

Borusan Birleşik Boru Fabrikaları San. ve Tic. A.Ş. 9M 2024 Earnings Announcement

Borusan Birleşik Boru Fabrikaları San. Ve Tic. A.Ş. (BIST: BRSAN) ("Borusan Boru") announced its third quarter financial results for the year 2024 on November 11, 2024.

Management's Evaluation

«In the first nine months of 2024, we aimed to balance the challenging market conditions with our business model based on geographical and sectoral diversification, alongside additional efficiency-enhancing measures we implemented.

As a result of operating in different sectors, despite weak demand, we achieved a 15.0% y-o-y increase in sales revenue, reaching \$1.3 billion, and a 32.2% y-o-y increase in sales volume, reaching 907 thousand tons. During this period, the infrastructure-project business segment contributed the most to our revenue growth, especially with the consolidation of Berg Pipe's financials into our financial statements as of April 2023.

Thanks to the priority we place on geographical diversification, we increased the share of the USA in our total revenue for 9M24 by 7 percentage points compared to the same period last year, reaching 70%. The share of revenue from other foreign countries was 11%, bringing the total share of international markets in our revenue to 81%.

The challenging market conditions during the first nine months of the year, due to the decrease in raw material prices, increased competition, and weakened demand highlighted the importance of the cost-reducing and efficiency-enhancing measures we implemented during the year. As part of these measures, we established an operational excellence center to review all production costs. Improving our net working capital and reducing our net financial debt/EBITDA ratio were among our top priorities. In this regard, we focused on improving inventory levels by closely monitoring them throughout the year. Thanks to our efforts to optimize business processes and our proactive approach in meeting customer demands, we increased our inventory turnover ratio from 1.78 in the same period last year to 3.64. Through measures taken to reduce general administrative expenses, we decreased operational expenses by 14% on a y-o-y basis and improved our operational expense margin by 1.4 percentage points.

Despite all the measures and improvements taken throughout the year, in the third quarter, underutilized production capacity in our automotive business due to weak demand in our main export market, Europe, and in the industrial-construction segment in both Turkey and our export markets, put pressure on our financial results. Additionally, the real appreciation of the Turkish lira, with much of our revenues in foreign currency, continued to put pressure on costs and operational expenses, along with high financing costs, affecting our financial performance. In the first nine months, EBITDA stood at \$96 million, with an EBITDA margin of 7.2%.

In the last quarter of the year, we expect the weak demand outlook and pricing challenges in the markets we operate to continue putting pressure on our financial results. However, with our business model that balances risks and the additional measures we have taken, we are creating development opportunities in many areas while overcoming these challenges. Through these development opportunities and our focus on efficiency, we aim to emerge stronger from these difficult conditions. In 2025, we expect the agreements we have made in the USA infrastructure & project business segment, our production capacity to respond to market opportunities, and the advantages of being a local manufacturer to support our financial results. Additionally, we anticipate that our investments in the USA and Romania will further contribute to our financial performance in 2025.»

9M 2024 Summary of Financial Results

(million \$)	9M24	YoY Δ	9M23	YoY Δ	9M22	3Q24	YoY Δ	3Q23	YoY Δ	3Q22
Revenues	1,339	15%	1,164	25%	934	399	5%	379	6%	359
Gross Profit	103	-63%	280	172%	103	16	-73%	60	52%	39
EBITDA*	96	-65%	276	142%	114	10	-83%	62	55%	40
PBT	19	-90%	200	327%	47	-12	-143%	29	107%	14
Net Profit	11	-93%	149	328%	35	-10	-147%	21	133%	9

Margins

(%)	9M24	YoY Δ, pps	9M23	YoY Δ, pps	9M22	3Q24	YoY Δ, pps	3Q23	YoY Δ, pps	3Q22
Gross Profit Margin	7.7%	-16.4	24.1%	13.0	11.1%	4.1%	-11.6	15.7%	4.8	10.9%
EBITDA Margin	7.2%	-16.5	23.7%	11.5	12.2%	2.6%	-13.8	16.4%	5.3	11.1%
Net Profit Margin	0.8%	-12.0	12.8%	9.1	3.7%	-2.5%	-8.0	5.5%	3.0	2.5%

(*) 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).

Sales Volume

('000 tons)	9M24	YoY Δ	9M23	YoY Δ	9M22	3Q24	YoY Δ	3Q23	YoY Δ	3Q22
Sales Volume	907.3	32%	686.4	10%	625.5	288.2	15%	250.0	12%	223.9

9M 2024 Highlights

- In the first nine months of 2024, our sales volume increased by 32% compared to the same period last year, reaching 907 thousand tons.
- During this period, despite the increased competition, our sales revenue grew by 15% year-on-year, reaching \$1.3 billion, driven by the 32% increase in sales volume.
- The share of sales revenue from global markets in total revenue increased by approximately 6 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 70%, followed by Turkiye with a 19% share. The share of sales to other regions within the total sales is at the level of 11%.
- In 9M24, the highest share of sales revenue by business segment was 49% from the infrastructure and projects segment, while the energy segment's share was 22%, and the industrial & construction and automotive segments' shares were 17% and 12%, respectively.
- Despite the increase in sales revenue during this period, gross profit decreased by 63% y-o-y to \$103 million due to ongoing cost pressures and the high base from the previous year (Gross Profit; 9M23: \$280 million, 9M22: \$103 million).
- Nine-month EBITDA decreased by 65% y-o-y to \$96 million, also impacted by the high base from the previous year (EBITDA; 9M23: \$276 million, 9M22: \$114 million).
- PBT decreased by 90% y-o-y to \$19 million due to increased cost pressures and the high base effect, while net profit amounted to \$11 million (PBT; 9M23: \$200 million, 9M22: \$47 million - Net Profit; 9M23: \$149 million, 9M22: \$35 million).
- The Net Financial Debt/EBITDA¹ ratio, one of the debt indicators, rose to 2.8X during this period due to increased net working capital requirements and the decline in EBITDA. (End of 2023: 0.7X)

Sectoral Outlook

- In the third quarter of the year, global steel prices continued to decline. In 9M 2024, the average HRC (hot rolled coil) price per ton decreased by \$125 in the US to \$798, by \$90 in Western Europe to \$701, and by \$48 in China to \$437 compared to the same period last year. As of the end of September, the HRC price per ton was \$691 in the US, \$600 in Western Europe, and \$376 in China².
- The price of Brent crude oil decreased by 6.4% y-o-y, averaging \$81.7 per barrel in 9M 2024. Oil prices declined in September due to concerns about the increase in global oil demand, despite the OPEC+ members' decision to postpone production increases until December 2024 and the decrease in oil inventories. By the end of September, the price of Brent crude oil per barrel was \$73.0. (September 2023: \$96.9).
- As of the end of September 2024, the global number of rigs³ decreased by 8 y-o-y to 1,751. During this period, the number of rigs in the USA decreased by 44 compared to the same period last year, reaching 587⁴.
- World crude steel production decreased by 1.9% y-o-y in the first nine months of the year, reaching 1.4 billion tons. In Turkiye, however, crude steel production increased by 13.8% y-o-y, reaching 27.9 million tons. Meanwhile, consumption of finished steel products declined by 4.2% y-o-y in the first nine months, falling to 27.8 million tons.
- In 9M 2024, Turkiye's steel pipe exports increased by 8.2% y-o-y to 1 million 639 thousand tons. Romania, the USA, and the Iraq stood out as the most important export markets.

(1) Net Financial 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.

9M 2024 Business Segment Developments

- **Infrastructure and Project:** In 9M 2024, sales volume increased by 200.3% y-o-y, while sales revenue increased by 287.6% y-o-y, reaching \$660.5 million. This growth was driven by the consolidation of Berg Pipe into the financial statements from April 2023 and ongoing projects in the USA.
- **Industrial and Construction:** Despite the weak demand outlook in the markets where we operate, sales volume increased by 13.5% y-o-y in the first nine months of 2024. During this period, sales revenues decreased by 2.3% y-o-y, falling to \$223.4 million, due to pricing challenges arising from declining raw material prices and increasing competition.
- **Automotive:** Despite the weak demand for pipes in the automotive market, sales volume increased by 6.8% y-o-y in 9M 2024, and sales revenue increased by 3.4% y-o-y to \$156.4 million.
- **Energy:** In 9M 2024, sales volume in the energy segment decreased by 22.1% y-o-y due to the high base from the previous year. During this period, sales revenue decreased by 30.2% y-o-y to \$99.2 million, due to the impact of prices that reverted to long-term averages.

Revenue Breakdown by Business Segment

(million \$)	9M24	YoY Δ	9M23	YoY Δ	9M22	3Q24	YoY Δ	3Q23	YoY Δ	3Q22
Revenues	1,339	15%	1,164	25%	934	399	5%	379	6%	359
<i>Infrastructure and project</i>	661	288%	170	94%	88	172	75%	98	124%	44
<i>Industry and construction</i>	223	-2%	229	-27%	314	78	-10%	87	-11%	98
<i>Automotive</i>	156	3%	151	-15%	177	49	-5%	51	0%	51
<i>Energy</i>	299	-51%	614	73%	355	99	-30%	142	-14%	166

Summary Balance Sheet Figures

(million \$)	9/30/2024	12/31/2023	YoY Δ
Current Assets	807	1,084	-25%
Property, Plant and Equipment	734	711	3%
Total Assests	1,676	1,899	-12%
Short Term Liabilities	616	874	-30%
Total Liabilities	800	1,052	-24%
Equity	876	848	3%

Financial Ratios

	9/30/2024	12/31/2023
Current Ratio	1.31	1.24
Liquidity Ratio	0.59	0.63
Inventory Turnover Ratio	3.64	2.65
Working Capital Utilization	35.2%	42.1%
Net Financial Debt/ EBITDA*	2.8	0.7
Equity Utilization Ratio	54.3%	47.9%

Summary Cash Flow Statement

(million \$)	9/30/2024	9/30/2023
Cash Inflow/Outflow (-) From Operating Activities	(76)	259
Cash Inflow/Outflow (-) From Investing Activities	(35)	(51)
Cash Inflow/Outflow (-) From Financing Activities	45	(154)
Change in Cash and Cash Equivalents	(66)	53
Cash in 2023	129	81
Cash in 3Q24	63	134

Free Cash Flow

(million \$)	9/30/2024	9/30/2023
EBITDA*	96	276
Increase/Decrease (-) in Net Working Capital	(166)	59
Tax and Other	(6)	(76)
Investment, net	(37)	(57)
Dividend	2	5
Free Cash Flow	(111)	208

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

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

The financial results presented here have been prepared in accordance with the Turkish Financial Reporting Standards (TFRS).

2024 Guidance

2024 Guidance

	2020	2021	2022	2023	9M24	2024	2024
						1H24 Expectation	Current Expectation
Sales Volume (mln tons)	0,63	0,76	0,85	1,06	0,91	1.05-1.20	1.00-1.12
Revenue (\$ billion)	0,5	0,8	1,3	1,7	1,3	1.7-2.0	1.6-1.8
EBITDA Margin (%)	9,9%	9,8%	14,9%	18,2%	7,2%	%8-%10	%5-%7

The financial results for the first nine months of 2024 were below expectations due to the further worsening of weak demand, increased pricing challenges, and cost pressures in the third quarter.

Based on the third-quarter performance and changes in demand and cost expectations for the remainder of the year, sales volume has been revised to a range of 1.00-1.12 million tons, revenue to a range of 1.6-1.8 billion dollars, and EBITDA margin to a range of 5%-7%.

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

Contact

Borusan Boru (BRSAN) Investor Relations

E-mail: bb.investor@borusan.com

Phone: +90 212 393 57 58

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