ÖZAKGYO
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13.11.2018; 14:00

The transcript of the Teleconference on Financial Statements of Özak GYO for the First Nine Months of 2018

PRESENTER;

Dear participants, welcome to the teleconference on the third quarter financial statements of Özak Gayrimenkul Yatırım Ortaklığı (GYO) (Özak Real Estate Investment Trust – REIT). Now I give the floor to Ms. Hilal Yıldız Çelik. Hilal Hanım, please.

HİLAL YILDIZ ÇELİK;

Good days ladies and gentlemen.

I am Hilal Yıldız Çelik, the Senior Investors Relations Manager at ÖZAK Gayrimenkul Yatırım Ortaklığı (GYO).

Welcome to the teleconference on ÖZAK GYO's Financial Statements for the first nine months of 2018.

First of all, we would like to thank all of you for your participation.

Today, we have here with us some of the top executives of our company:

Mr. Okay Ayran, Özak Global Holding Board Member ,

Mr. Vedat Ateş, member of Özak Global Holding Board of Directors and Executive Board,

Mr. Fatih Keresteci, Özak GYO General Manager,

Ms. Didem Çalıker, Özak Global Holding Finance Director,

Ms. Ebru Arslan, Ms. Hülya Erbay and Ms. Kübra Akbalık, members of Özak Global Holding and GYO Financial Affairs-Finance team.

And here, we start our teleconference with the third slide at the presentation we have sent to you.

This **third slide** shows you the developments in our nine month consolidated basic portfolio. Our asset size rose to TL 3.06 billion as of September 2018 from TL 2.4 billion in 2017. Our net asset value was TL 1.66 billion as of the end of 2017; and it stood at TL 1.62 billion as of 30.09.2018. Our EBITDA figure became TL 82.8 million with an increase by TL 28.5 million compared with the first 9 months of 2017. There is no significant change in our EBITDA margin compared with the last year. As of 30.09.2018, our occupancy rate in the rental portfolio was the same as 93%.

In the **fourth slide,** we see that the exchange difference expenses of TL 113 million were the main cause for the net profit/loss figure. So we had TL 31.12 million loss in the first nine months due to the exchange difference expenses compared with TL 64.8 million profit in the same period last year. On the other hand, there is an increase in our revenue compared with the last year. Our revenues rose to TL 178 million from the last year's TL 114 million due to both strong recovery in tourism revenues and the exchange rate effect on our rental income. Our rental income rose to TL 69.91 million from TL 55 million compared with the same period last year. Our net debt was TL 363 million at the end of 2017, and it jumped to TL 526.90 million as of the ninth month of 2018. This increase in our net debt was of course mainly driven by the exchange rate difference of TL 113 million. Net debt falls as low as to TL 413 million with the deduction of the TL 113 million of exchange difference expenses. When the exchange rate increase is adjusted, the ratio of the net debt to shareholders equity falls to 28% from 35%, while the ratio of the net debt to total assets recedes to 13.7 percent from 17 percent. The reason for the rise of our foreign exchange net general position to minus 286 million TL from minus 171 million TL is also the exchange difference expenses of TL 113 million. We see that our foreign exchange net general position would have barely changed compared with the end of 2017 if we deduct the exchange difference expenses.

In the **fifth slide,** we continue with our consolidated revenue. Here, we provide a comparison between the nine-month cumulated data on the right side of the page, and the three-month data on the left. The increase in our 9 month revenue to TL 178 million this from TL 114 million last year mainly stemmed from the increase in tourism revenues. And when we look at the three-month data on the left, you can see that TL 109 million of the nine-month total revenue of TL 178 million was generated in the third quarter alone due to the recovery in the high season. There is an increase of TL 43.6 million in the third quarter revenue compared with the same period last year.

In the **sixth slide,** we are analyzing our rental income. Just like in the previous slide, you see our rental income in the third quarter on the left and in the nine months on the right. We see that our rental income soared by 27% in the 9 month period. We can say that this increase mainly stemmed from the soaring foreign exchange rates.

In the **seventh slide,** we see the EBITDA. Although there is no change in the EBITDA margin compared with the same period last year, EBITDA figure rose to TL 82.8 million in the nine month this year by an increase of 52% from TL 54.3 million in the same period last year. And when we look at the quarter's figures, we see that EBITDA rose sharply in the third quarter compared with both the previous quarter and the third quarter last year in line with the increased sales prompted by tourism revenues.

In the **eight slide,** you can see our summary consolidated revenue table. Here, we provided a detailed breakdown of our revenue from a time perspective, i.e. in terms of nine month comparisons and a comparison by quarters, as well as a breakdown in terms of sale proceedings and rental income. Detailed figures on our rental income from the rent of our hotels, offices and retail areas have been provided in this slide.

In the **ninth slide,** there is net profit bridge. We deduct our costs of TL 82.9 million and TL 25 million operational expenses from our revenue of TL 178 million. We can say that the sum of TL 237.4 million in other revenues item in our income statement stemmed from TL 212 million worth of exchange profit plus TL 20.7 million worth of revaluation surplus at our land in Göktürk. And our other expenses item of TL 129.3 million is consisted of TL 128 million of exchange loss and TL 1.3 million of other expenses. And exchange difference expenses also make up TL 198 million of our net financial expenses of TL 210 million. And there is also net interest expenses worth TL 12 million. Accordingly our net loss in the period becomes TL 31.1 million.

In the **tenth slide,** we have graphics that show our real credit debt and our net debt. We see that we have TL 526.9 million as our real credit debt after we deduct TL 416 million cash and cash equivalents from our total debt of TL 943 million. And of course, we need to mention that the increase in the real credit debt was also mainly driven by the exchange differences. Real credit debt to shareholders equity ratio stood at 35.6%, while real credit debt to total assets ratio at 17.2%. But, as we have mentioned in our previous slides, these ratios fall to 28% in the case of shareholders equity and to 13% in the case of total assets once the effects of the exchange rate are stripped off.

In the **eleventh slide,** you can see the change in the net debt. Short term financial liabilities increased by TL 711 million in the first 9 months, while our long term financial liabilities are recorded as TL 232 million. With the deduction of the cash and cash equivalents of TL 416 million, we see our real credit debt as TL 526.9 million. When you take the balance of the increases and the decreases, we are adding our short term debt of TL 425 million to our net debt of TL 363 million. Our net debt as of September becomes TL 526.9 million as the fall by TL 16 million in the long term debt and the increase by TL 244 million in cash and cash equivalents are recorded as minus here.

In the **twelfth slide,** you can see the Net Asset Value and the distribution of our real estate portfolio. Our real estate portfolio value has become TL 241 million as of 30 September 2018. The reason why this value posted an increase compared with the previous year is the contribution by the progress in our Büyükyalı project's construction. As of 30 September 2018, our net asset value became TL 1,620 million as found by the deduction of our liabilities from our assets.

In the **thirteenth slide,** our Net Asset Value table can be seen in detail. We stick to our previous forecast for the 2018 year-end growth figure. We estimate that our net asset value will become TL 1,892 million by 31.12.2018. At the margin of the page, you can see the distribution of our portfolio compared with the net asset value. In general, retail areas have a share of 17%, office areas 19%, our projects 20%, tourism (including the hotels and our subsidiary hotel operator company) 25% in our net asset value. Our stocks are quoted in Istanbul Stock Exchange, and our shares were trading at a discount of 62.5 percent as of 30 September 2018 while as of yesterday our shares were trading at a discount of 63.3 percent with a market capitalization of TL 595 million.

In the **fourteenth slide,** you can see the details of our Büyükyalı and Göktürk projects. We have revised our projections in our Büyükyalı project, we will be sharing a disclosure about these revisions with you as

well as the Public Disclosure Platform right after the teleconference. You will also see detailed information about the projects in the said disclosure. At Büyükyalı, we revised our project revenue as TL 5.40 billion. And to say a few words on the sales in Büyükyalı project; a total of 474 units were sold with a sale proceedings of TL 1.4 billion according to the report sent to the Public Disclosure Platform by Emlak Konut.

In the fifteenth and the last slide, you see our 2018 year-end targets. We stick to our previous 2018 expectations. We estimate our 2018 year-end revenue as TL 186 million. On the other hand, we estimate that our EBITDA will become TL 74,2 million. Our net asset value target stands at TL 1,892 million, and our total rental income target at TL 85.6 million.

We thank all of you once again for your participation. Now, we are ready to answer your questions in the Q&A session.

PRESENTER;

Dear participants, our questions and answers section is starting now. If you would like to ask us a question, please dial first 0 and then 1 on your phones. Thank you for waiting.

Çağdaş Doğan, from BGC Partners; you have a question, please ask your question Çağdaş Bey.

ÇAĞDAŞ DOĞAN;

Hello, thank you very much for the presentation. I have got a couple of questions.

My first question is about the conversion of the FX-based real estate rental agreements to TL basis; indeed you told that you did convert the agreements with Özak Group in to TL basis. How are other works going in this vein? How do you think this will affect your operations in general?

And my second question is... There was a quite strong sale performance in the third quarter. I would like to ask which countries were the buyers from in general, I mean were they mainly foreign nationals? Did you anything special for the positive decoupling of your performance in Büyükyalı? And how are things in general in the fourth quarter, how is it in comparison with the third quarter in particular.

And my third question: can you give an opinion about the timing in Göktürk project?

My fourth question: I see a loan taken from the shareholder in your third quarter financial statements. The sum of the loan has reached TL 201 million as far as I can see, and it remains as cash as far as I can make out. And in the footnotes to the financial statements, I see an expression that this loan is aimed at making use of potential investment opportunities in the next period; can you give us some more information on this subject?

I know I asked too many questions, but still my last question is: when we compare your 2018 year-end targets for both sale and EBITDA as provided in your last slide, with your targets for the nine month period; we see that you are already very near to these figures. So, would it be reasonable to conclude that there are upside risks in the revenue and EBITDA front in particular concerning your 2018 estimations? Thank you very much.

FATİH KERESTECİ;

Hello Çağdaş Bey, I am Fatih Keresteci. Thank you very much for questions. I will answer your questions on projects first. Concerning the Göktürk project, we completed our preliminary drawings for our project to sit on a gross area of 33 decares. At the moment, we are negotiating license projects with the municipality. We are targeting to complete our licenses before the new year. And, we are planning to start our sales in Göktürk project as of April, of course this is according to the present situation, so this may be a bit earlier or later than April depending on the state of things. But, presently, we are planning to get our license this year and start sale process in April.

Regarding Büyükyalı project, the share of foreign nationals in our sales in Büyükyalı project is normally about 15 to 20 percent, and this share has reached about 50 percent in the third quarter. And a significant portion of these foreign purchases indeed came from Turkish people living in Europe; these were our customers residing in countries like France, Belgium, Germany who also had the passport of the country of their residence so they could benefit from the VAT advantage (for foreigners) and they also used the jump in foreign exchange rates in August as an opportunity to buy a house in Turkey. Other than that, there is also a significant demand from Gulf Countries including mainly Saudi Arabia and Qatar. We are presently establishing an agency network aimed at the Gulf countries, as we have told before. Our meetings continue with the agents and banks in these countries in order to further increase our sales there. And we are planning to launch the block we developed with Fendi at the end of this month or early next month, and we believe this will contribute our sale efforts in the Gulf in particular. Sales are of course slower in the fourth quarter compared with the third quarter, but still it continues, although the existence of foreigners in Turkey and the abnormally steep rise of the exchange rates provided a serious amount of additional sale for us also due to our delayed updating of the prices at the pace of the exchange rates. Still, although not in the scale of the third quarter, we had a better performance in October than the previous quarters.

On TL conversion of the rental contracts; we continue this process based on reciprocal agreements with the most of our tenants also in line with the provisions of the laws, and most of this process has been completed. However, since the present exchange rates and the legally-stipulated rates hover much above our estimations in the beginning of the year, our rental income figures at present are also much more than our previous plans and projections. However, of course, it is still unclear what will happen after two years, and if there is a return to the foreign currency after, say, two years, we think that this surplus may be used to close the deficit that may arise depending on the state of exchange rates at that time. However, as I have told you, we presently continue with higher figures than our estimations we have

shared with you previously. Of course, there is a bit of deprivation depending on a potential further increase.

Now, I give the floor to Vedat Bey, maybe he will have things to add about your last question in particular.

VEDAT ATEŞ;

There are two things I have to add on the rental income. First of all, as you may know, we have intra-group rents and outside-the-group rents. Concerning the intra-group rents, we increased the rents by the average of the CPI and PPI rates, and this gives the landowner, i.e. Özak GYO, a higher advantage than the legal lower limit. When we look at it all as of the year-end realizations, we see that we were not negatively affected by these new regulations indeed, I mean speaking in comparison with our projections, and rather than that, as Fatih Bey pointed out before me, we are even having a rental income higher than foreseen by our budget. Secondly, we estimate that the increase in the exchange rates will lag behind the inflation rate in the next two years. So, we believe that Özak GYO will not be negatively affected by this latest rent regulation even in the following years. And we will be base our projections for the next years accordingly.

And the other two question, one was about the loan taken from the shareholder. As you have expressed in your question, this was completely a cash injection by a shareholder to reinforce the company's liquidity in order to help the company, i.e. Özak GYO, make use of the opportunities that may arise in the market should there be such opportunities. This is about TL 200 million roughly equivalent to 23 million Euro, and we keep this as an option in our hand for our company to make use of the opportunities that may emerge in the market.

You had a question about our projections for the year-end. We estimate that our EBITDA which stands at TL 82 million as of today to rise a bit more by the year-end. Our current EBITDA target stands at TL 74 million, but we believe it can finish the year at about TL 82 million - somewhere in the region of TL 82 to 85 million. And in the case of total revenues which stands at TL 178 million at present, we see that there will be an increase of TL 5 to 7 million or TL 10 million in this figure by the yearend. This means we expect our yearend realizations both in EBITDA and turnover to be higher than our estimations in the beginning of the year. Thank you.

ÇAĞDAŞ DOĞAN;

Thank you very much.

PRESENTER;

Dear participants, If you would like to ask us a question, please dial first 0 and then 1 on your phones. Thank you for waiting.

There are no other questions at the moment. I give the floor to Hilal Yıldız Çelik to make the closing address. Please, Hilal Hanım.

HİLAL YILDIZ ÇELİK;

I thank all of you for your participation. As I have told you at the beginning of the meeting, our investors presentation including the current revenue and EBITDA projections will be sent to you via and it will also be published at the Public Disclosure Platform as our future projections. If you have any other questions, you can call our investors relations department any time. I wish you all good days.

PRESENTER;

Dear participants, our teleconference ended. We thank you all for your participation. Now you may leave the line.
