December 2018

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Investment Opportunities in Crisis Times

Turkish Market Turmoil

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Executive Summary

The Turkish financial sector proved resilient during the global financial turmoil in 2009 as well as the ensuing economic crisis thanks to the regulatory reforms and structural overhaul that the government implemented in the wake of the country's own financial meltdown in the early 2000's. In this context, we experienced many consolidations and expansion transactions in Turkish economy via either M&A or greenfield investments supported by EBRD[1], foreign investors, IFC and other relevant institutions in the past decade.

After 2001 Crisis, Turkey take set of actions to attract international capital and investments to compensate low saving rate and shortage in accumulated capital. Financial, commercial and legal regulations were introduced between 2001 to 2004 and enable FDI to increase ten times with respect to average of 1993-2002. However, setting targets was a compelling process for PEs and strategic investors hence the number of SMEs are 99% percent of the private sector and generates 65,5% of total revenues. SME driven economy led Turkish economy to be more fragile, competitive and crisis sensitive.

In order to realize returns for their investments in such a relatively fragile economy, PEs and strategic investors owned the -acquire and consolidate- strategy among others to made crisis immune investments. **Main investments are made on essential services or products to decrease the risk of default in any unexpected economic turmoil or crisis.**

Health, Energy, F&B and retail sectors most attractive among others, hence crisis elasticity of consumption is less than other sectors.

Consequently, Turkey has become one of the fastest growing energy markets in the world, paralleling its economic growth over the last 15 years. The success of a privatization program that has been ongoing since 2002 has resulted in power distribution now completely in private sector hands, while the privatization of power generation assets is set to be completed within the next few years. This privatization program has given the country's energy sector a highly competitive structure and new horizons for growth. Especially

[1] In 2017 the EBRD invested €1.6 billion in Turkey in a record number of 51 projects. Since the Bank started operations in Turkey in 2009, it has invested €10 billion across various sectors of the Turkish economy. Turkey is now the EBRD's largest country of operations by annual investment volume and by our portfolio of investments of over €7 billion. Nearly all investments (97 per cent) support private companies. The EBRD has offices in Istanbul and Ankara, and invests across the whole of Turkey, either directly or in partnership with Turkish banks.

based on YEKDEM support (FIT mechanism), since the projects offered hard currency hedge to the small and medium sized investors, solar farm project investments increased significantly.

Finally, Turkey is looking to position itself as the preferred option for being the regional headquarters and supply center of top global players in the agricultural sector. To encourage investment in the sector, Turkey offers a set of incentives for potential agribusiness investors. According to McKinsey and Co., Turkey offers significant investment opportunities in agribusiness subsectors such as fruit and vegetable processing, animal feed, livestock, poultry, dairy, functional food, fisheries, and enablers (in particular cold chain distribution, greenhouses, irrigation, and fertilizer)

As part of its targets set for the agriculture sector by 2023 Turkey aims to be among the top five overall producers globally. Turkey's vision for its centenary in 2023 includes other ambitious goals, such as:

- USD 150 billion gross agricultural domestic product
- USD 40 billion agricultural exports
- 8.5-million-hectare irrigable area (from 5.4 million)
- Ranking number one in fisheries as compared with the EU

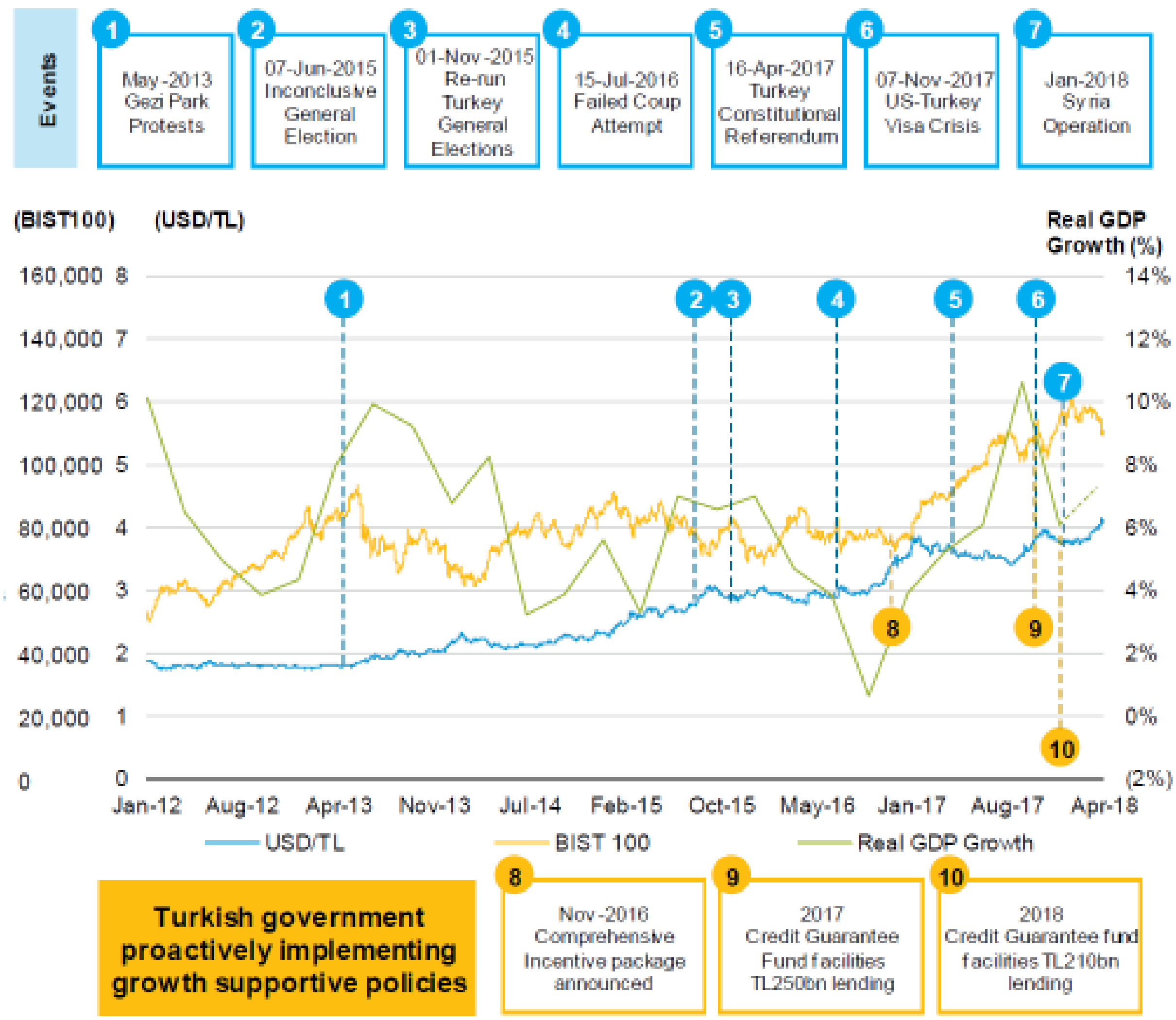
For this reason, food and beverage and food retail business were the main drivers of M&A activities in the past 10 years in Turkey which attracted both financial and strategic investors. The Turkish retail industry also began to strip itself of its traditional structure, having entered a modernization period in the early 2000s mainly as the result of social and economic developments.

Grocery Sales were US$ 84 billion as of the end of 2017 and the inflation/seasonally adjusted Real Retail Sales Index has been increasing during the last 5 years. Despite the political and economic challenges that Turkey is facing in recent years, due to a young, dynamic population with 75 percent urbanization rates and a growing middle class, the food retail industry has been growing. Several foreign players in grocery retailing have left the country in the last few years but the domestic industry is coming on strong and investments continue to be fast-paced especially in the hard discount segment. Organized/modern retailers continue to grow as traditional/unorganized retailers slowly leave the stage.

1 Recent Economic Crisis and Turmoil in Turkey

Since the beginning of 1990s two economics crisis happened in Turkey which are The 1994 Currency Crisis and 2011 Banking Crisis. 2008 Global financial crisis indirectly effected Turkish economy also however relatively Turkish economy stayed durable in those year thanks to the banking regulations achieved after 2001 crisis.

Hence since the beginning of 2012 Turkish economy is facing economics and political turmoils however with governments pro-active reactions such as credit guarantee fund and certain incentives the markets achieved to attract FDI in recent years.



Source: Barclays

1.1 The 1994 Currency Crisis in Turkey

As a result of Turkey's currency crisis in 1994, output fell 6 percent, inflation rose to three-digit levels, the Central Bank lost half of its reserves, and the exchange rate (against the US dollar) depreciated by more than half in the first three months of the year.

1.2 2001 Banking Crisis in Turkey

Turkey experienced a very severe economic and political crisis in November 2000 and again in February which deepened and continued to-date. The IMF has been involved with the macro management of the Turkish economy both prior and after the crisis, and provided financial assistance of 20.6$ billions in net terms between 1999 and 2002. The official stance is that the crisis was the result of the failure of the public sector to maintain the austerity targets and the failure to fully implement the free market rationale of globalization.

1.3 2018 Turkish Currency and Debt Crisis

After a long political and economic turmoil period Turkish lira depreciated dramatically in the first week of August. Still the reason of this devaluation is not clear however, an efficient solution should be incorporated by the policy makers immediately.

Otherwise whatever the shock, the crucial thing is that foreign debt will make Turkish economy vulnerable to a death spiral. Loss of confidence causes Turkish Lira to drop; this makes it harder to repay debts in foreign currency; this hurts the real economy and further reduces confidence, leading to a further decline in Turkish lira; and so on.

The result is that foreign debt explodes as a share of GDP. Indonesia came into the '90s financial crisis with foreign debt less than 60 percent of GDP, roughly comparable to Turkey early this year. By 1998 a plunging rupiah had sent that debt to almost 170 percent of GDP.
According to Krugman in order to reduce the costs of crisis the model is a combination of short-run heterodoxy and credible assurances of a longer-run return to orthodoxy. First, stop the explosion of the debt ratio with some combination of temporary capital controls, to place a curfew on panicked capital flight, and possibly the repudiation of some foreign-currency debt. Meanwhile, get things in place for a fiscally sustainable regime once the crisis is over. If all goes well, confidence will gradually return, and Turkey will eventually be able to remove the capital controls[2].

[2] Malaysia did this in 1998; South Korea, with U.S. aid, effectively did something like it at the same time, by pressuring banks into maintaining their short-term credit lines. A decade later, Iceland did very well with a combination of capital controls and debt repudiation (strictly speaking, refusing to take public responsibility for the debts run up by private bankers). Argentina also did quite well with heterodox policies in 2002 and for a few years after, effectively repudiating

2 FDI in Turkey

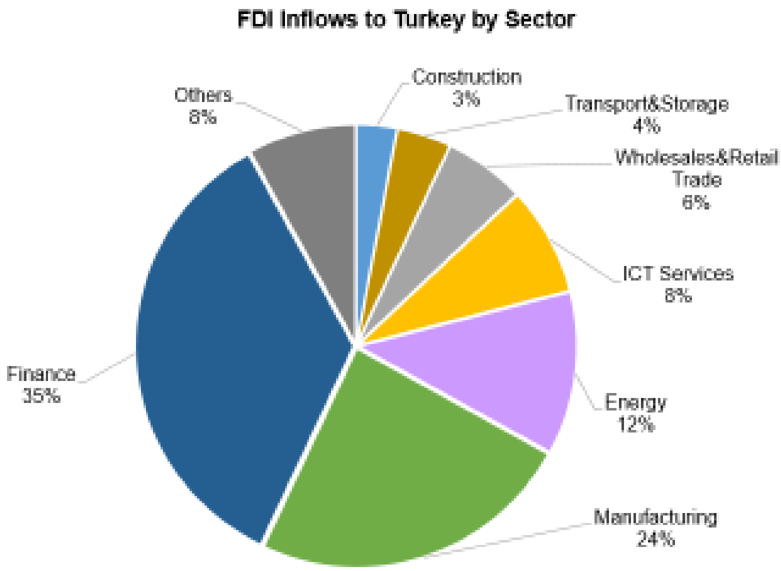
Up until 2002, total FDI into Turkey stood only at USD 1,1 billion between 1993 and 2002, while the country has since attracted around USD 188,7 billion of FDI during the 2003-2017 period.

Source: TUIK, CBRT

During the past 15 years, the finance and manufacturing sectors have attracted the highest amount of FDI in Turkey, with sectors of interest becoming significantly diversified in line with Turkey's 2023 vision of having a higher position in the global value chain.

Major investment areas that attracted FDI inflows were Finance, Manufacturing, Energy and Wholesale and retail. Especially energy sector fueled by government support and big ticket sized privatizations is one of the main drivers also in the M&A market in Turkey. Investors are also active in manufacturing and wholesale and retail sectors especially for F&B segment. Given its growth potential, Turkey is forecast to be the world's 13th largest food and beverage market in 2017. The retail sector growth is expected to do well as the share of food in the retail space is 60%. Biscuits are expected to register a CAGR of 3% at constant 2014 prices until 2019 while the market for meat and meat products recorded an average annual growth rate of 11% during 2010-15. Imported fish saw growth from $137 million in 2012 to $197 million in 2016.

2/3 of its debt. But the Kirchner regime didn't know when to stop and turn orthodox again, setting the stage for the country's return to crisis



Source: Central Bank of the Republic of Turkey

Country	Share in FDI
UK	11,9%
Netherlands	11,6%
Gulf	9,4%
USA	9,3%
Spain	6,6%
Germany	6,5%
Austria	6,1%
Russia	6,1%
Azerbaijan	4,0%
Japan	2,0%
Switzerland	1,7%
China	1,3%
Others	23,6%

(Due to Tax incentives and SPV regulations, Netherlands ranked higher than real performance of Netherlands originated FDI. Many Acquisitions are carried out on SPV's founded in The Netherlands.)

The majority of FDI inflows to Turkey have originated from Europe, North America, and the Gulf countries during the past 15 years, while the share of Asia has been noticeably on the rise.

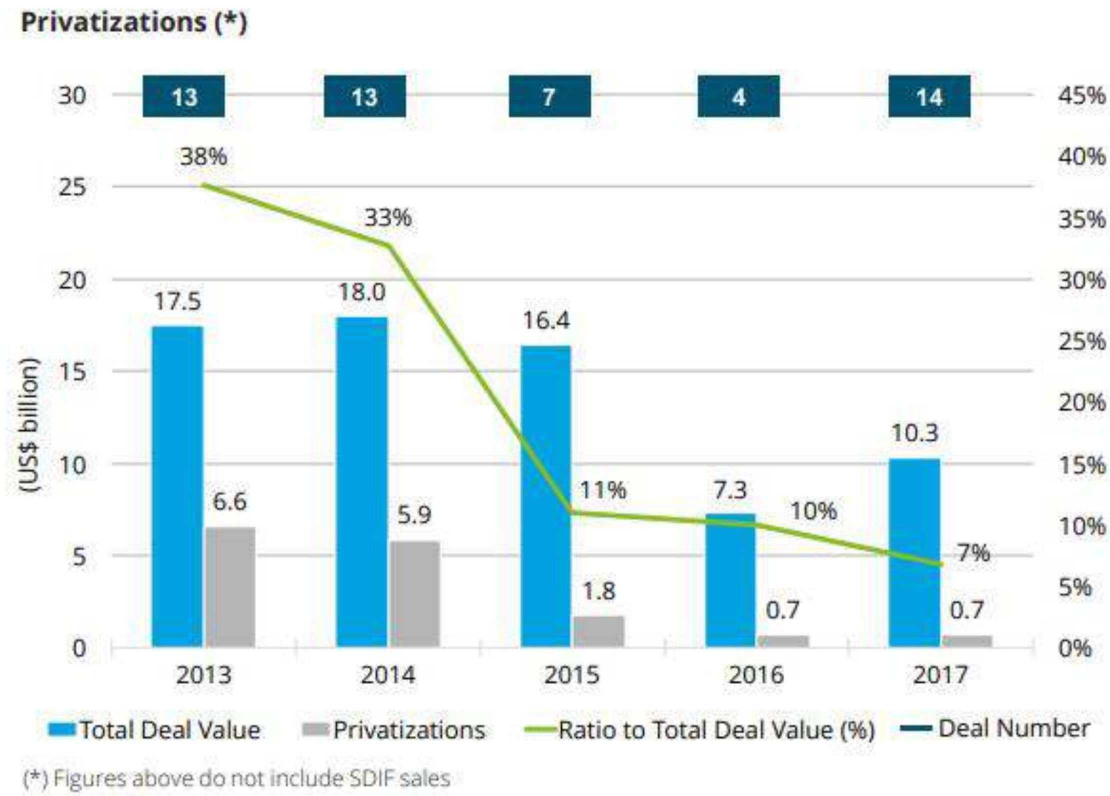
2.1 Evolution of M&A Market in Turkey

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Deal Number	169	101	190	237	259	215	234	245	246	298
Deal Volume (billion $)	16,2	5,2	17,3	15	28	17,5	18	16,4	7,3	10,3
Privitizations / Share in Total (billion $/%)	5,2 / 32%	1,2 / 23%	2,9 / 17%	1,0 / 7%	12,1 / 43%	6,6 / 38%	5,9 / 33%	1,8 / 11%	0,7 / 10%	0,7 / 7%
Foreign Investors (% of Deal Value)	85%	43%	60%	74%	46%**	30%**	44%**	70%**	52%**	53%**
Financial Investors (% of Deal Value)	30%	13%	5%	8%	6%	12%	12%	19%	22%	25%
Average Deal Size (million $)*	100	51	91	63	108	81	77	67	30	35
Share of Largest 10 Deals in Total Volume	69%	44%	61%	56%	75%	49%	55%	50%	37%	50%
Largest Deal Value /Share in Total	3,1$ billion (Migros) / 19%	485$ million (Osmangazi Electricity Disco) / 9%	5,8$ billion (Garanti Bank) / 34%	2,1$ billion (Genel Enerji) / 14%	5,7$ billion (Bridges and Highways) / 20%	1,7$ billion (Toroslar Electricity Disco) 10%	2,7$ billion (Yeniköy and Kemerköy Power Plants) / 15%	3.0$ billion (Finansbank) / 18%	687,8$ million (Mars Entertainöe nt Group) / 9%	1,4$ billion (OMV Petrol Ofisi) / 14%

**Excluding privatizations, foreign investors' share in the remainder of the deal value was c. 82%, 48%, 66%, 79%, 58%, 57% respectively

Source: Deloitte Annual Turkish M&A Review 2013 and 2017

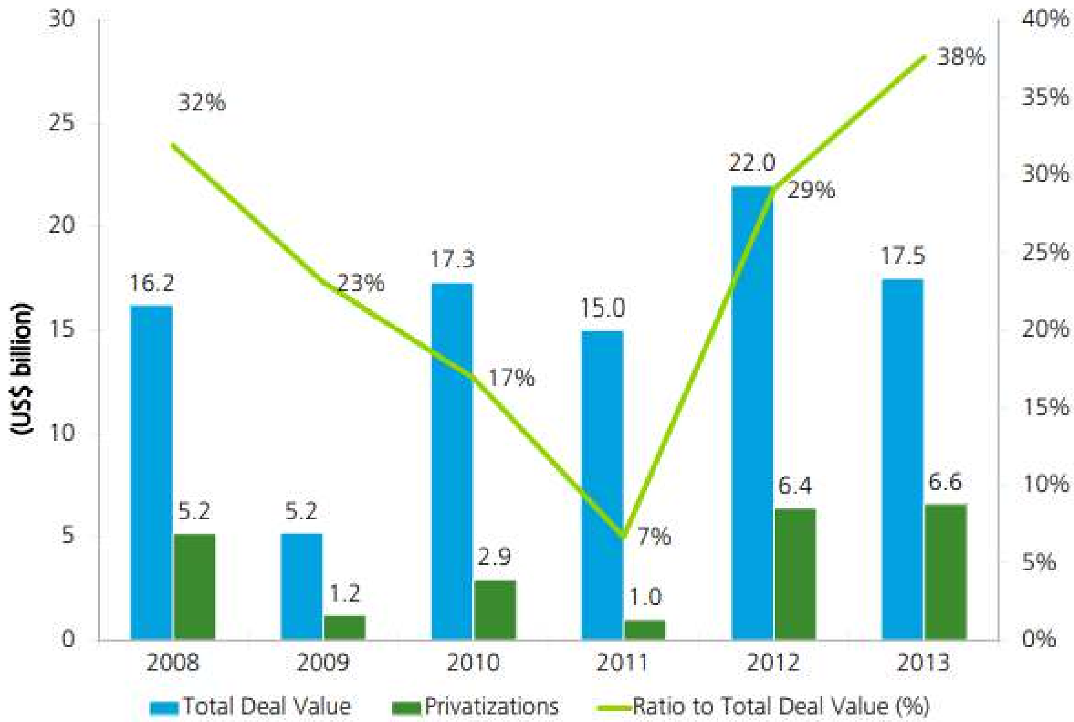
Despite macroeconomic and geopolitical challenges in the market, the Turkish M&A activity showed signs of recovery in 2017 following a severe downturn in the previous year. Still far below its levels in the first half of the decade, the annual deal volume picked up by c. 41% y-o-y to c. US$10.3 billion through an all-time high number of 298 deals. While the ever-increasing venture capital investments with small price tags drove the total deal number, the total deal volume was lifted by a handful of big ticket transactions executed mainly by foreign investors. Investors, strategic and financial, remained prudent to pursue aggressive acquisition strategies in Turkey throughout the year, yet did not seem to change their long term view on the upside of the Turkish market. Privatizations volume remained very limited in 2017 with 14 transactions totaling c. US$0.7 billion that represented 7% of the total annual deal volume. Privatization transactions were mainly related to the sale of a dozen of hydroelectric generation assets and a couple of ports.



Source: Deloitte Annual Turkish M&A Review 2017

In 2013, nearly 5 years ago although affected by domestic socio-political tension and sluggish recovery in its trading partners, the Turkish market managed a sustained level of M&A activity in 2013 through 217 deals with a total deal value of around US$17.5 billion. Foreign investors' contribution to the annual deal volume was at its lowest level ever in Turkey, while privatizations made up a considerable part of the volume. Privatizations, which mostly occurred in the energy sector, reached a deal volume of c. US$6.6 billion through 11 transactions and represented c. 38% of the total annual deal volume. In addition to the Privatization Authority, the Savings Deposit Insurance Fund (SDIF) tendered two media companies, which in total had a deal value of c. US$0.5 billion.

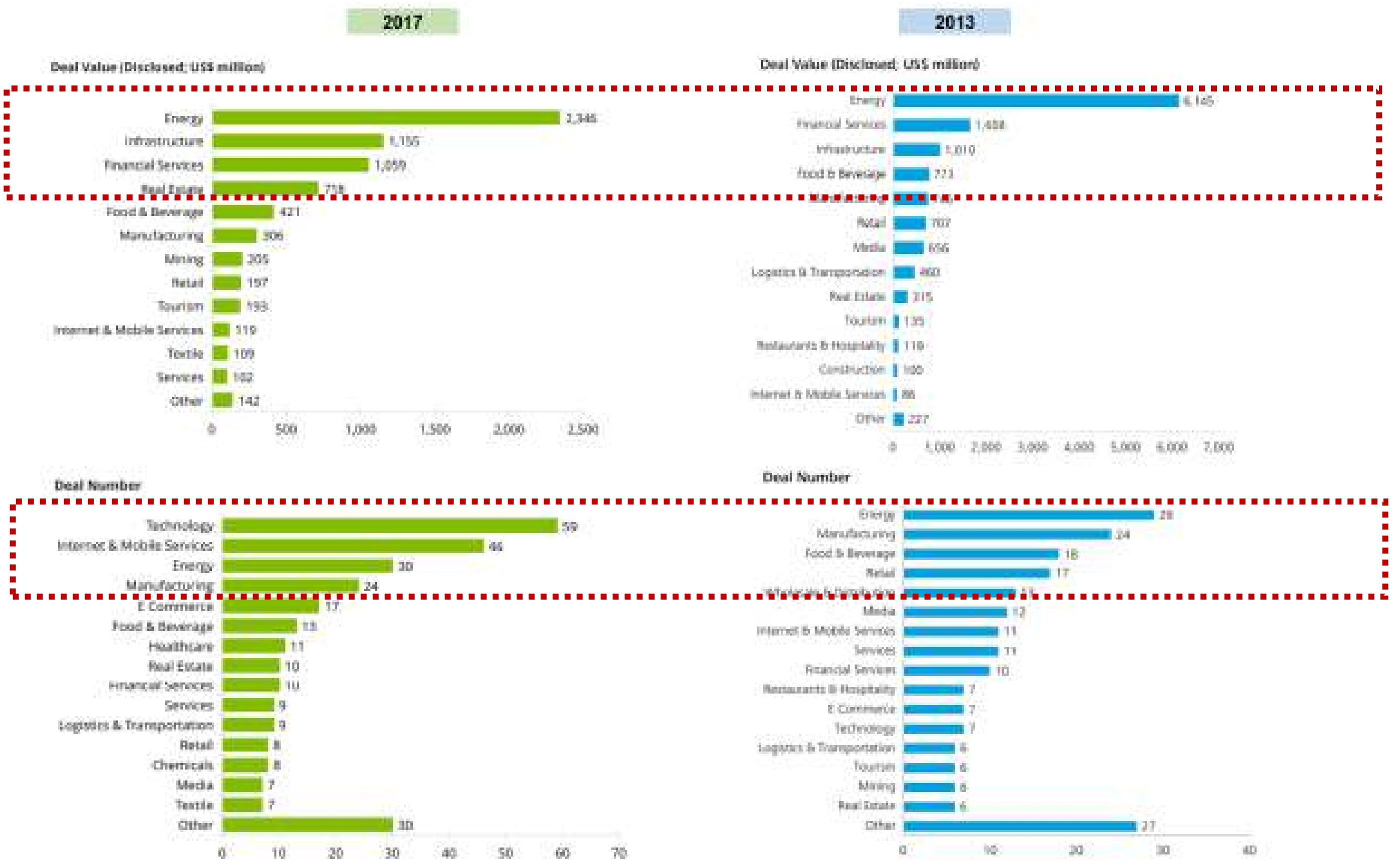
Privatizations



(1) Figures above do not include SDIF sales

Source: Deloitte Annual Turkish M&A Review 2013

Turkish energy sector has been in a liberalization process since 1993. In this liberalization process big conglomerates invested and established vertically integrated business structures while government held its position as both a vertically and horizontally integrated market player who still has the market power both in electricity generation, wholesale and retail. In this context in the last 5 years' energy markets always become one the main driver sector of Turkish M&A market. Rather than making opportunistic investments against economic turmoil investing in energy sector was both a political and a government driven investment area by especially big conglomerates of the country.



Source: Deloitte Annual Turkish M&A Review 2013 and 2017

Based on its young and fast growing population F&B and retail sectors were the other appreciated industries by investors in the market. Especially Yıldız Holding made most of the F&B deals in the last 10 years (both in Turkey and foreign countries) and largest food manufacturer in CEEMEA (Central and Eastern Europe, the Middle East, and Africa), generating revenues of 34.3 billion TL in 2016.

Retailers were highly appreciated by both Private Equities and corporate investors. However, this market is already consolidated and its rank in the Deal list decreased significantly in 2017 compared to 2013 activities.

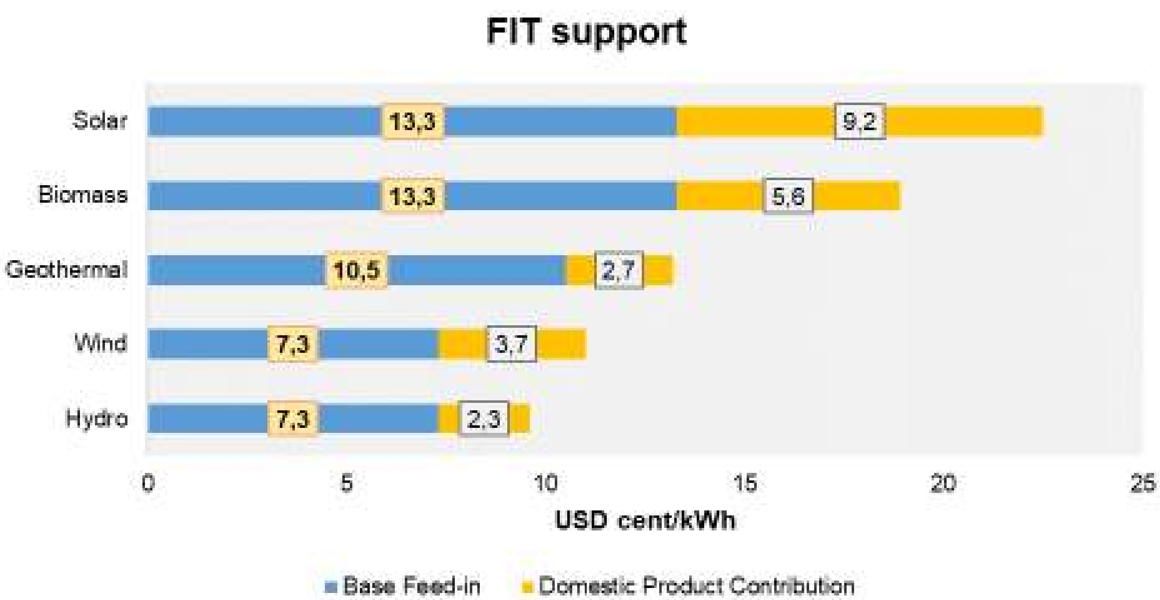
2.2 Crisis Immune Sectors to Invest in Turmoil Times

2.2.1 Energy

The energy sector, which ranked first in terms of transaction volume with 30 transactions and US$1.6 billion in 2016, topped the table again in 2017 in terms of transaction volume (US$2.9 billion) and ranked second in terms of the number of transactions (37). The highest value transaction in the sector was the acquisition of OMV Petrol Ofisi by Vitol Investment for US$1.44 billion.

2.2.1.1 Renewables

Opportunities for renewable forms of energy production – hydro, wind, solar, and geothermal – are abundant in Turkey, and encouraging policies backed by favorable feed-in tariffs are expected to increase their share in the national grid in the coming years. The Turkish government has made it a priority to increase the share of renewable sources in the country's total installed power to a remarkable 30 percent by 2023. This will run in parallel to the government's commitment to energy efficiency, whereby it is enacting laws that set principles for saving energy, at both individual and corporate levels, as well as providing incentives to energy efficiency investments. For example, the Turkish government introduced the new Renewable Energy Resource Zone (YEKA) model in 2016 in order to commission large-scale renewable energy projects through utilization of locally-manufactured components in the renewable power plants. Under the model, the largest-ever solar power auction in Turkey's history took place on March 20, 2017, while a similar tender for 1-GW wind power plants took place in August 2017 with local manufacturing and R&D requirements.



2.2.2 Food&Beverage

In 2016, the food and beverage sector, which generated a total volume of US$353 million from 14 transactions, ranked fourth in terms of transaction volume. In 2017, the sector ranked fifth in terms of both transaction volume (US$393 million) and number of transactions (16). The largest transaction in the sector was the acquisition of a 79% stake in Banvit by BRF and Qatar Investment Authority (QIA) for US$299 million

2.2.3 Food Retail Discounters Market Update

The Turkish FMCG sector growth trend can be characterized by heavy penetration of discounters in the last few years. Consolidation through M&A enabled this fast growth, while consumer preferences for proximity, more frequent shopping with similar basket sizes and private label supported the trend. Currently 95% of nearly 18K discount stores in Turkey are operated by BIM, A101 and Sok. This concentration, M&A activity and closures lowered the number of discount retail players to 6 from 13 five years ago. While BIM, A101 and Sok continued their growth at a rapid pace, some smaller players exited discount retailing. Number of Food Retail Discounters in Turkey and their evolution is as exhibited below:

Company Name	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
A101	540	675	825	1,200	2,000	2,450	3,100	3,779	6,300	7,100
New Stores		135	150	375	800	450	650	679	2,521	800
BIM	2,285	2,628	2,951	3,289	3,655	4,000	4,502	4,972	5,602	6,167
New Stores		343	323	338	366	345	502	470	630	565
Sok	-	-	-	1,135	1,144	2,043	2,301	3,000	4,000	5,100
New Stores					9	899	258	699	1,000	1,100
Hakmar Magazacilik Ltd Sti	18	31	110	195	260	269	298	324	382	459
New Stores		13	79	85	65	9	29	26	58	77
Carrefour SA	613	675	890	-	-	-	-	-	-	-
Dia	-	-	-	1,115	1,093	-	-	-	-	-
Migros Tic AS	652	980	1,150	-	-	-	-	-	-	-
Özen Group	39	51	64	92	119	-	-	-	-	-
Total	**4,147**	**5,040**	**5,990**	**7,091**	**8,357**	**8,932**	**10,334**	**12,079**	**16,288**	**18,761**
New Stores		**893**	**950**	**1,101**	**1,266**	**575**	**1,402**	**1,745**	**4,209**	**2,473**

Source: Euromonitor, BIM, Sok

BIM continued its profitable growth in 2017 recording solid 23.5% revenue growth and 24.7% EBITDA growth while EBITDA margin improved to 5.2% from 5.0% in 2016. This growth was driven primarily by an improving LFL figure to 13.7% (11.4% Basket Size, 2.1% Traffic) vs. 2016's 5.5% LFL (7.1% Basket Size, -1.5% Traffic). Besides a better LFL the company continued opening new stores with 525 new stores in Turkey and 110 new stores in MENA bringing the total number of stores to 6,765 at 17YE, up from 6,167 at 16YE. Outside these three big players the only steadily growing discount chain is a local one called Hakmar Express with 400 stores in Istanbul. It is also present in the supermarket segment with the Hakmar brand. BIM, A101, Sok Revenues, Number of Stores, Revenue Per Store Performance exhibition is as exhibited below (TRY)

		2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
BIM	Revenue	4,242	5,363	6,574	8,189	9,906	11,723	14,189	16,771	19,254	23,734
	Number of Stores	2,285	2,628	2,951	3,289	3,655	4,000	4,502	4,972	5,602	6,167
	Revenue / Store	2,111	2,183	2,357	2,625	2,853	3,063	3,338	3,540	3,642	4,033
A101	Revenue	216.0	420.0	630.0	1,207.4	2,113.0	3,280.0	4,608.4	6,974.3	10,945.5	13,387.8
	Number of Stores	540	675	825	1,200	2,000	2,450	3,100	3,779	6,300	7,100
	Revenue / Store	400	622	764	1,006	1,057	1,339	1,487	1,846	1,737	1,886
SOK	Revenue				1,350.0	1,421.0	2,741.8	3,949.0	5,071	6,726	9,512
	Number of Stores				1,200	1,230	2,213	2,434	3,000	4,000	5,100
	Revenue / Store				1,125	1,155	1,239	1,622	1,684	1,914	2,010

Source: Euromonitor

2.3 Case Studies in Turkish M&A Market During Turmoil Times

2.3.1 Healthcare Investments

Healthcare is a high growth and defensive sector not just in Turkey but also in the region characterized by increasing demand driven primarily by attractive demographics, increasing per capita income levels and the lack of existing supply in high-quality healthcare facilities and services. At the time of investment, Acıbadem was the leading hospital group in the Turkish market with a network of six high quality hospitals and service offerings as well as the proven ability to expand and scale operations, providing an ideal platform for regional expansion. Additionally, the group possessed a strong network of businesses in health insurance as well as facility and project management focused on the healthcare sector.

Abraaj investment to ACIBADEM

- Investment Year: 2007
- Exit Year: 2012

Investment Rationale

In 2007, the Government of Turkey enacted a new health insurance law designed to incentivize private sector investment in healthcare. The new regulatory regime created an opportunity for well-managed, private healthcare providers to grow their businesses.

Exit Conditions

In 2011, after four years of strong growth, Abraaj divested its entire 50% shareholding in Acıbadem to IHH and Khazanah Nasional. Under the terms of the agreement, IHH and Khazanah acquired a combined 75% shareholding in Acıbadem from Abraaj and the Aydinlar family through a combination of cash payment and the exchange of newly issued IHH shares.

Subsequently, in 2012, Abraaj exited its investment in IHH through an initial public offering (IPO). Approximately RM 6.26 billion (US$ 2 billion) was raised in the offering, making it the fifth largest IPO in the year. IHH's debut on the Malaysian and Singaporean bourses on July 25, 2012 marked the first ever concurrent dual listing on the Bursa Malaysia and the Singapore Stock Exchange, with IHH becoming one of the largest listed private healthcare service providers in the world with a market capitalization of approximately RM 22.56 billion (US$ 7.1 billion).

2.3.2 Food and Beverage Investments

Yudum Gıda

Transaction History:

1995: Co founded by Komili Family and Unilever (**After 1994 crisis)**

2003: Unilever to Southeast Europe Equity (Soros) **(After 2001 crisis)**

2007: Southeast Europe Equity to NBK Capital (Revenues doubled under SEE management)

2008 NBK Capital to Savola (Strategic Investor)

Sırma Su

- Sector: Packed Water Investor: Danone
- Transaction Year: 2013
- Market Size: Over 6 billion TRY (2018) / 4,1 billion TRY (2013)

Investment Rationale

- Increasing Population
- Low level of packed water consumption with respect to Western Countries (160-180 lt per person)
- Consumption Increase Potential (2010: 128 lt per person, 2017: 149 lt per person)
- Resource Surplus
- Export Opportunities to Neighbor Countries
- Over 200 small players (regional players) (Consolidation potential)

2.3.3 Energy

Eon, Germany's biggest utility by sales has taken a half-share in Turkish power company Enerjisa as part of its strategy to seek opportunity in emerging markets to make up for problems in low-growth western Europe. The transaction, valued at about €1.5bn, will take the form of an asset swap with Verbund, the Austrian utility.

Investment Rationale

To leverage Eon's expertise in fossil-fuel and renewable energy projects – and its balance sheet – with a local partner who knew the market and could navigate the politics of the target country

Partial Exit with IPO

The IPO consists of a secondary offering of 23,621 billion shares, representing 20 percent of the company with each of the joint venture shareholders, E.ON and Sabanci, selling each equal number of shares. This values the company at approximately €1.58 billion (7.38 billion TL). Trading of the stock is expected to commence on the Borsa İstanbul on February 8, 2018 under the symbol "ENJSA".