Kocaer Steel H1 and Q2 2026 Earnings Webcast Transcript

Welcome and thank you for joining us today for Kocaer Steel's first half and second quarter 2026 earnings call.

This is Nursel, Group Chief Strategy, Business Development and Capital Markets Officer of Kocaer Steel.

I'm joined today by our Vice Chairman Mehmet Cakmur and our General Manager Sevket Erol, to take you through the presentation and answer your questions during the Q&A session.

Our presentation on 2026 first half and second quarter financial results contain the Company's financial information prepared according to Turkish Accounting / Financial Reporting Standards by application of IAS 29 inflation accounting. Please note that our presentation and Q&A session may include forward-looking statements and assumptions based on the current business environment, which are subject to change.

Now, I would now like to hand it over to Sevket Bey to briefly recap the major developments that has affected our Company's operating environment in the first half of the year.

M. Sevket Erol

Good afternoon, everyone, and thank you for joining us today.

It is a pleasure to meet many of you for the first time as General Manager of Kocaer Steel. I assumed this role on June 1st and am honored to lead a company with talented people, strong capabilities, and significant long-term growth potential.

Having spent more than 30 years in the steel industry, I joined Kocaer Steel because I believe it has an excellent platform for sustainable value creation. During my first two months, I have focused on listening, learning, and understanding. I have been impressed by our people, our engineering expertise, our export-oriented business model, and our strong customer relationships.

Our priority is clear: to build on these strengths by improving operational excellence, accelerating digital transformation, strengthening our governance and organizational capabilities, and delivering sustainable profitable growth.

Despite continued geopolitical uncertainty, inflationary pressures, and rising costs during the first half of 2026, we remained focused on disciplined execution and long-term value creation.

During the first six months of the year,

- we increased the share of value-added products,
- successfully resumed sales to the U.S. market, and
- maintained a strong focus on cost management and operational discipline.

These achievements reflect both the resilience of our business model and the dedication of our people.

Looking ahead, our priorities remain clear: driving operational excellence, accelerating digitalization, increasing the share of value-added products, expanding our international presence, and further strengthening our governance and organizational capabilities.

While the external environment remains uncertain, I am confident that Kocaer Steel is well positioned for sustainable long-term growth. Our ambition is to further strengthen our position as a trusted global supplier of high value-added steel solutions through operational excellence, innovation, disciplined capital allocation, and a customer-centric approach.

I would like to thank our business partners and shareholders for their continued trust and support.

I'll now pass it over to Nursel Hanim to walk you through our results in more detail.

Nursel Metin

Let's start on **slide 4** with some key indicators about the global steel sector.

As you may remember, global steel production was softer in the first quarter of this year, down 2.3% y/y. Production recovered in the second quarter, bringing the first half decline to just 0.7% y/y. This was despite continued weakness in China, where production fell roughly 3%. Regional differences remained visible, but production excluding China grew by around 2% in the first half. With China still accounting for more than half of global output, competition in the sector remains structurally intense.

Moving on to **slide 5**, let's look at the key trends in the Turkish steel sector.

Turkey maintained its position as the 7^{th} largest steel producer in the world. Crude steel production continued to increase in the first 6 months of the year, growing 8.1% to approximately 19.8 million tons.

On the export side, despite several challenges, Turkey's steel export volume was 2.5% higher, thanks to the sector's continued market diversification capabilities and competitive resilience.

On **slide 7**, you can see sales volumes at Kocaer Steel.

The second-quarter sales rose 4.4% y/y, following a 3.7% decline in the first quarter. As noted in our first-quarter call, March shipments were delayed because vessels could not be secured due to the Middle East war that began in late February 2026. As a result, some sales shifted from the first quarter to the second quarter, bringing total sales to 315,841 tons in the first half, implying 1% y/y growth.

Here on **slide 8**, we provide a breakdown of our first half sales by composition and geography.

In the first half, international sales (*including export registered sales*) accounted for nearly 68% of total revenue. Domestic sales continued to perform strongly, contributing 32% of total revenue. As a result, although the share of direct international sales was relatively lower, FX-linked sales continued to represent around 90% to 95% of total revenue.

Looking at our international revenue distribution, our sales remained relatively balanced across regions. North Africa continued to represent the largest share, at 45% (*FY2025: 41%*). This was followed by the Americas at 24% (*FY2025: 26%*), Europe at 15% (*FY2025: 15%*), and the UK at 7% (*FY2025: 5%*). The Middle East accounted for 6%, compared to 10% in full-year 2025, reflecting the impact of ongoing regional disruptions. Other regions made up the remaining 3% (*FY2025: 3%*).

As a separate note, I am pleased to share that sales to the US resumed in the second quarter of this year, after no sales to the US since the second half of last year, following the increase in Section 232 tariffs from 25% to 50% in June 2025. As we discussed in our previous webcast, US domestic prices have risen and local producer lead times have extended to several months. Accordingly, we have started to receive some orders. Overall, sales to the US accounted for a relatively lower share of our export volume in both the second quarter and the first half. Still, we are encouraged by the renewed demand from the US.

As we show on **slide 9**, the share of value-added products reached record high level of 51% in the second quarter and made up around 49% of the sales volume in the first half, accounting for the highest share. This is supported by the integration of our operational capabilities with our production processes and our position as a preferred solution partner for high-strength, weather-resistant applications. Sustaining this mix through a period of geopolitical uncertainty and trade barriers underscores the resilience of our business model.

Looking at the financial performance, let's begin with the details of the first half financials on **slide 11**. The graphs on this slide show the key highlights of the first six months. We recorded TL 11.6 billion revenue, TL 1.8 billion EBITDA and TL 610 million net profit (*attributable to the parent*). The decrease in revenue in inflation adjusted TL terms mainly stemmed from lower pricing and the inflation-TL depreciation difference of around 13% (32% inflation vs. c.19% TL depreciation y/y). Meanwhile, the difference between inflation and TL depreciation was effective on almost all income statement items. EBITDA margin was almost 1ppt higher, reaching 15.2%, despite the lower share of US sales in the first half of this year. Net profit was supported by deferred tax income in the second quarter and in the first half (*2Q26: TL311mn, 1H26: TL 174 million*), mainly driven by the reduction of corporate tax rate for manufacturing companies from 25% to 12.5% as of 2027, leading to lower deferred tax liability and hence deferred tax income.

The graphs on **slide 12** show the key highlights of the second quarter. We recorded TL 6.2 billion revenue, c.TL 1 billion EBITDA and TL 483 million net profit (*attributable to the parent*). Similar to the first half, the difference between inflation and TL depreciation was effective on almost all income statement items. Net profit was supported by strong operational profitability and deferred tax income in the second quarter, with the reduction of corporate tax rate as of 2027, leading to a deferred tax income, which was a deferred tax expense in the first quarter.

Zooming into the EBITDA performance on **slide 13**, you can see that both the EBITDA per ton and EBITDA margin were eye-catching in the second quarter of this year, at $125 and 16.1%, respectively. Even under challenging market conditions, these results highlight our operational resilience and confirm the robustness of our business model. Note that all figures on this slide are comparable, since they are shown as at the end of June 2026 purchasing power. That said, the EBITDA per ton figures shown here may differ from what we have announced in our 2025 and first quarter 2026 earnings presentations.

Moving on to **slide 14**, I would like to walk you through our solid financial structure. Our net debt position was TL 2.4 billion (*equivalent to $52 million*) as of the end of June 2026. Accordingly, our net debt to EBITDA ratio was at 0.7x, indicating a low financial leverage. In line with risk management, we also monitor developments in our net working capital very closely. I would like to highlight that a significant portion of our domestic and export sales continue to be covered by receivables insurance, and export sales are made under confirmed letter of credit. This practice mitigates the receivables collection risk arising from the sales and we are closely monitoring this.

On **slide 15,** let's briefly discuss our foreign exchange (FX) position. As at the end of June this year, we had a short FX position of $54 million, that was $28 million at the end of March 2026. As you know, we also include inventory within our FX position calculations, due to the nature of our business model. Accordingly, adding inventory, we come up with a long FX position of $61 million as at the end of June 2026, which we feel comfortable.

Finally, on **slide 16,** you will see a snapshot of our first half financial performance, summarizing the developments we mentioned in the previous slides.

This concludes our presentation. Now we are happy to answer your questions.

Q. Can you discuss the impact of import taxes and the market dynamics in the US? Can you discuss margins in the US market.

Mehmet Cakmur: It is nearly one year since import taxes or tariffs are imposed. The local prices in the US have already increased to cover these import taxes. At the moment, although the import tax is 50%, the US market imports steel products and our exports are starting to grow to the US, mainly because the local producers' prices have increased and we can manage to compete with them with our price levels, even adding these taxes. This month I will visit the US for the opening of our US office that we announced before.

We are expecting that the dynamics in US market will continue because there are big investments coming, especially in data center field and AI field. We expect that these dynamics will help us to further increase our business in US. The margins seem to stay as they are because the local producers are already full of orders; the lead times are very long, so it has helped us to continue with the same margins in the US market.

Q. How have your shipments been progressing in the third quarter, and what is your outlook for shipment trends for the remainder of the year?

Mehmet Cakmur: I think we are speaking about the impact of the war. First, less than 10% of our exports are to this region, especially to Saudi Arabia and other countries in the region. At the end of the first quarter, some of our shipments were delayed and some of them are still in our inventory. However, the war is nearly coming to an end, and we have started making these shipments to the region. Of course, nobody knows exactly when the war will end, so we are closely following the situation in the region. We have a strong hope that the war will end, and we will start the deliveries again, even with increasing volumes to this region. Regarding shipping trends, they are still at similar levels. We cannot always find suitable ways to ship the cargo to the region, still shipments continue.

To wrap up, regarding our total export volumes and overall sales, we changed our destinations, and the situation did not affect the overall performance of the Company.

Q. Do you expect AI-related demand to change your capital allocation over the next few years? So, could you elaborate on what your AI investments will actually focus on?

Nursel Metin: I think the question is regarding our new technology company that we announced we will be establishing. As you may remember, we have decided to establish a new company in the technology field. This company is going to operate specifically in civil aviation, automotive supplier industry, digital technologies, AI-artificial intelligence, robotics and other advanced technologies. The company may establish partnerships with global companies, participate in or acquire companies, invest in technology development zones, which we call Technopark, and collaborate with universities. Through R&D and innovation investments, it will also aim to maximize sustainability and efficiency. This company is going to provide support to our factories and production facilities as well. We will disclose further details once the company has been established.

Q. EBITDA per ton reached USD 125 this quarter. What would you consider to be the normalized, sustainable level over the medium term? As the share of value-added products increases, do you see a realistic path toward EBITDA per ton exceeding USD 125 on a sustainable basis?

Nursel Metin: The Middle East conflict that began at the end of February has affected various areas, as you know, and we had to work on different scenarios. Therefore, we prefer not to provide any specific commentary on EBITDA per ton on a quarterly basis. However, we are very confident in saying that we always aim to improve our performance on an annual basis. It would be fair to assume some improvement on an annual basis. There may be some fluctuations between quarters due to temporary effects, which is why we prefer to talk on an annual basis. Over the mid- to long-term, our expectation is an improvement in EBITDA per ton figures, although we are not sharing any long-term guidance. If you remember our historical performance back in 2022 - 2023, EBITDA per ton was around USD 200 per ton. Once demand recovers and we see an upward trend in pricing, we think that these figures could be attained in the medium term.

Regarding value-added products, yes, as the share of value-added products increases, we see margin improvement, as we observed in the second quarter of this year, with a 50.5% share of value-added products, we achieved a 16.1% EBITDA margin and USD 125 EBITDA per ton. As you may remember, our long-term target for the share of value-added products is 70%. Therefore, as we increase the share of value-added products, you may expect EBITDA per ton to increase gradually in line with this.

Q. Could you comment on current order intake and pricing trends since the quarter-end? Has demand in July and early August been stronger than in the second quarter?

Mehmet Cakmur: Regarding current order intake and pricing trends, July and August orders are getting stronger than in the first half of the year, and we expect this trend to continue. There are several reasons for this. First, we are seeing a relative easing of uncertainty. Following this period of uncertainty, the inventory levels of our customers are very low, so they will start rebuilding their inventories. Also, in several countries, we are starting to see preliminary signs that investment appetite is gradually returning following the slowdown in the aftermath of the pandemic. Energy investments are becoming more apparent across countries, and this has been accelerated by AI and data center investments. Renewable energy investments are also increasing, particularly in solar energy, which is one of the areas where we supply materials. This is gaining momentum in Turkey as well, and we have started supplying materials for solar projects, with volumes gradually increasing. Therefore, we are seeing demand increase starting from the third and fourth quarters, and we hope this trend will continue.

Q. Could you provide an update on the geothermal project, including the current stage and expected commissioning timeline

Nursel Metin: Regarding this project, the Examination and Evaluation Commission meeting was held in April, and the Ministry’s official announcement is expected. There is an ongoing environmental process. At the same time, drilling activities are already underway in parallel. So far, we have reached a depth of around 2,100 meters and hit our target, encountering a highly productive zone. Currently, testing is being conducted, and we will place the power plant order based on the results. To avoid delays, we may proceed with this project in two phases, meaning 12 MW in the first phase and another 12 MW in the second phase. As you may remember, there is also the renewable energy support mechanism, YEKDEM, which is applicable to this project. In sum, the project is progressing.

Regarding the commissioning timeline, we expect to start energy generation towards the end of next year, meaning the end of 2027. We expect to receive the first electricity from the project towards the end of 2027.

There are no further questions.

Thank you for joining us and hope to see you again in the third quarter.