	1H24	YoY Δ	1H23	YoY Δ	1H22	2Q24	YoY Δ	2Q23	YoY Δ	2Q22
Revenues	941	20%	785	36%	575	411	5%	391	25%	313
<i>Infrastructure and project</i>	488	579%	72	62%	44	181	202%	60	81%	33
<i>Industry and construction</i>	145	3%	141	-35%	216	70	6%	66	-33%	100
<i>Automotive</i>	108	8%	100	-21%	126	51	7%	48	-26%	65
<i>Energy</i>	200	-58%	472	150%	189	109	-50%	217	88%	115

Summary Balance Sheet Figures

(million \$)	6/30/2024	12/31/2023	YoY Δ
Current Assets	934	1,084	-14%
Property, Plant and Equipment	725	711	2%
Total Assests	1,772	1,899	-7%
Short Term Liabilities	704	874	-19%
Total Liabilities	904	1,052	-14%
Equity	868	848	2%

Financial Ratios

	6/30/2024	12/31/2023
Current Ratio	1.33	1.24
Liquidity Ratio	0.54	0.63
Inventory Turnover Ratio	2.78	2.65
Working Capital Utilization	43.0%	42.1%
Net Debt/ EBITDA**	2.0	0.7
Equity Utilization Ratio	50.6%	47.9%

Summary Cash Flow Statement

(million \$)	6/30/2024	6/30/2023
Cash Inflow/Outflow (-) From Operating Activities	(118.6)	244.1
Cash Inflow/Outflow (-) From Investing Activities	1.6	(27.0)
Cash Inflow/Outflow (-) From Financing Activities	45.6	(119.9)
Change in Cash and Cash Equivalentents	(71.4)	97.1
Cash in 1Q24	129.4	80.7
Cash in 2Q24	58.0	177.8

Free Cash Flow

(million \$)	6/30/2024	6/30/2023
EBITDA*	86	214
Increase/Decrease (-) in Net Working Capital	(199)	89
Tax and Other	(5)	(59)
Investment, net	(0)	(32)
Dividend	2	5
Free Cash Flow	(117)	217

(*) EBITDA is calculated including Net Operating Income, Income from Investment Activities and excluding Extraordinary Income (Expense).

(**) Net Debt/EBITDA ratios are calculated using EBITDA for the last twelve months.

2024 Guidance

	2020	2021	2022	2023	1H24	2024 E
Sales Volume (mln tons)	0.63	0.76	0.85	1.06	0.62	1.05-1.20
Revenue (\$ billion)	0.5	0.8	1.3	1.7	0.9	1.7-2.0
EBITDA Margin (%)	9.9%	9.8%	14.9%	18.2%	9.1%	8%-10%

Despite the weak demand outlook and increasing competitive pressures, financial and operational results in the first half of 2024 were in line with expectations. Following the 1H24 financial results, there have been no updates to the 2024 forecasts. The sales volume expectation for 2024 is 1.05-1.20 million tons, the sales revenue expectation is \$1.7-2.0 billion, and the EBITDA margin expectation is in the range of 8%-10%.

In the second half of the year, weak demand and cost pressures are expected to continue, and due to balanced supply/demand conditions in the energy sector, sales prices are expected to remain at long-term averages.

In the ordinary course of events, expectations are disclosed four times a year, with quarterly financial results.

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