

## Turkey's Long-Term Entrepreneurs and Value Investing

By KEE Koon Boon

Godiva chocolate – owned by Yildiz Holding's Ülker. New York's 26,500 "Taxi of Tomorrow" for the coming next decade – high chance of being manufactured by either Koç Holding's automotive group or Karsan Otomotiv. The third-largest household appliance brand in Europe, behind Sweden's Electrolux and Italy's Indesit – owned by Koç's Arçelik. Europe's fifth largest brewer (and also the largest independent European brewer) and the sixth largest bottler in the Coca-Cola bottler system worldwide – Anadolu Efes.

These are some of the integral economic engines powering "the new indispensable nation" of the 21<sup>st</sup> century, or how Turkey's Prime Minister Recep Tayyip Erdoğan describes his country which has a GDP of \$770 billion, now the world's 17<sup>th</sup> largest and Europe's 6<sup>th</sup> largest economy.

GDP has grown from \$250 billion since the ruling Justice and Development Party (AKP) took office in 2002, average annual income has tripled from \$2,500 to more than \$10,000, and more than \$80 billion of foreign direct investments has poured in. In contrast, Egypt's per capita GDP was little changed in two decades at \$2,160 in 2009.

Turkey is an overwhelmingly Muslim country with 73 million people and has a democratically elected government and a secular regime that is established by modern Turkey's founder Kemal Atatürk since the fall of the Ottoman Empire after World War I. With a literacy rate of 85 percent, youthful demographics are also working in Turkey's favor to sustain productive growth: more than a quarter of its population is under 15 years old and 6.3 percent are over 65.

In his 2009 book *"The Next Hundred Years: A Forecast for the 21<sup>st</sup> Century"*, author George Friedman, also the founder of the private global intelligence firm Stratfor, argued that Turkey will be one of the great powers of the future. Goldman Sachs economist Ahmet Akarli projected in a 2008 report that Turkey could potentially emerge as the third-largest economy in Europe after Russia and the UK by 2050, overtaking Italy by the early 2030s, and Germany and France by the late 2040s.

Turkey's strategic geographic location in Eurasia – between Europe, Middle East, Caucasus, and Russia – offers gates to both the East and the West, fostering it as the center of regional trade as well as a productive economic power in its own right. Making good use of the opportunity that comes from signing a customs union with the European Union in 1995 – notwithstanding that its EU membership has been on hold – Turkey is now the world's biggest cement exporter and second-biggest jewelry exporter. Its construction order book is surpassed only by China's. It is Europe's leading maker of TVs and DVD players and its third-biggest maker of motor vehicles. Singapore-based investor Jim Rogers wrote in his 2003 book *"Adventure Capitalist: Profitable Lessons from a Record-Setting Drive around the World"* that he was "stunned" to discover that there were Turkish corporations "that were the largest of their kind in Europe".

Turkey's vibrant economy has become a source of stability for its complex society in a sea of conflicts – and the "Aslan Entrepreneurs" have been the vanguard to this contribution.

These long-term entrepreneurs play a crucial role in building economically competitive multinationals in the global arena. Long-term entrepreneurs want to build and scale their businesses so that they can give more. Only when we have the desire to give, then can we want to persevere in building something meaningful. This urge to build in order to give is the magnetic north to scale a durable economic moat and they work obsessively to realise this vision.

As a boy, Kamil Yazici worked at his father's little grocery store in Istanbul and learned how to trade. Yazici partnered with Tuncay Özilhan in 1969 to set up two breweries and created what is now one of Turkey's most popular brands, the Efes portfolio of beer. For more than 20 years, Efes enjoyed at least a 60 percent domestic market share. Most entrepreneurs would have been contented with keeping what they have. But not the dynamic duo.

They combine specialization in product and know-how with global selling and marketing expertise to continue the expansion of the operations of their company, Anadolu Efes, beyond the comforts of their home market. Today, Efes not have a dominant position in the Turkish beer market with 86 percent market share, but it is also the fifth and third largest brewer in Europe and Russia respectively, and is also the largest independent European brewer. In addition, Efes is the sixth largest bottler in the Coca-Cola bottler system worldwide since having control in 1998. As a result, Anadolu Efes had risen 12-fold in the last 10 years to over US\$8.8 billion presently.

Long-term entrepreneurs know that the painful cultivation of a trustworthy structure and long-term vehicle is critical to transfer stable succession to another management team, as well as specialized and intangible assets that cannot be capitalized easily in the markets. These are essential but much-neglected ingredients required for multibagger success. Without a durable economic moat, the collection and reporting of high profits in "Stage 1" may not necessarily lead to increases in long-term market value since the dissipation of specialized and intangible assets will change the way the firm conducts its operations, contracts with stakeholders, and governs itself, and the risk of blow-up rises substantially in "Stage 2".

At Efes, a corporate restructuring was first proposed in 1999 and carried out in July 2000 to merge four separate Efes beverage group companies into one combined entity, avoiding operational duplications, eliminating inter-group transactions and matrix ownership structure between the companies, and protecting shareholders from intra-brewery changes in business focus and sales strategy. The enhanced transparency and simplicity in both corporate and capital structure led to a clearer observation of the company's operations and financial performance. The consolidation of international bottling and brewing earnings through IAS reporting also brought the value of those companies into daylight. With the valuable economic moat in place, the second-generation partnership between the two families with a competent professional management team became scalable as it established its operations in Russia and the former Soviet republics in 1999. The stable partnership continues till now to sustain growth. And Efes grew together with the society in which it operates, helping to support the Turkish farmers and tourism activities, create more than 40 permanent educational, health and social institutions, and open thousands of summer sports camps throughout Turkey to generate interest in basketball.

A long-term outstanding entrepreneur is not merely a merchant but a man, with a character to form, a mind to improve, and a heart to cultivate. Long-term entrepreneurs put their work, their will and

their world in the services of others. Diligent value investors dedicate their life to finding multibagger long-term entrepreneurs.