



**ADEL KALEMCİLİK
SEPTEMBER 30, 2020 EARNINGS RELEASE**





ADEL KALEMCİLİK (BIST: ADEL.IS) Jan.-Sep. 2020 EARNINGS RELEASE

(000 TL)	3Q2019	3Q2020	%	9M2019	9M2020	%
Net Sales	101.497	146.171	44%	296.311	350.862	18%
Gross Profit	45.851	44.656	-3%	140.670	129.553	-8%
EBITDA	27.283	14.411	-47%	73.957	51.204	-31%
Gross Margin	45%	31%		47%	37%	
EBITDA Margin	27%	10%		25%	15%	
Free Cash Flow	-364	-54.603	n.a	-99.938	-196.590	n.a

MESSAGE FROM GENERAL MANAGER EVRİM HİZALER

The year 2020, which progresses under the influence of the Covid-19 pandemic, remains difficult due to the slowdown in economic activity and the uncertainties caused by the continuous postponement of the decisions for the complete opening of the schools that deeply affect the Stationery Sector in which we operate.

As Adel, the health of our employees is one of our first priorities, we evaluate every aspect of the effects of the pandemic on our procurement, production and sales activities, and we continue our work with various scenarios in order to minimize the negative impact of the pandemic on our business goals.

Since June new normal life started in our country, throughout this period the possible effects of the pandemic have been carefully examined, even though there is some opening in economic activity, the predictions and assumptions shared by the competent authorities and institutions regarding how long the effects will continue and the exact opening time of the schools are followed meticulously.

Although the schools, which were first announced to be opened on September 21, opened with a hybrid model for certain classes on October 12, had a positive effect on the retail to some extent, the decrease in consumer attraction caused the retail turnover to remain below the previous years.

In the first 9 months, our net sales has been realized 18% above the same period of the previous year, this increase has been due to the base effect caused by the delay of our sales to the last quarter outside our normal cycle in 2019. At the end of 2020, we anticipate that our annual turnover performance will be parallel to the previous year, with this base effect.

From the beginning of the pandemic, all the measures recommended by our health unit and official authorities have been taken, developments have been followed up and implementation changes are made if necessary. As a result of these measures, Adel has taken "Covid-19 Safe Production Certificate" given by the Turkish Standards Institute

(TSE). We are pleased to state that we are the first company in the stationery sector which has taken this Certificate.

As an institution that always works with the principle of sustainability for its stakeholders; we would like to take this opportunity to proudly share with you that, as a result of the examination carried out by Saha Corporate Governance and Credit Rating Services Inc. authorized by the Capital Markets Board, our company's rating was determined as the highest level long term (TR) AA- and short-term (TR) A1+. In addition to the position of our company in the market, matters such as financials, strong partnership and corporate structure and management of financial / operational risks carried by the company were influential in our rating.

As being a company that works in essence with "goodness" value, we have continued our Corporate Social Responsibility Activities, which we regularly carry out, during the pandemic period:

1. During Back to School period, we contributed to the education of needy children in collaboration with Unicef Turkey and our Faber-Castell brand.

2. We continued our activities to increase individual and corporate environmental awareness under "Goodness Tree". We started "Kindness Tree Forest" movement from Ankara when we were celebrating the 100th year of National Sovereignty and Children's Day. We have continued this movement during back to school period in different cities of Turkey, we have left a trail-friendly green for a sustainable future.

Our target in 2020; to continue our projects that will contribute to the society with an awareness of social responsibility against the pandemic and our "goodness" value, to keep our turnover performance at the level of last year, and to continue our measures regarding free cash flow and receivable management.

FINANCIAL PERFORMANCE

A-NET SALES

Adel Kalemcilik (Adel) announced net sales of TL 350,9 million in the first 9 months of 2020, increased by 18% compared to the same period of 2019. This increase has been due to the base effect caused by the delay of our sales to the last quarter contrary to our normal cycle in 2019. At the end of 2020, we anticipate that our annual turnover performance will be parallel to the previous year, with this base effect.

B-EBITDA

In first 9 months of 2020, while net sales were 18% higher than the same period of the previous year, EBITDA has been realized as TL 51,2 million, 31% below the previous period, due to the economic developments since 2018 and the pandemic causing a serious contraction in the purchasing power of the consumer, increasing discounts, additional sales campaigns and the increase in costs. At the end of 2020, with our turnover realizing in parallel with the previous year, the decrease in EBITDA is expected to be more than the decrease in the first 9 months.

C-FREE CASH FLOW

Considering the cash flow cycle of the company, due to seasonality in the sector, sales are realized in the first 9 months, whereas receivable collections are realized in the next 3 months. As a result, from January till September company has negative cash flow, from October till December has positive cash flow. Although the need for net working capital is high in the first 3 quarters, the Company creates positive free cash in the 4th quarter, in line with the collection of receivables predominantly during this period.

While the company needed 99,9 million TL in cash in the first 9 months of 2019, in the first 9 months of 2020, the cash requirement increased by 96,6 Million TL and the company realised 196,6 Million TL negative free cash flow especially with the increase in trade receivables, due to both the cash cycle of the Company and the periodic shifts between the Company's sales campaigns (increase in weight of fair campaign which has later payment term). Positive free cash flow is expected at the end of the year.

2020 YEAR-END EXPECTATIONS

The effects of the Covid-19 pandemic on both economic activity and the opening period of schools are carefully monitored. Our 2020 year-end forecast, which was created according to the studies made with the prediction that the gradual opening in schools will continue and the bans experienced at the beginning of the pandemic will not occur again, is given below.

- Realizing net sales amount in-line with year 2019
- The shrink in EBITDA compared to the end of 2019 is higher than the shrink in the first 9 months
- Realizing positive free cash flow at year-end 2020 with effective working capital management
- Realizing net debt amount in-line with year-end 2019

Adel Kalemcilik Sanayi ve Ticaret A.Ş.
Summary Balance Sheet
(000 TL)

	31.12.2019	30.09.2020
Cash and cash equivalents	13.421	29.617
Trade receivables	82.018	329.143
Inventories	137.387	137.079
Other current assets	28.814	13.583
Current assets	261.640	509.422
Financial investments	234	234
Investments accounted through equity method	-	1.369
Property, plant and equipment	105.340	100.058
Intangible assets	8.273	7.009
Other non-current assets	14.034	23.384
Non-current assets	127.881	132.054
Total assets	389.521	641.476
Short-term borrowings	118.687	305.896
Current portion of long-term borrowings	7.241	12.754
Trade payables	22.331	44.719
Other current liabilities	18.443	37.167
Current liabilities	166.702	400.536
Long-term borrowings	51.042	74.929
Long-term provisions	8.558	9.483
Non-current liabilities	59.600	84.412
Total equity	163.219	156.528
Total liabilities and equity	389.521	641.476

Adel Kalemcilik Sanayi ve Ticaret A.Ş.
Summary Income Statement
(000 TL)

	30.09.2019	30.09.2020
Revenue	296.311	350.862
Cost of sales (-)	(155.641)	(221.309)
Gross profit	140.670	129.553
Operating expenses	(75.154)	(85.304)
Other operating income/(expense), net	(3.418)	(8.298)
Operating income	62.098	35.951
Income/(expense) from investing activities, net	3.172	38
Gain/(loss) from investments accounted through equity method	(5.293)	1.134
Financial income/(expense), net	(52.251)	(25.393)
Income/(loss) before tax from continuing operations	7.726	11.730
Tax income/(expense)	(3.068)	(2.731)
Net income/(loss)	4.658	8.999
EBITDA	73.957	51.204
Profitability ratios	30.09.2019	30.09.2020
Gross profit margin	47%	37%
Operating profit margin	21%	10%
Net income margin	2%	3%
EBITDA Margin	25%	15%
	30.09.2019	30.09.2020
Market value as of September 30 (000 TL)	252.079	486.203

RISKS

Financial Risks: Our Company's financial statements are sensitive to changes in interest rates as we operate with high working capital in the first 9 months of the year. Interest rates may fluctuate along the course of geopolitical risks and important macroeconomic indicators. Thus, the company has increased its average loan maturity up to 293 days.

FX Risks: 70-75% of the cost of goods sold is dependant to the exchange rate. Our company hedges minimum 50% of foreign exchange risk according to the risk management policy. In terms of 2020, all of the foreign exchange risk has been hedged.

Receivables Risks: Collections are recognized with the cheques received from dealers. 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. Our company takes into account "Letter of guarantee", "mortgage" and "DBS" as collateral. Amount of collaterals has increased through years.

INVESTOR RELATIONS CONTACTS

Please visit our website www.adel.com.tr for financial reports. Please do not hesitate to contact with the people listed below on any subject.

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