A SURVEY
ON THE APPLICATION OF
TURKISH INVESTMENT BANKING SYSTEM

MBA THESIS

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A THESIS

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By

CEREN GÖKÇEN

June, 1995

I certify that I have read this thesis and in my opinion it is fully adequate, in scope and quality, as a thesis for the degree of Master of Business Administration.

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ABSTRACT

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June, 1995

The aim of this study is to expose the establishment reasons, goals and activities of investment banking in Turkey, after examining this system in general. Public offerings is the most fundamental activity of investment banking. Therefore, a particular emphasis was placed on public offerings and the comparison of steps involved in this activity between the world and Turkey was discussed. Legislative arrangements about investment banking and the public offering of securities were stated flatly.

In order to discover the practice of public offerings in Turkey, two case studies were selected, namely "Dardanel Önentaş, Inc." and "Mutlu Akü, Inc.". While choosing these two cases, the objective was to cover different methods most widely used in Turkey, both in the investment banking activities and pricing the share of the issuing company, which is the quintessence of a public offering. Thus, price determination of the underwriters and the results of these pricing techniques were examined specifically.

Findings of this study, and the comparative evaluation of two case studies provide valuable information on how investment banking activities are implemented in Turkey. For the reasons stated in this study, it is expected that this branch of banking will gain widespread use in near future, in Turkey.

ÖZET

TÜRKİYE'DE YATIRIM BANKACILIĞI UYGULAMALARI ÜZERİNE BİR ARAŞTIRMA

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Yüksek Lisans Tezi

TEZ YÖNETİCİSİ: Doç. Dr. KÜRŞAT AYDOĞAN

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Bu çalışmanın amacı, yatırım bankacılığını genel olarak inceledikten sonra, bu bankacılık dalının Türkiye'deki kuruluş nedenlerini, amaçlarını ve faaliyetlerini ortaya koymaktır. Yatırım bankacılığının en temel aktivitelerinden birisi olan halka arzın Türkiye'deki ve dünyadaki uygulamalarının karşılaştırılmalı olarak sunulmasına özel bir önem verilmiştir. Yatırım bankacılığı üzerine yasal düzenlemeler ve hisse senetlerinin halka arz çeşitleri ayrıntılı bir şekilde değerlendirilmiştir.

Ayrıca Dardanel Önentaş Gıda Sanayi A.Ş.'nin ve Mutlu Akü ve Malzemeleri Sanayi A.Ş.'nin halka açılmaları örnek çalışma olarak seçilmiş ve incelenmiştir. Bu örneklerin seçiminde amaç yatırım bankacılığı ve halka arzın temeli olan hisse senetlerinin fiyatlandırılmasında, Türkiye'de yaygın olarak kullanılan metodları ortaya koymaktır. Yapılan araştırmada, aracı kurumların farklı olarak uyguladıkları fiyat belirleme yöntemleri ve sözkonusu yöntemlerin sonuçları değerlendirilmiştir.

Sonuçlar ve iki uygulamanın karşılaştırılması, yatırım bankacılığının, özellikle şirketlerin halka açılış şekillerinin, Türkiye'de nasıl gerçekleştiği hakkında bilgi vermektedir. Bu çalışmada belirtilen sebeplerden ötürü, gelecek yıllarda, bu tür bankacılık işlevlerinin, ülkemizde daha da yaygınlaşacağına kesin gözüyle bakılabilir.

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I- INTRODUCTION

Turkish banking system has experienced new banking services initiated because of the tough competition and improvements in technology. In addition to the endeavor of being integrated with the world economy, implementation of capital trends towards a free economical system caused Turkish banking system to change its structure in order to keep in pace with recent developments. In return a necessity arises for the firms, which are established with adequate capital and specialized in certain subjects, such as investment banking associations. Investment banking is a dynamic industry characterized by flux and transformation.

Financial instruments have grown more complex as financial intermediaries have become more competitive. Blizzards of innovative instruments are sweeping financial markets. Boundaries among diverse financial institutions are blurring. Barriers between financial markets are eroding. And, amplifying the complexity and the competition, financial markets, firms products, and the techniques are merging and melding. It is in this volatile environment that investment banking firms of all sizes and strategies struggle with change: They generate change, and they are changed by change.

This study will, internationally, examine the activities of investment banking and indicate the implementation of the practices in Turkey. The next section brings a broad perspective to basic concepts about investment banking. It summarizes the basic functions, activities and organization of this banking system. In addition, differences between investment and commercial banks are listed. The third section deals with the legal arrangements, the establishment reasons and the goals of investment banking in Turkey. The fourth and fifth sections exposes the investment banking applications about public offerings of two companies; "Mutlu Akü ve Malzemeleri Sanayi A.Ş." and "Dardanel Önentaş Gıda Sanayi A.Ş.". Finally, the last two sections evaluate the comparison of two cases, recommendations and the results of this study.

II-BASIC CONCEPTS ABOUT INVESTMENT BANKING

II.1- DEFINITION

Investment banking is the business of money. It is the intermediary channel through which capital is distributed efficiently and exchanged efficiently (Kuhn, 1990, I).

Investment banking firms are financial intermediaries, the critical link between users and providers of capital. They bring those who need funds with those who have funds, and they make the markets that allocate capital and regulate price in these financial exchanges.

Those who desire to raise capital are called "issuers", since they issue their ownership in their enterprises or obligations from their enterprises in exchange for cash or cash equivalents. Those who provide capital are called "investors", since they must invest cash or cash equivalents in exchange for those rights of ownership or obligation (Figure I).

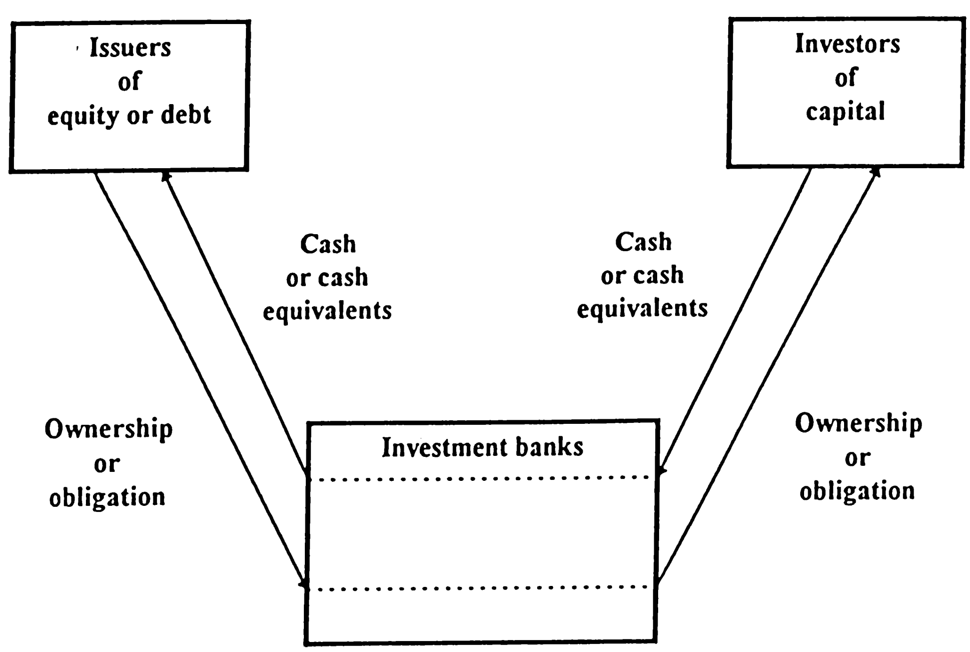

Figure I Investment Bank as Financial Intermediaries

Investment banking cover all capital market activities from underwriting and corporate finance to mergers and acquisitions and fairness opinions to fund management and venture capital. Excluded, are the selling of securities to retail customers, consumer real estate brokerage, mortgage banking, insurance products, and the like. Included, is merchant banking, when investment bankers work and invest for their own account. Also included is the non-retail selling of large blocks of securities to, and for financial institutions (Kuhn ,1990, II).

Most visible among all investment banking services is the management of underwriting syndicates for new issues of securities. Underwriters play a triple role during a public offer; providing advice, buying a new issue from the company, and reselling it to the public. In return they receive a payment in the form of a spread; they are allowed to buy the shares for less than the offering price at which the securities are sold on to investors. In the more risky cases, the underwriter usually receives some extra non-cash compensation, such as warrants to buy additional stock.

Several thousand investment banks, security dealers, and brokers are at least involved in underwriting. However, the market for the larger issues is dominated by the major investment banking firms, which enjoy great prestige, experience, and financial resources (Brealey and Myers, 1991).

II.2- BASIC FUNCTIONS

Investment banking firms perform two closely interrelated functions:

1. In the primary market, they float new securities for cash.
2. In the secondary market for existing securities, they assist buyers and sellers by acting as brokers or dealers.

Investment banks are firms that specialize in helping businesses and governments sell their new security issues (debt or equity) in the primary markets to finance capital expenditures. In addition, after the securities are sold, investment bankers make secondary markets for them as brokers and dealers (Kidwell and Peterson, 1990).

It is the first function, the sale of a new issue to raise cash, that most people think of when the subject of investment banking comes up. The problem of pricing and distributing a new issue- that is, a security that has never been traded- is most important to the corporate issuer because it sets the firm's cost of capital. The price of the new stock or the interest rate on the new bond (and its other characteristics such as maturity) must necessarily be related to the prices and other characteristics of comparable (existing) securities currently trading in the secondary markets.

If an underwriter underprices too much, given the characteristics of the issue, the underwriter loses future offerings. If the underwriter underprices too little, he loses investors. The correct price is called ***market equilibrium price***; that is the highest price that allows all the new securities issued to be sold quickly at the reoffer price. Setting the appropriate price and nonprice terms on a new issue is the all important information step in the investment banking process. That process, in turn, must be based on active and large-scale trading in the secondary market; hence the necessary linkage between the two (Bloch, 1989).

To develop and maintain pricing skills, underwriters for new stock and bond issues are involved in secondary market trading. In those markets, such underwriters-dealers compete with all other broker-dealers who trade exclusively in the secondary market and involve themselves in new issue flotations (as small syndicate numbers) only on occasion.

From the point of view of managing a large investment banking firm, the secondary market is always an alternative to participation in the primary market. The underwriting firm thus has made a positive decision that, for a number of reasons, it will also participate in the primary market in that particular issue.

II.3- ACTIVITIES OF INVESTMENT BANKING

II.3.1- UNDERWRITTEN OFFERINGS

One of the most frequently employed activity of the investment banking by which public corporations market new securities is underwritten offerings. Underwriting is the process whereby the investment banker guarantees to buy the new securities for a certain price. The risk exists between the time the investment banker purchases the securities from the issuer and the time they are resold to the public. The risk of unforeseen price changes as a result of changes in market conditions can be substantial. In an underwritten offering, initial negotiation focuses on the amount of the capital, the type of the security, and the terms of the offering (Kidwell and Peterson, 1990).

If the firm and the underwriter agree to proceed, the underwriter begins to assess the prospects. The investigation includes an audit by a public accounting firm and a legal opinion from a law firm. The issuing firm, the underwriter, the auditing firm and the law firm typically participate in filling the required registration statements with the Securities and Exchange Commission (SEC). This statement is a detailed and sometimes cumbersome document which presents information about the proposed financing and the issuing firm's history, existing business, and plans for the future. The SEC studies this document and sends the firm a 'deficiency memorandum' requesting any changes (Smith, 1985).

Finally, an amended statement is filled with the SEC. The offering can only proceed when the registration statement becomes effective. The issuing firm is not allowed to sell securities during the waiting period nor can it engage in any unusual publicity that might affect the sale. Although oral sales efforts are permitted, any indications of interest are not legally enforceable commitments of customers.

The first part of the registration statement is distributed by the issuing firm in the form of a preliminary prospectus. Such a prospectus is generally known as a 'red herring' because of the statement printed in red ink. For each public issue, a 'tombstone advertisement' is published that lists the names of all the underwriters. The ordering of the names on the tombstone reflects a well-established hierarchy among underwriters. The most important underwriters are listed in alphabetical order at the top of the list. Then come the second-rankers, and so on. No written sales literature other than a 'red herring' prospectus and 'tombstone advertisements' are permitted between the filling and offer date (Brealey and Myers, 1991).

For the initial public offering there are several decisions opened to the issuing firm:

II.3.1.1- FIRM COMMITMENT

In a firm commitment, the underwriter agrees to purchase the whole issue from the firm at a particular price for resale to the public. The firm can either negotiate the offering terms with the underwriter (private negotiation), or it can structure the offering internally, then put it for competitive bid.

Competitive bid offerings involve lower total flotation costs than negotiated offerings. Yet it appears that the major users of competitive bids are regulated firms which are required to do so. Firms not facing a regulatory constraint overwhelmingly choose negotiated offers. If the effective monitoring provided through a competitively bid offering is less than that provided through a negotiated underwritten issue, then firms would have incentives to employ negotiated offerings, even though the flotation costs are higher (Smith, 1985).

Competitive bidding works best when markets are stable and trends are more visible and understandable. In more volatile markets, negotiated deals are better for the issuing companies (Perez, 1984).

II.3.1.2- "BEST-EFFORTS" DEAL

A "best efforts" relationship is one in which the investment banking firm uses its expertise as structurer in designing the issue and as marketer in selling the issue. This means that the underwriters bear no risk in the deal, leaving the issuing company all the uncertainty of per-share pricing and the amount of total proceeds to be raised (Kuhn, 1990, II).

II.3.1.3- STAND-BY UNDERWRITING

In stand-by underwriting, the underwriter agrees to purchase the unsold part of the issue form the issuing firm at a particular price for resale to the public. The underwriter takes an additional commission from the firm with respect to giving this guarantee (Türeoğlu, 1991).

II.3.1.4- PRIVATE PLACEMENT

Private placement is the private sale of long-term debt securities to substantial financial institutions and investors (Kuhn, 1990, I). For many businesses, the sale of securities (debt or equity) by public sale is not feasible. Because there is no underwriting in a private placement deal, the investment banker's role is to bring buyer and seller together, to help determine a fair price for the securities, and to execute the transaction. For these services, the investment banker earns a fee. Firms choose between a private placement or a public sale, depending on which method of sale offers to the issuer the lowest borrowing cost after transaction costs (Kidwell and Peterson, 1990).

One of the disadvantages of a private placement is that the investor can not easily resell the security. On the other hand, it costs less to arrange a private placement than to make a public issue. Another advantage of the private placement is that the debt-contract can be custom-tailored with special problems and opportunities. The relationship between borrower and lender is much more intimate.

Renegotiating the debt contract in response to unexpected developments is also extremely cumbersome for a public issue, but relatively easy for a private placement. Private placements occupy a particular niche in the corporate debt market, namely loans to small and medium-sized firms. These are the firms that face the highest issue costs in public issues, that require the most detailed investigation, and that may require specialized, flexible loan arrangements (Brealey and Myers, 1991).

Before examining the other activities of investment banking, advantages and disadvantages of public offerings should also be taken into consideration. The advantages of going public can be summarized as follows;

Facilitates the shareholder diversification: As a company grows and becomes more valuable, its founders often have most of their wealth tied up in the company. By selling some of their stock in a public offering, the founders can diversify their holdings and thereby reduce somewhat the riskiness of their personal portfolios.

Increases liquidity: The stock of a closely held firm is illiquid; No ready market exists for it. If one of the shareholders wants to sell some shares to raise cash, it is hard to find potential buyers, and even if a buyer is located, there is no established price at which to complete the transaction. These problems do not exist with publicly owned firms.

Makes it easier to raise new corporate cash: It is very hard for closely held companies to raise new equity capital. Going public, which brings with it disclosure by the regulatory institutions in the country, makes people more willing to invest in the issuing company.

Establishes a value for the issuing company: It is often useful to establish a firm's value in the market place. A company that is publicly owned has its value established. Similarly, employees much prefer to own stock, that is publicly traded, as public trading increases liquidity.

On the other hand, there are several disadvantages of public offerings which are stated below;

Cost of reporting: A publicly owned company must file quarterly and annual reports with the regulatory institution in the country and/or various state officials. These reports can be costly, especially for very small firms.

Disclosure: Management may not like the idea of reporting operating data, because such data will then be available to competitors. Similarly, the owners of the issuing company may not want people to know their net worth; since publicly owned companies must disclose the number of shares owned by officers, directors, and major shareholders, it is easy enough for anyone to multiply shares held by price per share to estimate the net worth of insiders.

Inactive market/low price: If the issuing firm is very small and if its shares are not traded with much frequency, its stock will not be really liquid, and the market price may not be representative of the stock's true value. Security analysts and stockbrokers simply will not follow the stock, because there just will not be sufficient trading activity to generate enough sales commissions to cover the analysts' of stockbrokers' costs of doing so (Brigham, 1986).

II.3.2- ADVISORY SERVICES

In addition to the aforementioned activities, investment banking firms may have special advisory or consulting activities where raising capital or selling a company is not involved. Financial advisory projects might include fairness opinions, analyses of alternative financings, expert testimony, and valuations. Usually a flat fee is negotiated for the project, but sometimes it is more appropriate to charge a fixed fee per hour, per person per day or per month. As with all investment banking projects, the exact form and amount of the investment banker's compensation is determined by his negotiations with a client, taking into consideration normal fees charged by other investment bankers for comparable projects.

With respect to fairness opinions where an investment banking firm believes a certain transaction is fair from a financial point of view to certain shareholders, the fee not only must cover the time spent in analyzing the transaction, but also must compensate for the responsibility being assumed and the risk that someone will file a law-suit against everyone involved (Kuhn, 1990, I).

II.4- ORGANIZATION OF INVESTMENT BANKING

In general, there are two major divisions in investment banking: "Capital Markets" and "Consumer Markets". Sometimes, there is a third, "Research". In addition, there are miscellaneous functions outside the mainstream.

II.4.1- CAPITAL MARKETS

Each of the following functional areas is an independent department in an investment banking firm:

- Corporate Finance
- Securities Underwriting
- Mergers and Acquisitions
- Merchant Banking
- Leveraged Buyouts
- Swap
- Risk Management
- Project Finance
- Product Financing
- Securitization
- Privatization

II.4.2- CONSUMER MARKETS

"Consumer Markets" division subsume the distribution and sales of securities, involving everything from the creation of new financial products. Included here, among other areas, are products and funds established for retail consumers, products and funds established for institutions, new product and fund development (Kuhn, 1990, II).

II.4.3- RESEARCH

Investment research division can be structured in three possible ways: independent of both capital and consumer markets, while serving the needs of both; within consumer markets; and/or within capital markets. Typical subdivisions are Global Equities and Fixed-Income (Kuhn, 1990, II).

II.4.4- MISCELLANEOUS

On occasion, there are other divisions of an investment banking firm that do not fall within normal categories. Some examples are commodity trading (e.g., gold, silver, various metals and foods); insurance; mortgage banking; commercial loan placing, correspondent services (back office operations such as trading, executing, clearing, and processing securities for smaller firms); information management products (Kuhn, 1990, II).

II.5- DIFFERENCES BETWEEN COMMERCIAL AND INVESTMENT BANKING

There are two basic ways in which new financial claims can be brought to the market; direct or indirect financing. In the indirect credit market, commercial banks are the most important participants, while in the direct market, investment banks take their place.

There are several differences between commercial and investment banking. As the scale of government and private capital needs expanded, the role of what is known today as the investment bankers -the financing intermediaries- has been the key. Generally, commercial banks do not engage directly in purchasing investment banking deals or investing in common stocks.

By tradition and purpose, commercial banks prefer loans to investments as an earning asset, because they normally generate higher returns. Furthermore, commercial banks regard lending as the primary function of the banking. Reflecting this, loans represented over 70% of bank assets in 1990, compared with only 28% in investments (Hubbard, 1990).

Commercial banks are permitted to invest a small portion of their assets in corporate bonds, which are treated as a type of loan account. These banks, in general, tend to be short-term oriented, due to the demands of the loan business. This dictates a high degree of liquidity, because commercial banks must be able to meet a sudden upturn in loan demand by converting investments into cash readily and with little or no risk of loss (Perez, 1984).

On the other hand, investment banking firms, that engaged in underwriting and holding corporate securities and municipal revenue bonds, presented a higher significant risk of loss to depositors than commercial banks. However, commercial banks are indirectly involved in investment banking deals as direct lenders to investment banking syndicates and in providing loans to brokers and dealers for the purpose of carrying securities inventories (Eccles and Crane, 1988).

Most of the investment assets held by commercial banks are comprised of government securities, federal agency securities, and state and local government bonds. In addition, one of the main differences between commercial and investment banking is that, investment banking firms are not allowed to collect bank deposits while commercial banks do.

Commercial and investment banks' activities are completely separated after Glass-Steagall Act of 1933, in USA. It was designed to separate the functions of commercial banking and investment banking, with the intent of prohibiting a banking entity from both taking public deposits and making loans on the one hand, and underwriting issuance of securities (primarily corporate) to the public on the other (Auerbach and Hayes, 1990). The most important reason of this separation was that, investment banking firms were more subject to failure with a resulting loss of public confidence in the banking system and greater risk of financial system collapse. The starting point of Glass-Steagall Act is; "Securities activities are risky and should not be permitted to banks that are protected with the federal 'safety net'" (Benston, 1990).

This Act, when passed, had three basic objectives:

- to discourage speculation in financial markets,
- to prevent conflict of interest and self-dealing,
- to restore confidence in the safety and soundness of the banking system.

The act, however, does allow commercial banks some securities activities, such as underwriting and trading in US government securities, and some state and local government bonds. Thus, in the area of public securities, investment banks and commercial banks do compete.

In recent years, commercial banks and investment banks have come into competitive conflict. Large money center and regional commercial banks have seen their largest and most profitable customers increasingly switching from intermediary services, such as bank loans, to direct credit market transactions, such as commercial paper. As a result, large commercial banks in the United States want to break down the legal barrier to investment banking established by Glass-Steagall.

The legislated separation of commercial banking and investment banking in the United States is somewhat unusual. In countries where there is no legislation, commercial banks provide investment banking services as part of their normal range of business activities. The notable exception to this rule is Japan, which has securities laws that closely resemble those of the United States (Kidwell and Peterson, 1990).

Countries where investment banking and commercial banking are combined have a "universal banking" system. *Universal banks* are institutions that can accept deposits, make loans, underwrite securities, engage in brokerage activities, and sell and manufacture other financial services such as insurance. Most European countries allow universal banks.

In such countries, investment banking is taken as a specialized function, performed not only by investment banks, but also by commercial banks and other institutions, for collecting information on issuer needs for investors and on investor needs for issuers, for pricing and structuring transactions that satisfy the needs of both sides of the market.

III- INVESTMENT BANKING IN TURKEY

III.1- LEGISLATIVE ARRANGEMENTS

In Article 48/3 of the Banks Code Number 7129 dated 06/23/1958, investment banking was mentioned for the first time in our legislation in Turkey. Later on, by the addition of Annex: 3 and Annex: 4, supplemented by Code No. 123, which passed in 1962, the above mentioned Code, arranged the activities of the investment banking.

In the written argument in favor of the Code No. 123; the right to accept deposit accounts is not given to investment banks. Therefore, these banks would not be able to carry out their functions, when they are subjected to the "Articles" that aim to maintain deposit accounts.

Article 13 of the decree No. 70 dated 07/22/1983 states that; investment banks can provide sources from the capital market through issuing commercial bills, promissory notes, stocks, bonds and securities. However, these are not considered as deposit accounts.

Bank Code No. 3182 which was passed and been effective on 04/05/1985, has preserved the principles of Code No. 7129, that has replaced with Code No. 123. The only difference between commercial and investment banks in accordance to the legislation is that, investment banks can not accept deposits. However, they can carry out financial leasing transactions, that are not permitted to be done by commercial banks.

On the other hand, "Capital Market Code" No. 2499, which was effective on 07/30/1981, provided the commercial banks to activate somewhat like intermediaries such as investment banks. Commercial banks are also authorized to carry out the transactions of stocks by presenting them to the public and acting in the secondary markets.

In Section V, titled "Auxiliary Institutions in the Capital Markets", investment banks have the possibility to establish "Securities Investment Funds". Thus, no difference was made between commercial and investment banks in the mentioned law (S.P.K. Mevzuatı).

In Turkey, Capital Market Board, which is the regulatory and supervisory institution in the Turkish capital markets, takes the role of SEC and the underwriting process deviates from the procedures listed in section II.3.1. First of all, there is no involvement of any law firm during the investigation. The process of underwritten offerings in Turkey is as follows:

At the beginning, in order to fulfill the Capital Market Board requirements, the issuing company should initially take a Board Resolution with regard to offering part of its equity capital to the public prior to the application for the public offering permission.

According to the Capital Market Law, public offering of the company stocks which are presently held by the shareholders should be carried out through an underwriter, either through a bank or other financial institution authorized to perform primary market operations. Therefore, an agreement should be signed between the issuing company and the underwriter. Thereafter, the underwriter should fill the required documents of the issuing company. The required documents which should be included in the application file to Capital Market Board are listed in Appendix I.

Capital Market Board will process the file and should finalize the application, after having the auditing reports of the issuing company from an auditing firm, that the Board has chosen, and making necessary financial analyses about the company.

Thereafter, the Board should submit the public offering permission (if approved) in a month excluding the periods it may ask for additional information.

After the permission for public offering is granted, Capital Market Board will stamp and deliver to the company the final versions of the "Brochure" and "Circular" accompanied with the Certificate of Permission. Within 15 days after the delivery of the Certificate of Permission, the "Brochure" should be registered to the Trade Register and published in the Trade Register Gazette. A copy of that Gazette is sent to Capital Market Board. Within one week after the registration to the Gazette, the "Circular" is published in the daily newspapers to inform the public about the flotation.

In addition, the issuing company should apply with a file to İstanbul Stock-Exchange for the trading of its stocks. The required documents which should be included in the application file to İstanbul Stock-Exchange is listed in Appendix II.

Subject to the procedures with the İstanbul Stock-Exchange, the selling period may start after this announcement. Besides, Capital Market Board states that the counter value of the purchased shares is to be paid in cash by the investors to the issuing company via the underwriter. Within 6 days after the termination of the selling period, Capital Market Board is to be informed by the underwriter about the results of the sales.

Procedures about underwritten offerings have been extended, based on Articles 7 and 22/a of Capital Market Law; Code No. 3794. These articles were put into force on 10/27/1993. In public offerings of stocks, these procedures also regulate the sale of excess shares after having the rights of bonus shares. Before the public offerings, it has to be proven that, the issuing companies fulfill the following requirements, based on their last year's balance sheets prepared in conformity with the standards determined by Capital Market Board:

- Current book values of the company's shares should at least be twice of their nominal value.
- The issuing company should get net profits from its last year balance sheet.
- The total of the assets should exceed TL 20 billion.

During the public offerings, the investment banking firms have to implement one of the methods of "Demand Collection" or "Sale in Stock-Exchange", in accordance with Serial: 1 and Serial: 14 notifications of Capital Market Board, in Turkey. Public offerings by "Demand Collection" method is carried out by "fixed price" or "receiving price offer" techniques. In the "fixed price demand collection" method, involving shares issues, a fixed price is established by the investment banking firm. On the other hand, a fixed interest rate is established, involving securities such as corporate bonds, mutual fund participation certificates and asset backed securities. "Demand Form" at enclosure 1 of the notification (Appendix III) is filled up, in order to collect the demands of the investors, who take fixed price/interest rate as basis.

In the "demand collection method" that is carried out by "receiving price offer technique";

- Investment banking firms indicate a minimum sale price, and price offers over this price are collected.
- A maximum interest rate is established in the sale of other securities, and price offers below this interest rate are collected.

"Demand Form" at enclosure 2 of the notification is filled up (Appendix IV), to collect the demands of the investors regarding the price offers and price amounts above those. In both of the methods, the investors fill and sign the demand forms, and deposit them in the bank accounts, during the periods stated in the circulars. When the investing banking firm and the bank, at which the money deposited are the same, investors submit the forms to the bank branch, that they deposited their money. After all these procedures, the bank gives a receipt to the investor showing the quantities of the securities they determined in the demand forms (Resmi Gazete, 10/27/1993).

III.2- REASONS OF THE ESTABLISHMENT OF INVESTMENT BANKING

Starting from 1980's, the economical environment required the establishment of investment banks in Turkey. The necessity arose from several factors that are explained in the following paragraphs. The change in the structure of banks all over the world and the application of free economic system in the country, caused major changes in Turkish banking system. Besides, financing of the investments appeared to be another factor forcing these changes to take place, when the efforts of industrialization and economic developments occurred in Turkey.

One of the most important reasons of the establishment of investment banking in Turkey was the economical decisions taken on the 24th. of January, 1980. As a result, Turkey became an attractive market for international banking sector. In 1980, foreign banks had given the right to open their branch offices in Turkey. The commercial reputations of the investment banks and their foreign partners are stated in Appendix V (Türeoğlu, 1991). Furthermore, the transaction from fixed to flexible exchange rates was also brought about by these decisions.

Until 1980, the costs of the collections of funds were low. Besides, the application of low interest policy blocked interest competition in the market. Therefore, interests fell below the inflation rates. This fact has increased the attention to other financial instruments. After 1980, money market within the banking system began to develop. Privatization and public offerings became also prevalent. In addition, the stock exchange and the capital market have shown a great development. Thus, investment banking firms started to serve through both demand and supply sides of the market.

While there were improvements in the capital market by the establishment of investment banking firms, alternative finance opportunities were given to the companies that had financial problems. Financial advisory services, one of the activities of investment banking, with respect to economical developments in the country was also a requirement.

The bankers and liquidity crisis afterwards created a distrustful behavior towards the banks which collect bank deposits, in 1980's. Therefore, investment banks were necessary in such kind of economical environment, as they are not allowed to collect bank deposits.

Initial public offerings of the stocks, that would later be traded in the stock-exchange, is one of the activities of investment banks. Therefore, the establishment of İstanbul Stock-Exchange in the beginning of 1986 was another motivation for the involvement of investment banks in Turkish economy.

Moreover, the need for investment banking activities occurred because of the political and economic uncertainties that were prevalent throughout 1991. The Gulf War starting at the beginning of the year, caused a deposit drain with a resulting increase in the banking sector's operational costs. Later in the year, the general elections and other political developments caused prevalence of an unfavorable business environment and an increase in market risk for the banking sector.

The increase in the foreign exchange operations of the banking sector together with the real depreciation of the Turkish lira against other currencies, especially the US dollar, was primarily responsible for the real expansion in the consolidated balance sheet of the sector. The real changes in the consolidated net worth of the various groups of banks revealed that the net worth of the publicly owned banks decreased. On the other hand, the foreign owned banks and investment banks increased their net worth (Annual Report, 1990).

Besides, the issuance of bank bills tripled, while the issuance of shares and financial bills doubled as compared to 1990. This showed a tendency of the investment banks to issue bank bills and bank guaranteed bills in 1991. In recent years, the growth in the market share of the investment banking firms is due to the increase in the transactions volume and their tendency to intensify their activities in private sector securities.

III.3- THE GOALS OF INVESTMENT BANKING

The primary objective of the investment banking firms in Turkey is to gain specialization in the financial services and to have an administration comprehension depending on commission revenues. Providing the flow of funds from foreign countries, directing these funds mainly to the capital market within the country and the management of the mentioned funds, are included in the goals of investment banking firms in Turkey. Generally, investment banks have foreign partners in order to achieve these goals.

Meanwhile, investment banking firms in Turkey, give financial advisory services to the companies that are in the growth stage, in order to meet their financial needs and to rationalize their activities. In general, the goals and the subjects of these firms in Turkey, can be summarized as:

- Financing the investments of either existing or newly established companies, giving credits to them and participating in their capitals,
- Making commercial representations, working as insurance and commission agencies,
- Buying or selling commercial bills, promissory notes, similar stocks, and bonds, and gold,

- Setting credits transmitted to other banks for assignees, issuing letter of guarantees, giving non-cash credits,
- Financing the foreign trade, making forfeiting operations
- Making financial leasing operations
- Providing guaranty to securities issued by the private sector

However, when the actual activities and profit sources of investment banks are examined, these banks can not find enough opportunity to finance themselves in Turkey (Türeoğlu, 1991).

Securities issues registered with the Boards, between the years 1990 and 1994, are shown in Appendix VI. Private sector securities issues in 1994 has increased by 219% compared to the previous year. Unfortunately, investment banks' involvement in these issues is only 4.31% (S.P.K. Yıllık Rapor, 1994).

The total number of operations in the secondary markets, according to the types of securities, is shown in Appendix VII. The number of operations in these markets has increased by 202% in 1994, compared to the previous year. Intermediaries have done 14.5% and banks have done 85.5% of these operations in the secondary markets (S.P.K. Yıllık Rapor, 1994).

The reasons of the ineffective conditions for investment banks in Turkey are:

- The establishments of investment banks in Turkey has begun in 1988. Therefore, the number of investment banks is very low with respect to commercial banks and other related institutions.
- As universal banking system is valid in Turkey, commercial banks and intermediary institutions can also do investment banking activities, in the last years. Therefore, institutions prefer to work with commercial banks, that is

specialized on every kind of banking activity, instead of investment banks, that is specialized on only underwriting and advisory services.

- Commercial banks and intermediaries have more offices compared with investment banks. This brings an advantage especially in the public offerings. In the foreign countries, investment banks have a large number of offices around the country. For instance, first ten of the investment banks' number of offices in America in 1990 is given in Appendix VIII (Kuhn, 1990).
- Unfortunately, the investment banks established in Turkey, have only one office per bank. This situation reduces the competition opportunities between the banks.
- The financial sources of investment banks in Turkey are insufficient. This situation affects the amount of financial responsibilities of these banks, especially in the public offerings, in a negative way.

The upper limit of the financial responsibility that the banks, including investment banks, can take through underwriting activities, should not exceed one fifth of total paid-in-capital and retained earnings minus the losses times the coefficient ("10"), which was determined by Capital Market Board. On the other hand, the upper limit of the financial responsibility that the intermediaries can take through underwriting activities, should not exceed total paid-in-capital and retained earnings minus the losses times the coefficient ("10" and cannot exceed 20), which was determined by Capital Market Board.

To sum up, the financial responsibility that an investment bank with TL 50 billion paid-in-capital can take is TL 100 billion, whereas that of an intermediary with TL 10 billion paid-in-capital is again TL 100 billion. Although, the investment banks can be founded with paid-in-capital five times that of an intermediary, the amount of financial responsibility that they can take through underwriting is equal to that of intermediaries.

The reason for this is the additional risk that the banks take due to other banking activities which limits their financial responsibility for underwriting (Türeoðlu, 1991).

In Turkey, commercial banks and firms dealing with investment banking activities are generally preferred. In order to have a sophisticated investment bank branch, more offices should have been established. These offices should be opened, especially, in the places in which industrial activities are developed, because the institutions that demand related services are constructed in such regions.

The most important factor to improve capital markets, is the competition between the banks. Investment banks are being established with insufficient capital in Turkey. Therefore, these banks can not compete with other banks. Thus, this capital amount should have been increased. It is seen that the credits and funds provided from international money markets are the main sources, when the source structures of the investment banks are examined. The foreign partners of the investment banks facilitate the achievement of the mentioned funds from foreign countries.

As a result, it can be seen that the involvement of investment banks' activities in the primary and the secondary markets is in an insufficient level in Turkey. In order to understand the related processes and services of investment banking in our country better, we need an application of this system. Most visible among all investment banking services is the public offerings. There are two cases about examples of public offerings in Turkey, presented next. These cases will help understand the real implementation of investment banking in Turkey.

IV. CASE STUDY I

DARDANEL ÖNENTAŞ GIDA SANAYİ A.Ş.

In this chapter, public offering of Dardanel Önentaş, Inc. is examined in detail. Global Securities, Inc. has made an investment banking activity, as the underwriter, during this public offering. Basically, principals about security offering and the determination of the price of the shares are presented, after giving general information about Dardanel Önentaş, Inc..

IV.1- INFORMATION ABOUT THE CORPORATION

Dardanel Önentaş, Inc. is a corporation that is engaged in food production. It owns 85% of the market for canned tuna fish, in Turkey. Besides, the corporation has the second largest share in the domestic frozen food markets.

The partnership agreements made between Turkey and European Community removed all the obstacles in foreign trading to the member countries. In 1993, 40% of its sales was in Turkey, whereas 60% of the sales was to the foreign countries. The corporation has relatively increased its exports because of the economic crisis, in 1994, in Turkey. The sales coming from exports hedge the company against the risk of recession in domestic market and also against foreign exchange exposure to the raw material imports. Its exports are mainly to all the countries in European Community. Exports constituted 42% of the corporation's revenue, in 1993. This ratio has increased to 55% in 1994.

The number of the personnel working in the corporation for the last 4 years is as follows:

	1991	1992	1993	1994
Number of the personnel	1140	1250	1266	1439

The capital of the corporation consists of 20,000,000 registered shares that have a nominal value of TL 1,000, each.

Main competitors of the corporation in food sector are Kerevitaş, Alaaddin, E.B.K. and Tat Konserve. Dardanel Önentaş dominated 91% of domestic canned fish market in 1993, whereas 81% in 1994. This reduction is because of the increase in the sales of Kerevitaş (Zet Nielsen Business Information Inc. Canned Fish, May 1994).

The investments of the corporation have been completed in the first part of 1994. The amount of the expenditures for the investments totals TL 262 billion. It has the biggest capacity in Turkey. The capacity expansion process will enable the company to meet domestic and export demand. However, there is still a significant working capital requirement due to the nature of the sector. The industry has a very high growth, and low barriers to entry may attract new market entrants, thus, increase competitive environment. Especially, canned tuna fish and frozen food market are very attractive, which may pose a threat of possible new entrants. Dardanel, Kerevitaş, and Tat are only strong players in these markets, where growth potential is in double digits and profit margins are high. Therefore, one must consider the inevitable risk of new competition in these sub-sectors over the medium term.

It is expected that the deep frozen food sector to grow at a higher average rate than the food industry, in Turkey. The reason is increasing demand for pre-packaged and ready-to-cook food products, especially in countries where the percentage of working women in population is increasing.

According to the data published in Panorama of EU (European Union), 1994, demand for processed seafood products has been estimated to grow at 3.5% rate annually between 1993 and 1997. The Panorama of EU assigns a 5% growth rate for frozen fruits and vegetables over the same period.

On the other hand, due to the still-low volume of canned tuna fish consumption, it is expected that the domestic demand for canned tuna fish to grow at an annual rate of 18%. Positively growth factors include the changing life patterns of Turkish people, such as working women and growing health consciousness, decreasing number of shopping trips to grocery stores, along with increasing GNP per capita and urbanization rate.

IV.2- APPLICATION OF THE AUDIT & THE TECHNICAL METHODS

Capital Market Board had selected an auditing corporation; "Yeminli Mali Müşavirlik ve Denetim A.Ş." to have effective audit about Dardanel Önentaş, Inc.. This auditing plan had been made due to the basis of Capital Market Board Law. The plan consisted of the investigation of the position of Dardanel Önentaş, Inc. in food sector. Mainly, the analysis of past financial statements and comparison of the last two periods existed in the auditing plan. In addition, cash flow statements for the last four years had also been taken into consideration where a remarkable increase in profits before taxes for the last period was observed (Appendix IX).

General standard auditing methods were implemented in examining of the balance sheet (Appendix X) of the corporation for the last two periods and the auditing company drew the following conclusions:

- No deficiency was found in the invoice books of Dardanel Önentaş, Inc..

- Registrations of the commercial documents of the corporation were made properly.
- Balance sheet for the first period of 1994 and relevant financial statements of the company were in agreement with the notifications in Capital Market Board Law.

The auditing company informed Capital Market Board of the results of the plan on 12th. of July, 1994.

IV.3- FINANCIAL ANALYSIS

Financial analysis was done by Capital Market Board, before giving the necessary permission to Dardanel Önentaş, Inc. for its public offering. Balance sheets (Appendix X) and income statements (Appendix XI) of the corporation for the last 3.5 years were evaluated in the financial analysis.

After taking into account the general information about the corporation, financial analysis, and considering the results taken from the auditing company, the Board has also been in the consensus that Dardanel had the required sources and a good position in the food sector, with respect to other corporations. Thus, the permission was given to Dardanel Önentaş, Inc. for the public offering.

I) Liquidity Ratios:

	12/31/1991	12/31/1992	12/31/1993	06/30/1994
a) Current ratio	0.93	0.75	0.82	1.01
b) Quick ratio	0.58	0.41	0.39	0.62
c) Cash ratio	0.03	0.01	0.02	0.05

The availability of moneylike assets determines a firm's liquidity. Liquidity ratios, that indicate the solvency of the company to meet its short-term debts and the sufficiency of the company's capital, have shown a floating trend during the three years period. The reason of this floating trend is the need of capital requirements with respect to the growth in the production. These requirements were financed by bank or selling credits.

After all these financial expenditures, profits have diminished. Thus, liquidity of the Corporation could not have an increasing trend. As of 6/30/1994, with a current ratio of 1.01 and quick ratio of 0.62, Dardanel has an average liquidity position. Inventory constitutes a major portion of total current assets, due to the nature of the sector, as can be observed by the lower quick ratios historically.

II) Turnover Ratios:

	1991	1992	1993	06/30/1994
a) Total Asset Turnover	1.75	1.27	1.33	0.99
b) Accounts Receivable Turnover	4.29	3.04	4.18	2.84
c) Accounts Payable Turnover	4.56	3.26	2.91	3.02
d) Inventory Turnover	3.83	2.30	1.79	2.05

These ratios demonstrate a parallel trend relative to the liquidity ratios in the last three years. Company's current assets, consequently actives, have shown an increase with respect to its investments. However, difficulties to finance the current assets, company's capital requirements and insufficient equity cause an inadequacy in effective usage of receivables and inventories.

The half year statement of 1994 exposes a total asset turnover of 0.99, an accounts receivable turnover of 2.84 and inventory turnover of 2.05. It is expected Dardanel's receivable and payable turnovers to be faster. Nevertheless, it is not foreseen an inventory turnover to be more than 3.00 in the near future, since 80% of fruit and vegetable production took place between May and September. It should be stated that turnover ratios carry some level of seasonality, as the Company makes most of its raw material purchases, mostly in cash, during the first half of the years.

III) Leverage ratios:

	1991	1992	1993	06/30/1994
a) Current Liabilities/ Equity	2.50	5.55	5.49	5.63
b) Debt Ratio	0.30	0.36	0.58	0.62
c) Debt-Equity Ratio	0.42	0.57	1.38	1.59
d) Current Liab./Total Liab.	0.85	0.91	0.80	0.78
e) Times Interest Earned Ratio	1.27	1.03	1.05	1.31

The company has been highly leveraged since 1992, when investments started taking place. Dardanel financed most of its expansion through short-term bank loans which created financial bottlenecks and through the proceeds from the public offering. The proceeds caused also the reduction of leverage ratios in 1994.

IV) Profitability Ratios:

	1991	1992	1993	06/30/1994
a) Net Profit Margin	0.04	0.01	0.01	0.05
b) Gross Profit Margin	0.35	0.32	0.47	0.46
c) Return on Total Assets	0.25	0.17	0.31	0.27
d) Return on Equity	0.21	0.04	0.12	0.37
e) Average Collection Period (days)	85	120	88	92

The net profit margin decreased from 4% in 1991 to 1% in 1992 and 1993, as a result of high gearing-financial expenses. These expenses were 30% of net sales as of the year end 1993, and 27% as of 6/30/1994. Dardanel's gross margins improved from 32% in 1992 to 47% in 1993. Then, 1994 first half results show 46% and 5% gross and net profit margins, respectively. The company achieved a 9% net profit margin at the end of 1994, by lowering its financial expenses to 13% of net sales from 27%.

The gross profit margin is expected to remain stable at 40-45% in 1995, although it may likely gradually move towards the lower range of the expectations in the years ahead, as the market matures. Net profit margin is expected to increase in 1995, reflecting the improvement in debt to equity structure, and stabilize thereafter.

IV.4- SECURITY OFFERINGS BY GLOBAL SECURITIES, INC.

Global Securities, Inc. acted as an underwriter in the public offering of Dardanel Önentaş, Inc.. 37.5% of the total outstanding shares of Dardanel were offered to the public via a capital increase from TL 20 billion to TL 32 billion. Nominal value of the shares was TL 12 billion. These shares have been presented to the public through demand collection method with minimum TL 50,000- sale price by Global Securities, Inc..

The type of the securities was (B) group of two-tier stocks. Provisions of Capital Market Board, Code No. 2499 and Code No. 3794 were implemented during this offering. Dardanel's shareholder structure after the IPO (Initial Public Offering) was as follows: Niyazi Önen, 62.5%, and others, 37.5%.

12 million shares were sold to domestic and foreign investors through the intermediary of Global Securities, Inc.. TL 65,000- sale price has come out from demand collection method. The proceeds of the offering would be utilized to pay off Corporation's TL

584.9 billion short-term bank loans. Global would pay off Dardanel's loans to the required banks, before the IPO. Then, it would receive the money back from the corporation after the offering.

Global Securities, Inc. should arrange all texts of advertisements, announcements and notices within the bases established by Serial: I, No: 13 and Serial: VIII, No: 11 of Capital Market Board Law. Shares should take the full advantage of the profit distribution.

IV.5- FACTS ABOUT SECURITY OFFERING

IV.5.1- DURATION OF THE SECURITY OFFERING:

The duration of security offerings was 2 working days. The beginning and ending dates of this period would be indicated in the circulars.

IV.5.2- APPLICATION TYPES

The investors, participating in this public offering, should, first, purchase the shares and deposit the corresponding amount of money into Account No: 0019465-283 of the central branch of Demirbank during the indicated demand collection period. Then, together with the receipt they would get, they should apply to the indicated application places of the underwriter and fill up demand forms to give price offers. The offers could be given on minimum TL 50,000,- or more. The amount of the demand ought to be in lots (multiples of 1,000 shares).

IV.5.3- PRICE EVALUATION

After the offers collected were consolidated by the underwriter, they would be put in an order, beginning from the highest price offer to the lowest price offer. If the demand exceeded the supplied shares, the highest price would be established as the sale price. In this case, all of the investors who had given higher prices, would buy the security shares at this price.

IV.5.4- DISTRIBUTION SYSTEM

In case the total amount of the shares demanded exceeded the amount presented for sale, distribution would be realized beginning from the demand, with the highest price. There might be positions, in which the demands of investors, could not be met in the established price level. In this case, the distribution among the investors who had given the same price offer, would be carried out according to the demand quantities in the demand forms.

The underwriter would finalize the distribution list and send it to the issuer, within 2 working days after the end of demand collection period. Afterwards, Dardanel Önentaş, Inc. would approve the distribution list within 2 working days, and return it to Global Securities, Inc..

IV.5.5- DELIVERY OF THE SHARES

Upon approval of the distribution list by Dardanel Önentaş, Inc., the shares would be delivered to the investors, whose demands were met. The delivery of the shares would be realized at the indicated application centers (branch offices) of Global Securities, Inc.. The price differences of the demands that have been met, and the return of the demands that could not been met, would be paid out at the indicated places of the underwriter. This transaction would be realized, after the approval of the distribution list by the issuer.

IV.6- INFORMATION ABOUT THE SALE

IV.6.1- METHODS DETERMINING THE SHARE'S SELLING PRICE

Global Securities, Inc. has determined the selling price of one share as minimum TL 50,000. Nominal value of each share is TL 1,000. The selling price has been set up by the utilization of the financial statements of Dardanel Önentaş, Inc. and the indicators of stock-exchange. The averages in İstanbul Stock-Exchange and the market ratios of the securities belonging similar companies traded in the stock-exchange, were evaluated comparatively. Besides, expected market ratios of the years; 1993 and 1994, were also taken into account while determining of the price of one share. The data for İstanbul Stock-Exchange and similar companies was taken as of 18th. of July, 1994.

Global Securities, Inc. has mainly applied "price-earnings ratio" method in the public offering of the stocks. This method is one of the most widely used price multiples in determining the relative price of a stock. P/E (Price-earnings) is defined as the ratio of the current stock price to after-tax earnings per share of the company. P/E ratio is an indicator of the investors' expectations about both the company's performance relative to the other companies in the market and the stock market's performance itself. A positive economic environment in the stock market would drive the P/E ratio of all the stocks upward. On the other hand, the company's and/or its sector's higher growth and profitability potential would cause the P/E ratio of the company to be higher than the stock market and/or sector average (FINANSBANK, 1992).

Indicators of the price evaluation:

The number of the shares offered: 12 million

Total number of the shares at the end of 1993: 20 million

Paid-in-capital at the end of 1993: TL 20 billion

Net profit at the end of 1993: TL 6,855,505,000

I) Price-Earnings Ratios:

Net profit in 1993: TL 6.9 billion

Number of shares at the end of 1993: 20 million

Earnings per share (net profit/nb. of shares) in 1993: TL 343

Average P/E ratio of Istanbul Stock-Exchange in 1993: 18.3

Average of P/E ratios of food sector according to the sector's profit in 1993: 53.9

Price-earnings ratios of the similar companies, in 1993:

Tat Konserve:	72.5
Kerevitaş:	107.3
Pınar Et:	18.2
Migros:	120.9
Usaş:	28.2
Pınar Su:	40.9
Maret:	45.0

II) Expected price-earnings ratios:

Expected net profits in 1994: TL 202 billion

Total number of the shares: 32 million

Earnings per share : TL 6,312

Average P/E ratio of Istanbul Stock-Exchange in 1994: 12.6

Average of P/E ratios of food sector according to the sector's profit in 1994: 15.2

Expected price-earnings ratios of the similar companies, in 1994:

Tat Konserve:	8.2
Kerevitaş:	18.9
Pınar Et:	18.2
Migros:	22.3
Usaş:	5.2
Pınar Su:	18.8
Maret:	19.1

III) Market to Book Ratios:

Market to book value ratios have been also used in determining the price of a share of the company. MBV (Market to book value) ratio is another price multiple which is used to estimate the relative price of the company's share. MBV is defined as the ratio of the company's current stock price to its book value (shareholders' equity) per share. Different accounting methods used by companies is a shortcoming of this valuation method. Book value of the company could be calculated by subtracting the company's debt and obligations from its assets, as reported on its balance sheet (FINANSBANK, 1992). However, the valuation method of stocks and depreciation methods employed could significantly affect the reported value of the assets. In Turkey, employment of asset revaluation is another factor affecting the book value of the company. The following values were taken into account for analyzing market to book ratios of both Dardanel Önentaş, Inc. and the similar companies in food sector:

Book value (equity/ nb. of shares) of the issuing firm in 1993: TL 3,396

Book value of the issuing firm in 06/30/1994: TL 7,157

Average of the market to book ratios for Istanbul Stock-Exchange, in 1993: 5.5

Average of the market to book ratios for the food sector, in 1993: 21.5

Book values (TL) of similar companies in 1993:

Tat Konserve:	3,539
Kerevitaş:	2,709
Pınar Et:	2,454
Migros:	10,339
Usaş:	9,787
Pınar Su:	3,577
Maret:	5,008

Market to book ratios of similar companies, traded in the stock-exchange, in 1993:

Tat Konserve:	33.5
Kerevitaş:	36.7
Pınar Et:	1.8
Migros:	60.7
Usaş:	61.4
Pınar Su:	4.8
Maret:	3.3.

The reason of taking the mentioned values of similar companies in food sector was to form a reference group and to have a general opinion about other corporations in the sector before determining the selling price. As seen, average of the market to book ratios of the corporations is higher than the market to book ratio for İstanbul Stock-Exchange. However, this is not an affirmative situation. The ratio should be lower than the ratio for İstanbul Stock-Exchange in order to appeal to preferences. Therefore, a lower market to book ratio, thus, a convenient stock price for this ratio should be set for Dardanel Önentaş, Inc..

According to all the ratios given above, some estimations were made about the value of one share of Dardanel Önentaş, Inc. by the underwriter:

- The price obtained from the average price-earnings ratio of Istanbul Stock-Exchange according to the profit of Dardanel, in 1993: TL 6,273 (343*18.3)
- The price obtained from the average of price-earnings ratios of food sector according to the sector's profits, in 1993: TL 18,488 (343*53.9)
- The price obtained from the average market to book ratio of Istanbul Stock-Exchange in 1993: TL 18,677 (3,396*5.5)
- The price obtained from the average price-earnings ratio of Istanbul Stock-Exchange according to the estimated profit of Dardanel, in 1994: TL 79,531 (6,312*12.6)
- The price obtained from the average of price-earnings ratios belonging to food sector according to the estimated sector's profits, in 1994: TL 95,943 (6,312*15.2)

Analysis of the scenario:

Expected profit in 1994: TL 202 billion

There was a belief of high profits, because revenue, that was obtained after the public offer, would be added to the capital of Dardanel Önentaş, Inc.. Consequently, the shares of the company will appreciate.

Besides, the money received from IPO would be used to finance the short-term bank loans of the corporation. Therefore, savings would be made in the financial expenses belonging to the second period of 1994. Thus, 1994 profit of TL 202 billion for Dardanel Önentaş, Inc. was estimated by the underwriter.

Before the unit price of each Dardanel Önentaş, Inc. share was settled by the demand collection method, an initial price was to be determined by Global Securities, Inc..

Meanwhile, the price-earning ratio that was used in calculating this initial price was to be below the average price-earning ratio of Istanbul Stock-Exchange; 12.6, in order to appeal to the public in the beginning of IPO. Note that the price obtained from the average price-earnings ratio of Istanbul Stock-Exchange according to the estimated profit of Dardanel, in 1994 was TL 79,531 as indicated above. Therefore, the price-earning ratio was determined to be "9" which was almost 75% of the average price-earnings ratio of Istanbul Stock-Exchange. However, due to the uncertainty in the process, lower and upper limits; "7" and "11" respectively were chosen instead of a single value. The estimated prices of one share are presented in the following table:

Price-Earnings ratio	*Price (TL)*
7	44,184 (6,312*7)
9	56,808 (6,312*9)
11	69,432 (6,312*11)

On account of these expectations and the evaluation of the ratios, Global Securities, Inc. has calculated the price-earnings ratio between 7 and 11. Thus, the price of one share would be between TL 45,000 and TL 70,000. As a result, Global Securities, Inc. has determined the price of one share as minimum TL 50,000.

IV.6.2- KIND OF THE INVESTMENT BANKING ACTIVITY

The type of the underwritten offering was "best-efforts" deal. Global Securities, Inc. would provide only technical and marketing assistance to the issuing firm. Dardanel Önentaş, Inc. would have all of the risk with respect to price per share and total proceeds. Technical and marketing payments would also belong to Dardanel Önentaş, Inc..

Because of the possibility of error on the part of sources, Global Securities, Inc. could not guarantee the accuracy, adequacy, or completeness of any information and could not be held responsible for any errors or omissions or for results obtained. There might also appear opinions which might of non factual nature and subject to change, and for Global Securities, Inc. would not accept responsibility.

IV.7- COSTS OF THE CORPORATION

Dardanel Önentaş, Inc. has expected to make TL 30 billion expenditure during the public offering: After the sale, the corporation should pay 0.03% of the revenue as Capital Market Board Fund Cost. Furthermore, it should pay 3.5% of the revenue as the commission to Global Securities, Inc.. Finally, 0.01% of the revenue had been expected to be paid for advertisement expenditures, other taxes and duty stamps.

IV.8- AGREEMENT BETWEEN THE CORPORATION AND THE UNDERWRITER

Subject of the agreement:

"Offering outstanding shares of Dardanel Önentaş, Inc. to the public via a capital increase from TL 20 billion to TL 32 billion, within the framework of Code No. 3794, and the regulations of Capital Market Board" was taken as the subject of the agreement. The capital increased in cash, would be sold to domestic and foreign shareholders through public offering, or to foreign shareholders through block sale.

Delivery of the shares and paying back the sale costs:

Global Securities, Inc. would deposit the sum of money obtained from IPO to a predetermined bank, within 3 days following the delivery of the shares to the owners. This process would be done after deducting the commission, necessary taxes, and duty stamps required to be paid. Dardanel Öuentaş, Inc. would choose the mentioned bank branch.

The shares would be printed by Dardanel Öuentaş, Inc. according Code: 1, No: 5 of Capital Market Board Law. Global Securities, Inc. would deliver these shares to the investors. After demand collection method, if TL 50,000-minimum price had been formed as the share's price, Global Securities, Inc. would have given the money back to the investors, who had bidden a higher price than TL 50,000 in their demand forms.

The intermediary role of the underwriter:

Global Securities, Inc. would have no risk in this offering, no responsibility for the advisory services done by other institutions either. If Global Securities, Inc. had demanded declaration, opinion or comfort letters from foreign independent auditing companies and from international law offices, Dardanel Önentaş, Inc. should have paid all the related expenses. The costs of documents and approvals taken from independent auditing companies, about this public offering would also belong to Dardanel Önentaş, Inc..

Global Securities, Inc. would present its services according to Code No. 2499 and the procedures in Code No. 3794 of Capital Market Board Law. However, underwritten activities by Global Securities, Inc. would first of all depend on the permission which Dardanel Önentaş, Inc. would take from Capital Market Board. The Board would, first take into account the information about the corporation mentioned in section IV.1. In addition, it would investigate the balance sheets and income statements of the corporation belonging to the last years. After Dardanel has taken the required permission, the agreement between the cooperation and the underwriter would take place.

Costs of underwritten offerings:

Every kind of tax, expenditure and money paid to the government for the public offering would belong to the issuing company. In addition, Dardanel Önentaş, Inc. would pay all the advertisement and announcement costs about the securities. Besides, the issuing company would have no right to make any advertisement activity without taking the written permission of Global Securities, Inc.. On the other hand, the underwriter would have all the rights to present every kind of explanatory information about the security, to the public.

V. CASE STUDY II

MUTLU AKÜ VE MALZEMELERİ SANAYİ A.Ş.

In this chapter, public offering of Mutlu Akü, Inc. is examined in detail. Karon Securities, Inc., Birleşik Türk Körfez Bank, Dışbank, Finansbank, Garanti Investment and Commercial Bank, and İktisat Bank have formed a consortium for this investment banking activity. After giving general information about the company and dealing with the financial analysis, determination for the price of one share of Mutlu Akü, Inc. and the necessary agreements are discussed.

V.1- INFORMATION ABOUT THE COMPANY

Mutlu Akü, Inc. is the leader in the market for car batteries. The company was established on 01/26/1945. In 1970's, it was decided to make production near major potential market areas for car batteries in order to reduce the cost and to increase the productivity, by establishing new sister companies which were later incorporated as "Mutlu Holding Company".

Car batteries are divided into two parts; starter and industrial car batteries. Mutlu Akü, Inc. has 65% of the market for industrial car batteries. Its main competitors in this sector are E.A.S. Akü and Start Akü. In addition to 30% of the starter car batteries domestic market, Mutlu Akü, Inc. has been selling its products to foreign countries. The main competitors in this sector are İnci Akü, Çelik Akü, Yiğit Akü, E.A.S. Akü and Esan Akü. Besides, there are nearly 2000 small producers having lower price and quality products. İnci Akü has 10% and Çelik Akü has 8% of the starter car batteries market in the country. Small producers and import products possess the other 60% of the market.

Production according to the demand in the market, product variety, effective activities in the sector, giving importance to service-after-sale and modernization investments are the reasons for the leadership of Mutlu Akü, Inc. in the automotive industry. The sales of the company in the last years are as follows:

Name of the product	1991	1992	1993	04/30/1994
Starter Car Batteries (units)	415,117	538,798	749,055	203,511
Industrial Car Batteries (tons)	605	578	490	65

V.2- APPLICATION OF THE AUDIT & THE TECHNICAL METHODS

Capital Market Board had selected an auditing corporation; "Güreli Yeminli Mali Müşavirlik A.Ş." to have effective audit about Mutlu Akü, Inc.. The auditing plan had been made due to the basis of Capital Market Board Law. The evaluation of the balance sheet belonging to "04/30/1994" period (Appendix XII) had been done in the auditing plan. Besides, growth profit rates of the company for the last years had been also taken into account in the auditing plan:

Growth rates:

	12/31/1992	12/31/1993	04/30/1994
a) Net Sales	26%	115%	(4%)
b) Operational Profit (loss)	90%	209%	11%
c) Net Profit (loss)	129%	164%	-
d) Gross Profit/ (Nb. of shares)	5%	47%	45%

In addition, the auditing company had also investigated the short-term and long-term bank credits of Mutlu Akü, Inc. and payment conditions (Appendix XIII). It had been also found that there was no note payable of the company. Moreover, there had not been any change which might effect the fiscal and commercial position of the company after the announcement of the financial tables belonging to the last period.

After all these inquiries, the auditing company had affirmative conclusions about Mutlu Akü, Inc. provided that the company would rectify its financial tables, because the required severance payment amount of TL 15,592,138,078, as required by Capital Market Board Serial: XI, Notification: 1, Code: 47, did not exist in company's income statements. On the other hand, the balance sheet as of 04/30/1994 and the required documents were found to conform to Capital Market Board Law.

V.3- FINANCIAL ANALYSIS

Capital Market Board had done the financial analysis before giving the necessary permission to the public offering of the company. Balance sheets (Appendix XII) and income statements (Appendix XIV) of Mutlu Akü, Inc. for the last years were evaluated in the financial analysis. After taking into account the general information about the company, financial analysis, and considering the results taken from the auditing company, the Board had given the permission to Mutlu Akü, Inc. for its public offering.

I) Liquidity Ratios:

	12/31/1991	12/31/1992	12/31/1993	04/30/1994
a) Current ratio	2.47	1.92	1.79	1.48
b) Quick ratio	1.65	1.42	1.26	0.87
c) Cash ratio	0.31	0.22	0.11	0.04

Liquidity ratios demonstrate a diminishing trend because of the increase in the fixed investments of Mutlu Akü, Inc.. It is necessary to make investments in order to go parallel with the sophisticated technology and the competitors in the car batteries sector. Therefore, the falling trend in liquidity ratios does not show a pessimistic trend. Moreover, the company has no difficulty to meet its short-term loans.

II) Turnover Ratios:

	1991	1992	1993	04/30/1994
a) Total Asset Turnover	2.27	1.55	1.48	1.11
b) Accounts Receivable Turnover	5.71	3.43	3.74	4.45
c) Inventory Turnover	7.27	6.31	5.32	2.76

Total asset and inventory turnover ratios show a parallel diminishing trend relative to the liquidity ratios. Because of the company's capital requirements, new investments have been going to be made, and this occasion has caused the falling trend in liquidity and turnover ratios. On the other hand, accounts receivable turnover ratios have increased. Thus, financing the investments would not be so difficult for the company.

III) Leverage Ratios:

	1991	1992	1993	04/30/1994
a) Total Liabilities/ Equity	0.34	0.92	0.90	1.07
b) Debt Ratio	0.22	0.16	0.19	0.29
c) Debt-Equity Ratio	0.29	0.20	0.24	0.40
d) Current Liab./ Total Liab.	0.30	0.38	0.35	0.32
e) Times Interest Earned Ratio	2.39	3.39	4.81	2.21

Leverage ratios, which show the availability of the company to finance its investments, have indicated a stable improvement within the last years. The increase in the capacity of Mutlu Akü, Inc., the modernization in its technology and new investments have caused the sources of the company transferred into the financing of the investments.

IV) Profitability Ratios:

	1991	1992	1993	04/30/1994
a) Net Profit Margin	0.06	0.08	0.09	0.09
b) Gross Profit Margin	0.21	0.24	0.34	0.51
c) Return on Total Assets	0.45	0.38	0.47	0.20
d) Return on Equity	0.26	0.36	0.41	0.13
e) Average Collection Period	63	105	96	81

Profitability ratios have demonstrated an increase every year. The growth in the capacity usage of the company, thus diminishing unit costs, and giving importance to exports in the company's policy are the reasons of the increase in the profitability.

V.4- UNDERWRITERS

As mentioned before; Karon Securities, Inc., Birleşik Türk Körfez Bank, Dışbank, Finansbank, Garanti Investment and Commercial Bank, and İktisat Bank, were the underwriters in the public offering of Mutlu Akü, Inc.. Karon Securities, Inc. was the administrator and the controller of the consortium.

Paid-in-capital of the issuing company was TL 75 billion (38.3% registered, 61.7% to holder), and 15% of this amount would be offered to the public by the intermediary of the consortium. Nominal value of the shares was TL 11.25 billion.

The preferred demand collection method in the public offering of Mutlu Akü, Inc. was "receiving price offer" technique. The investors would fill out the demand forms including the minimum acceptable quantities and price offers starting from the minimum selling price determined as TL 30,000 within 2 days of demand collection period. Then, they would deposit the amount of money corresponding to the value of demanded shares to the selected branch offices of Karon Securities, Inc. or the other consortium members.

Karon Securities, Inc. determined the sale price as minimum TL 30,000. Price offers over this price have been collected. After the price evaluation of Karon Securities, Inc. and the application of the demand collection method, TL 45,000 has come out as the sale price. Investors would buy their shares at this price. After the sale, TL 506.250 billion would be collected.

The type of the securities was 1st. issue bearer shares. Provisions of Capital Market Board Law, Code No. 2499 and Code No. 3794, Serial: VIII, No: 22 were implemented during the public offering of Mutlu Akü, Inc..

V.5- INFORMATION ABOUT THE SALE

V.5.1- SELLING METHOD USED IN THE INVESTMENT BANKING ACTIVITY

The selling price of one share of Mutlu Akü, Inc. has been set up by the application of net present value rule. The other name of this rule in Turkey is "Shareholder Value Analysis". The economic value of the company is the sum of the value of that company and its equity. This economic value has been named as "company value" and the value of the company's equity portion has been named as "shareholder value".

According to the shareholder value analysis, the value of a company is the present value of expected cash flows to be generated by the operations of the company in the years ahead (for a period of 5 years in our case). Each year's cash flow has been found as follows: First, the sum of the tax payments of the previous year, the fixed investment payments and the increase in the capital of the company of the same year have been subtracted from that year's gross profit. Then, the depreciation of the relevant year has been added to the resulting amount.

Finally, the computation of the company value can be given by the following formula:

$$CV = \sum_{i=1}^{n} \frac{CF_i}{(1+r)^i} + \frac{CF_i * (1+g)}{(r-g)(1+r)^i} - MVD + MVS$$

In this formula; CF = Free cash flow

r = Discount rate

g = Cash flow growth rate

MVD = Market value of short/ medium/ long term bank debt

MVS = Market value of securities

The first component of the above formula is made up of the sum of the cash flows estimated for each of the next five years (in our case). The second component, which is called the residual value, estimates the present value of the constant cash flows over an infinite period of time after the first five years. The residual value is calculated from the free cash flow of the last projection year. It is assumed at after the projection period, the company would have zero rate of growth on the average and, thus, there would be no requirement for an increase in working capital and for fixed capital investment. In this calculation the assumption is that after the forecast period the company will earn, on average, at a rate equal to the cost of capital on new investments. The residual could also be estimated by assuming price-earnings or market to book value ratios for that year. The proper choice of the discount rate plays an important role within this method.

The third component of the formula includes the market value of debt, unfunded pension liabilities and the market value of other claims. For a more precise estimation of company value, a fourth component will also be included: the current value of marketable securities and other investments that can be converted to cash and are not essential to operating business. Neither these investments, nor the income from them is included in cash flows from operations. Nonetheless, these investments clearly have value; thus, they have to be included in developing the company value estimates.

The strategic financial plan of Mutlu Akü, Inc. for the period between 1995-1998 has been set up taking current prices into account (Appendices XV to XXIII). After the evaluation of the strategic plan, the cash flows of each year have been discounted with the forecasted inflation rates. When the perpetuity factor has been taken as 7%, TL 1,000 value of one share of Mutlu Akü, Inc. has been projected to TL 35,201.

Shareholder Value Analysis	12/94	12/95	12/96	12/97	12/98
(+) Financial Exp. and EBIT	320,629	567,494	1,145,069	2,135,262	3,588,218
(-) Cash Taxes (t - 1)	4,292	29,448	75,540	164,572	312,928
(+) Depreciation & Amortization	37,742	78,606	164,916	304,315	557,925
(-) Capital Expenditures	67,652	70,840	705,632	926,785	2,211,230
(-) Net Working Capital Requirements	111,023	302,996	436,409	792,513	520,392
(=) Free Cash Flow	175,404	242,815	92,404	555,708	1,101,593
Discount Rate (opportunity cost of capital)	70.0%	80.0%	70.0%	60.0%	50.0%
Discount Factor	1.304	2.281	3.990	6.580	10.194

	12/94	12/95	12/96	12/97	12/98
(+) Present Value of Operating Cash Flows	456,668				
(+) Present Value of Residual Value	2,273,071				
(+) Non-operating Assets	207,812				
(-) Debt	297,513				
(=) Shareholder Value (TL million)	2,640,038				
(=) Shareholder Value ($ million)	$88.00				
Shareholder Value per share (TL)	35,201				
Shareholder Value per share ($)	$1.17				

Karon securities, Inc. has determined the selling price of one share as minimum TL 30,000 as the result of all these analyses. Earnings per share with respect to the expected profit as of 12/31/1994 was taken as 2.225. Thus; Price-earnings ratio has become 13.48 (i.e. 30,000/2.225). Since average expected price-earnings ratio of the shares transacted at İstanbul Stock-Exchange was "15", shares of Mutlu Akü, Inc. would be offered to public 10% cheaper than the market average.

V.5.2- KIND OF THE INVESTMENT BANKING ACTIVITY

The type of the underwritten offering was "stand-by underwriting". In this IPO, Karon Securities, Inc. would provide technical and marketing assistance to Mutlu Akü, Inc.. In addition, Karon Securities, Inc. agreed to purchase the unsold part of the stocks of Mutlu Akü, Inc. at the established price of TL 45,000 for resale to the public. Karon Securities, Inc. took an additional commission from Mutlu Akü, Inc. with respect to giving this guarantee.

V.6- AGREEMENT BETWEEN THE COMPANY AND THE CONSORTIUM

<u>Ground rules of the public offering:</u>

a) Shareholders should submit their shares to Karon Securities, Inc. or to a bank; selected by the shareholders among branch offices of other members of the consortium, 3 days prior to the announced demand collection date.

b) Karon Securities, Inc. or the selected bank branch would determine that the shares submitted have the same bearer and group properties as the shares offered to the public. After controlling the shares' properties, underwriters would inform the shareholders.

c) Karon Securities, Inc. or the selected bank branch would have no responsibility for the possible defects in printing the shares of Mutlu Akü, Inc., faults in reiterated numbering of the shares and similar mistakes.

d) Demand collection period would be 2 working days . The beginning and ending dates of this period would be indicated in the circulars.

e) The shares of Mutlu Akü, Inc. would be sold in stated branches of Karon Securities, Inc. and other bank members of the consortium.

f) Karon securities, Inc. would prepare and submit the distribution list for the certification of the shareholders.

g) The selected sales representatives would deduct intermediary and sales commissions, banking & insurance tax, and all legal expenditures of the public offering, from the sales revenues. Then, the representatives would deposit the sales revenues next working day following the approval of the distribution list, in any case not later than 4 working days since the public offering of the shares, to Karon Securities, Inc. or the other consortium bank members. At the following working day, Karon Securities, Inc. or the other consortium members would pay the amount of money obtained from public offering to the shareholders.

Cost of underwritten offerings:

a) Shareholders should pay 3% of the revenue, from the shares that would be sold, as underwriting commission to Karon Securities, Inc. After getting approval from the shareholders, Karon Securities, Inc. would freely determine the commission revenues, that the other consortium members would get, in the syndication agreement.

b) If there were unsold shares at the end of the public offering period, Karon Securities, Inc. would buy these shares. Nevertheless, the shareholders would pay another 3% commission for the purchasing of the company's unsold shares to Karon Securities, Inc..

c) Every kind of tax, expenditure and money paid to the government for the public offering would belong to the shareholders of Mutlu Akü, Inc..

The above agreement was done on 06/27/1994 between Mutlu Akü, Inc. and the consortium.

V.7- SYNDICATION AGREEMENT

Commission revenues:

Every consortium member would get net 1.5% commission revenue for the selling amounts they have realized. Every kind of tax and expenditure about these commissions would be met by the shareholders.

Demand Collection:

Consortium members should inform Karon Securities, Inc. of the details of the average price evaluation and the demand forms at the first day of the demand collection period. In response, Karon Securities, Inc. should announce every information about the public offering to the consortium members.

After getting the demand forms from its branch offices and from the consortium members, Karon Securities, Inc. would consolidate these forms and put in an order; beginning from the highest price offer to the lowest price offer. If the demand exceeded the supplied shares, the highest price would be established as the sale price. In this case, whole of the investors who had given higher prices, would buy their shares at this price.

Distribution system:

In case the total amount of the shares demanded at the established price level, exceeded the amount offered for sale the following procedure would be applied:

- First of all, all demands of the investors that specified higher price levels in their demand forms than the established price level would be met.
- If there were demands of more than one investor at the established price level, the distribution of the shares would be carried out starting from the investor that demanded the highest lot quantity in his demand form.
- If the remaining number of shares did not satisfy the minimum acceptable lot quantities indicated in the demand forms of any investor, at any instant during the distribution process, the demand concerning this investor would be extracted from the distribution list. And, the distribution process would keep on.

Distribution list would become ultimate after the approval of the shareholders of the issuing company. Mutlu Akü, Inc. would inform the certified distribution list, within 2 working days after the selling period, to Karon Securities, Inc.. Finally, Karon Securities, Inc. would announce the distribution list to the investors.

<u>Sales revenue:</u>

Consortium members would deposit the money they got from the sale of the shares in account named "Account for the public offering of Mutlu Akü, Inc.", No: 30421522 of the "Kartal" branch office of Dışbank.

If the payments were not deposited on time to the mentioned bank branch, the consortium member that was behind the schedule, would pay an extra interest calculated from the default interest at the same day. Besides, the consortium member should met all the loss, arising from this delay, for Karon Securities, Inc. and the other consortium members.

<u>Delivery of the shares:</u>

Karon securities, Inc. would deliver the number of shares, corresponding to the amount of sale that each underwriter has realized, to the consortium members at the day following the approval of the distribution list by the shareholders. Karon Securities, Inc. and the consortium members would either reserve these shares for the investors or hand them over to the investors.

The above agreement was done on 08/03/1994 among the consortium members.

V.8- CAPITAL INCREASE OF MUTLU AKÜ, INC.

After the initial public offering for Mutlu Akü, Inc., board of directors of the company decided to increase its capital from TL 75 billion to 225 billion on 10/21/1994. This increase in capital would be financed through different resources as shown in the following table:

	TL Billion
Present Paid-in-Capital	75
Increase in Cash	37.5
Increase in Fixed Assets	44.855
Increase in Revaluation Fund	67.645
Total Paid-in-Capital	225

Karon Securities, Inc. has done the underwritten activities in this capital increase. After the capital increase, two-tier stocks of TL 150 billion have been registered in Capital Market Board upon carrying out the procedures described below.

V.8.1- FINANCIAL ANALYSIS

Referring to the financial analysis specified in section V.3, and taking company's balance sheet (Appendix XXIV) and income statement (Appendix XXV) as of 09/30/1994 into consideration, Capital Market Board has drawn the following conclusions:

- The company has a stable financial structure. Bank credits constituted 15.62% of total liabilities as of 09/30/1994. Long-term loans of the company were the credits from 'Sınai Yatırım Kredi Bankası', 'Dışbank' and 'İktisat Bankası'.
- Investments constituted 37% of total assets. Among these, the construction of the company's new plant would be finished in 1995.
- Gross sales of the company have increased 26% in 1992 compared to the previous year and 115% in 1993. In the last three years and the first 9 month period of 1994 exports constituted 30%, 9%, 26% and 38% of total gross sales respectively.
- The financial expenses that totaled TL 20.536, 22.699, 43.962 billion between 1991 and 1993 became TL 97.714 billion in the first 9 month period of 1994. These financial expenses composed 8%, 7%, 6.5% and 13.3% of gross sales of the years mentioned above.

Finally, Capital Market Board has been in consensus that Mutlu Akü, Inc. satisfied the legal requirements after considering the financial analysis and the results obtained from the auditing company mentioned in section V.2. Mutlu Akü, Inc. was found to have the sufficient liquidity and rising profits. The revenue via capital increase would be used to finance the current investments.

V.8.2- INFORMATION ABOUT THE SALE

- Beginning and ending dates of the sale period were determined as follows:

  Pre-emptive right period : 11/18/1994-12/02/1994

  Sale period of the remaining shares: 12/08/1994-12/13/1994
- The shares offered for sale had a total nominal value of TL 37.5 billion and their sale price total was TL 37.704 billion.
- The total nominal value of the shares sold to the shareholders during the pre-emptive right period was TL 37.450 billion. On the other hand, the total nominal value of the shares offered to the public through stock-exchange was TL 50 million.
- The amount of new shares that the shareholders were allowed to buy during pre-emptive right period was restricted to the 50% of the shares they owned. The nominal value of one share was TL 1,000 and it would be offered to the shareholders at this price.

The shareholders would deposit the amount of money required to buy their new shares to Kartal, İstanbul branch office of Dışbank. Furthermore they would submit a copy of the cash receipt to Mutlu Akü, Inc.. If any shareholder failed to pay for the new shares during pre-emptive right period, his demand would not be taken into consideration.

If any shareholder did not want to use his pre-emptive right, he could sell his rights corresponding to the quantity indicated by the coupon on his stock to another shareholder. After the shareholders used their pre-emptive rights, unsold shares would be offered to public at İstanbul Stock-Exchange. The sale price of one share of TL 1,000 nominal value each would be the price established at İstanbul Stock-Exchange. This price should be higher than the nominal value of a share.

The investors, who wanted to have shares in the capital increase of Mutlu Akü, Inc., would apply to one of the banks or intermediaries that were members of İstanbul Stock-Exchange and were allowed to make transactions at the stock-exchange. The application of the investors should be realized during the public offering of 5 working days period.

V.8.3- METHODS OF DETERMINING SALE PRICE AT THE STOCK-EXCHANGE

At the stock-exchange, the selling price of a share of a company that desires to increase its capital is calculated in two different ways according to the date of dividend payments, and whether the company is subject to "authorized" or "paid-up capital" system (Sermaye Piyasası ve Borsa Temel Bilgiler Kılavuzu, 1994).

When a company such as Mutlu Akü, Inc. is subject to "paid-up capital system", scrips are given to the shareholders in return for using their pre-emptive rights. From the beginning date of the capital increase, old shares will be traded in the stock-exchange having the rights of bonus shares. This process will continue till the new shares are printed and distributed to the shareholders.

If dividend payments are realized during capital increase, the opening price of the share, having the rights of bonus shares, is calculated through the following formula:

$$P = [(P_{(av)} + n_2S - D) / (1 + n_1 + n_2)] * (1 + n_1)$$

If it is decided to pay the dividends in a future date after capital increase, the opening price of the share, having the rights of bonus shares, is then calculated through the following formula:

$$P = \Big[\ [(P_{(av)} + n_2S - D) / (1 + n_1 + n_2)] * (1 + n_1)\ \Big] + D$$

where;

$P_{(av)}$: Last average weighted price

n_1 : Coefficient of non-fully-paid stock

n_2: Coefficient of fully-paid stock

D: Dividend payout ratio

S: Pre-emptive right usage price of a share having TL 1,000 nominal value

Mutlu Akü, Inc. decided to pay the dividends in a future date after capital increase. The dividend payout ratio of the company at the date of capital increase was taken as zero. Thereafter, the dividend ratio was determined as 75.04% on 03/05/1995, and the dividend payments were decided to be realized within 3 months period. Then, this ratio was changed as 78.97% on 04/27/1995, because of the recalculation of income and corporate taxes of the issuing company.

The opening price of one share, having the rights of bonus shares, of Mutlu Akü, Inc., at İstanbul Stock-Exchange on 11/18/1994 was calculated as follows:

$$P = \Big[\, [(26{,}000 + 0.5(1{,}000) - 0) / (1 + 1.5 + 0.5)] * (1 + 1.5) \,\Big] + 0 = \text{TL } 22{,}083$$

where;

Date of the capital increase: 11/18/1994

Issue rate in fully-paid stock: 50%

Issue rate in non-fully-paid stock: 150%

Dividend payout ratio of the company: 0

Average weighted price at İstanbul Stock-Exchange on 11/17/1994: TL 26,000

Two-tier stocks representing TL 150 billion capital increase would be distributed to the shareholders, in return for the scrips given during pre-emptive right period for fully-paid stocks, and in return for the coupons corresponding to the rights of bonus shares for non-fully-paid stocks, at one of the branches of Mutlu Akü, Inc., since 12/27/1994. After this date, the shares would no longer have the rights of bonus shares.

The closing price of the share of Mutlu Akü, Inc. at İstanbul Stock-Exchange on 12/26/1994 was TL 13,750. When the coupon, representing the rights of bonus shares, was detached from the share, the opening price of the share, after pre-emptive right period, on 12/27/1994 was determined as follows:

P = [14,137 / 2.5] = TL 5,655

where;

Issue rate in non-fully-paid stock: 150%

Average weighted price at İstanbul Stock-Exchange on 12/26/1994: TL 14,137

Upper and lower limits were specified according to TL 5,655 in the stock-exchange. The closing price of the share was TL 5,700 on 12/27/1994.

V.8.4- UNDERWRITER

Karon Securities, Inc. has been assigned as the underwriter. However, there was no price evaluation of the underwriter in this case, since the price would be established at İstanbul Stock-Exchange after the pre-emptive right period. The agreement between Mutlu Akü, Inc. and Karon Securities, Inc. is given below:

Execution of the underwriting activities:

The type of the underwritten offering was "best-efforts" deal. Karon Securities, Inc. would have no responsibility in this activity except the sale of the shares at the stock-exchange. Karon Securities, Inc. did not guarantee that the securities would be sold or that Mutlu Akü, Inc. would get the cash it needed. Mutlu Akü, Inc. would have all of the risk with respect to price per share and total proceeds. All technical and marketing payments, advertisement expenditures would also belong to Mutlu Akü, Inc..

Karon Securities, Inc. would collect the equivalents of the shares sold and would deposit the money to the blocked account opened in the name of "Ministry for Industry and Trade" at "Kartal, İstanbul" branch of Dışbank. The shares would be offered for sale for 5 working days at the stock-exchange in accordance with the regulations of Capital Market Board and İstanbul Stock-Exchange. The shares would be sold at market prices provided that the selling price would not go under the nominal value of the shares.

<u>Commission revenue:</u>

Following the completion of the selling of the shares at İstanbul Stock-Exchange, the commission revenue would be calculated and charged by Karon Securities, Inc. over the total amount of all sales at 0.25 % rate.

After the sale of the shares at İstanbul Stock-Exchange, Mutlu Akü, Inc. would buy the unsold shares within 3 working days following the public offer period. The purchase price of one share would be determined according to the average weighted price realized at the primary market of İstanbul Stock-Exchange at the last day of the public offering.

VI- COMPARISON OF TWO CASE STUDIES & RECOMMENDATIONS

In this section, a brief comparison of the public offerings of Dardanel Önentaş, Inc. and Mutlu Akü, Inc. shall be given. To begin with, the type of investment banking activity is different in two public offerings. "Best efforts deal", in which the underwriter carries no responsibility for price per share and total proceeds, was applied in IPO of Dardanel Önentaş, Inc., while "stand-by underwriting", in which the underwriter takes the responsibility for purchasing the unsold part of the stock at a particular price for resale to the public, was preferred in IPO of Mutlu Akü, Inc.. As a matter of fact, these two methods are rather popular than private placement and firm commitment in the public offerings of securities, in Turkey. Examples of "stand-by underwriting" are rarely observed in foreign countries. However, this type of investment banking activity is widely used in public offerings of stocks in Turkey.

Next, it is worthwhile to point out that, there was only one underwriter in the first case as opposed to the consortium in the public offering of the second case. In return, several differences were observed in the evaluation of the commission revenues.

As mentioned earlier, for the public offering of the stocks, investment banking firms should either implement "demand collection" or "sale in stock-exchange" method, in Turkey. Sale without collecting the demands of the investors was forbidden after Capital Market Board Law; Code No. 3794 which was effective on 10/27/1993. In both public offerings, "demand collection" by "receiving price offer" technique was preferred. In this technique, first a minimum price was set by the underwriter, then the actual price of a share was established after receiving price offers.

On the other hand, "sale in stock-exchange" method was performed in the capital increase of Mutlu Akü, Inc.. In this method, the underwriter took no responsibility for the determination of pricing the stock. The price of the stock was determined in the stock-exchange.

Setting the appropriate price on the stock is the most crucial point in the investment banking process; during and after the public offering. During the public offering, the correct price enables the new stocks to be sold quickly. After the public offering, if the underwriter has overpriced, he will lose future offerings.

The price determination methods used by the underwriters in the two public offerings were different from each other. In the IPO of Dardanel Önentaş, Inc. P/E and MBV ratios were taken into consideration in the price valuation. On the other hand, shareholder value (net present value) analysis was used to determine the price of one share of the company in the IPO of Mutlu Akü, Inc. Either the first or the second method is used in the price determination of the shares of the companies in Turkey. The widely accepted method used in the determination of the price of a share of the issuing company is net present value rule. The reason for this is the forecasting of expected cash flows to be generated by the operations of the issuing company generally for a period of 5 to 10 years. For this purpose, every item in the financial statements of the issuing company is being evaluated and forecasted by the underwriter. In addition, environmental assumptions are also considered in the method.

On the other hand, in P/E ratio method, the underwriter determines the price of one share taking into consideration only the market conditions, present and next year's profits of the issuing company. If the issuing company is at the growth stage, it will be convenient for the underwriter to determine the P/E ratio of the company above the market average. However, if the issuing company is at the maturity stage, its growth potential will not be as high as the one at the growth stage. Therefore, a P/E ratio below the market average should be set by the underwriter. It is very important that the underwriter sets the right P/E for the issuing company. In any case, net present value rule brings a broader perspective for the evaluation of both the market and the issuing company's financial conditions in present and future (5 to 10 years period).

In both of the methods, some forecasts were done for the financial statements of the companies. These forecasts should be done correctly, since they constitute the price. However, due to the uncertainty in the process, some errors occurred in these estimations. First of all, the expected net profit of Dardanel Önentaş, Inc. was estimated as TL 202 billion by Global Securities, Inc. as of 12/31/1994, but the net profit of the company came out to be TL 125.672 billion at the same date. As seen, there is quite a large difference between the expected and the realized net profit. If the net profit of Dardanel Önentaş, Inc. had been forecasted correctly, earnings per share would have come out as TL 3,928 in 1994. Thus, the following estimations about the valuation of one share of Dardanel Önentaş, Inc. would have been changed as below:

- The price obtained from the average P/E ratio of İstanbul Stock-Exchange according to the estimated profit of Dardanel, in 1994: TL 50,000 (3,928*12.6)
- The price obtained from the average of P/E ratios belonging to food sector according to the estimated sector's profits, in 1994: TL 59,706 (3,928*15.2)

Then, prices of one share of Dardanel Önentaş, Inc. would have been found as follows, if the realized net profit had been taken into account:

Price-Earnings ratio	*Price (TL)*
7	27,496 (3,928*7)
9	35,352 (3,928*9)
11	43,208 (3,928*11)

It should also be stated that, there were other factors affecting the determination of the price, but taking into account the realized net profit of Dardanel Önentaş, Inc., minimum sale price of one share of the company would have come out less than pre-determined price of TL 50,000.

On the other hand, some estimations in the five year strategic financial plan of Mutlu Akü, Inc. as of 12/31/1994 had been forecasted less, since the realized net profit of the company was TL 205.787 billion, whereas the forecasted one was TL 166.874 billion at the mentioned date. However, the annual inflation rate, which was taken as the discount rate in the shareholder analysis, was estimated as 70% as of 12/31/1994. It is quite obvious that, the realized annual inflation rate was higher than this rate at the end of 1994. In addition, Mutlu Akü, Inc. raised its capital after IPO. This development also brought new changes to the items in the financial statements of the company when compared with the forecasted ones. In any case, considering only the realized values for the shareholders value analysis at the end of 1994, is not enough to make comments about the pricing of a share of Mutlu Akü, Inc. as the forecasts were done for 5 year period by Karon Securities, Inc..

It is not enough to evaluate the IPO done by the underwriters just judging their price determination techniques. Demands of the investors to the new issue also plays an important role in the public offering of the securities. The extent to which the demand of the investors to the new issue can be shifted outward depends primarily on two factors:

- what investors think the issuing company can do with the money brought in by the public offering.
- how efficiently the underwriters promote the issue.

If investors can be convinced that the new money will be invested in highly profitable projects that will substantially raise earnings and the earnings growth rate, then the outward shift will occur during the demand collection period, and the stock price may even go above the established price level after collecting demands of the investors. The extent to which this promotion campaign is successful in shifting the demand curve depends, of course, on the effectiveness of the investment banking firm.

For this purpose, the most important thing that the underwriter should take into account, is the preparation of the "prospectus" to inform both the individual and corporate investors of the issuing firm. "Prospectus" will enable the investors to evaluate the performance of the issuing firm. The success of IPO is related to the quality of the prospectus and the effectiveness in its presentation and distribution. In this context, the extent of the data to be included in the prospectus should reflect the Turkish investors' decision criteria consequently rather simple, but adapted and convincing information. The following list of items constitute the main sections of the aforementioned prospectus:

- General information regarding the public offer
- Introductory information on the issuing company such as history, activities, management and employees of the issuing company
- Sector analysis (legal regulations, competition, pricing)
- Financial position (trend in the sector, analysis of the financial statements of the company)
- Future forecasts and prospects (earnings forecast, dividend policy, expectations)

After the approval of Capital Market Board is obtained, this "prospectus" will be distributed to the intermediary institutions, commercial and investment banks that are active in İstanbul Stock-Exchange (EUROTURK Bank, 1990). For the examined two public offerings, a great attention was applied for the preparation of these prospectuses.

Sometimes after-market-support of the underwriter is also necessary, after IPO, in Turkey, even though there is no item about the mentioned support in the agreement between the issuing company and the underwriter. When the two initial public offerings are observed, the number of investors, who purchased the stocks, were as follows:

For Dardanel Önentaş, Inc.:	- 585 investors within the country
	- 27 investors out of the country
For Mutlu Akü, Inc.	- 244 investors within the country
	- 1 investor out of the country

In two cases there were unsold part of securities after IPO. As type of investment banking activity was "best-efforts deal" for the public offering of Dardanel Önentaş, Inc., Global Securities, Inc. had no responsibility for the unsold shares. However, after-market support of the underwriter for IPO of Dardanel Önentaş, Inc. was observed. On the other hand, no after-market support took place for IPO of Mutlu Akü, Inc..

While evaluating the pricing of the underwriters, the economic conditions of the country should also be taken into consideration. Turkish economy has still the effects of the economic crisis in 1994. Especially the economical decisions taken on the 5th. of April, 1994 have caused negative trends in the growth of the companies. Most of the companies, which were active in the stock-exchange, had to reduce their investments. The results of the economic crisis have indicated their effects in the financial statements belonging to the first three months period of the companies in 1995.

Most of the companies have increased their profits as of 03/31/1995 below the annual wholesale price index of 144.3. However, there are still companies which have increased their profits above the clarified inflation rate. The increase in the profits of the companies can appear on account of two reasons:

- increase in the sales because of the increase in the production of the company,
- price differentiation in price of the products of the company.

Whatever the reason is, the companies, that have realized net profits increase in their financial statements in the first three months of 1995, in spite of the effects of the economical crisis in 1994, can be judged as successful companies. Both Dardanel Önentaş, Inc. and Mutlu Akü, Inc. accomplished net profits of TL 32.749 billion and TL 117.231 billion, respectively. Thus, the financial situations of both companies have indicated a growing trend. As of 06/05/1995, the stock prices of two companies were TL 69,000 for Dardanel, TL 12,250 for Mutlu. After IPO of Dardanel Önentaş, Inc., the highest price that the stock had reached was TL 72,000. On the other hand, after IPO of Mutlu Akü, Inc., in spite of TL 45,000- offered price, the stock price could not exceed this level, because of the lack of after-market support. Then, after capital increase, the stock price came out as TL 12,250 in 06/05/1995 while it was TL 5,700 on 12/27/1994.

In any case, the two IPOs of the companies, and the capital increase in the second case, have increased the liquidity of both Dardanel Önentaş, Inc. and Mutlu Akü, Inc., while making it easier to raise new corporate cash. In addition, with the help of IPOs, both companies found the opportunity to facilitate their shareholders' diversification.

VII. CONCLUSIONS & EVALUATIONS

This work can be classified as a study that covers the application of Turkish investment banking system. The study gives the steps that an investment banking firm is supposed to take during the public offering of securities, which is the most important part of this banking branch.

The comparisons and results of the two cases have been listed and evaluated in the previous section. Although, the interpretations are based on only two IPOs, the findings of this research can be safely generalized to include all similar investment banking activities in Turkey. Nevertheless, the accumulated knowledge and expertise can lead to the generation of some hypotheses, that can be checked by an extensive study in the future.

After the evaluation of the research about public offerings, it can be concluded that the success of an IPO is mainly affected by the market indicators of the new issue as compared with the recent IPOs, and senior market averages. Besides, the reputation of the underwriter as well as its success in attracting the potential investors' interest by means of the "prospectus" and other marketing efforts, and the recognition of the issuing company among the investors in İstanbul Stock-Exchange also affect the success of an IPO. In addition, trends in other investment areas such as, saving deposit rates, T-Bill and T-Bond yields and real effective foreign exchange rates should be taken into consideration during an IPO. The other factors affecting the success of an IPO are; Interbank money market rates that determine the funding costs of banks as portfolio investors, monthly changes in retail price index, corporate and income tax payment periods, political stability, and turbulence in the financial markets during the period preceding the offering.

Determination of the correct timing of the IPO should be carried out by the underwriter with regard to the prevailing market conditions, and should be agreed upon with the issuing firm. The timing decision is also affected by the government's privatization programs in Turkey, and by the supply of new shares to İstanbul Stock-Exchange through new IPOs. In addition to these factors, offering price determined by the underwriter, techniques used for the determination of the price, market indicators with regard to the offering price, and size of the issue are the major points affecting the success of the IPO.

There are also unfavorable facts, which are not taken as affirmative for equity underwriting activities of investment banking firms in Turkey. These facts can be illustrated as substantially volatile prices in İstanbul Stock-Exchange, illiquid market conditions, and the low turnover in the new issues. The required framework for the level of underwriting fees can also be taken as an unfavorable fact for the equity underwriting activities in Turkey. Equity underwriting commissions are positively related to the standard deviation of the equity index. Therefore, if an issuing company request the formation of an underwriting syndication, it should be obvious that the underwriting commissions under the prevailing market conditions can be too high for the company.

Another factor preventing the success of investment banking activities in public offerings in Turkey, is the duration of the security offerings. It cannot exceed 2 working days for collecting the demands of the investors in "demand collection" method, and 5 working days in "sale in stock-exchange" method, according to Capital Market Board Law. This period is quite less when compared with the foreign applications of public offerings. There is no certain period for the duration of the security offerings in Western Industrialized Countries. The duration of open-price book building method, which corresponds to the demand collection method applied in Turkey, can be one month or three months depending on the size of the issue offered. The upper limit for the period of offering securities should yet be determined, but in any case, it will be much longer when compared to Turkish application.

When the case of Mutlu Akü, Inc. is evaluated , it will be seen that the sold part of the shares was only TL 90 billion. This amount can be regarded as success when the shortness of 2 working days period is considered. However, the whole part of the offered shares worth TL 506.250 billion. Thus, the unsold part brought a huge financial responsibility for Karon Securities, Inc., as the type of the investment banking activity was "stand-by underwriting".

On the other hand, the reason for taking the duration of security offerings in a pre-determined period, by Capital Market Board, is the volatile market conditions in Turkish economy. High inflation rates, flotation trends in macro-economic environment and similar factors affecting the indicators of economy have increased the risk of investing in long-term periods in Turkey. Thus, first of all, the economic conditions should become more stable, then, the necessary regulations in Capital Market Board should be made. Another factor arisen because of the risky market conditions in Turkish economy, is that Capital Market Board had forbidden the establishments of new intermediaries. This situation can also change, if Turkish economy has a trustfil and stable trend.

As a result of all these findings, it can be suggested that investment banking is a growing and promising banking branch in Turkey. Currently, there are nearly 110 intermediaries, many commercial banks and a growing number of investment banks. As universal banking system is valid in Turkey, all of the aforementioned institutions can deal with investment banking activities. Investment banking will continue growing in Turkey, especially, taking the critical points, which were brought up through this study, into account.

With sincere belief in the significance of the topic, it is hoped that the findings of this pilot study will arise the curiosity of the interested parties and lead to the initiation of more extensive research projects.

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APPENDICES

APPENDIX I:

The underwriter should apply to Capital Market Board, with the following documents for initial public offering permission:

- The issuing company's written statement about the percentage distribution of its real and/or legal entity shareholders who are willing to sell their shares to the public.
- The authorized signature circular of the real and/or legal entity shareholders who offer their shares to the public.
- A copy of the Board of Directors Resolution of the issuing company.
- The issuing company's latest Articles of Association.
- A statement indicating that the value of the shares that are intended to be sold is fully paid-in.
- A "Brochure" which contains information about the issuing company which will be prepared according the format specified by Capital Market Board.
- A "Circular", which will be published before the beginning of the selling period, to inform the public about the offering of the shares. This should also be prepared in the format specified by Capital Market Board.
- An example of the share certificates to be sold.
- Last three years' balance sheets, income statements, annual reports and internal audit reports of the issuing company.
- A copy of the agreement between the issuing company and the underwriter.
- A written statement of the issuing company that there are no distracts, deposits or counter guarantees on the publicly offered shares which will prevent the circulation of the mentioned shares.
- The enumeration of the types and series of the share certificates that will be offered to the public.
- The minimum selling price that the underwriter has decided after valuation.
- Any supplementary information which can be requested by Capital Market Board.

APPENDIX II:

The application file of the issuing company to İstanbul Stock-Exchange should consist of the below mentioned documents:

- The company's last three years balance sheets, income statements and production figures in the specified formats.
- A written statement indicating that the issuing company accepts to give the requested financial documents to İstanbul Stock-Exchange on a quarterly basis to inform the investors about the developments of the company. With this statement, the company accepts the financial control that the stock-exchange may consider necessary.
- Any supplementary information which can be requested by İstanbul Stock-Exchange.

APPENDIX III:

<u>ANNEX 1:</u>

....
(Name of the issuer)

....
(The kind of security demanded)

DEMAND FORM

<u>Investor</u>

Name/Surname

Address

Number of securities demanded :

Minimum acceptable quantity (i.e. lots):

Accepted unit price (interest rate):

Total purchase price paid

(This section will be filled by the underwriter)

1- Acceptance No:

2- Number of the securities accepted:

3- Purchase price taken

4- Returned cash:

After reading the circulars that are declared in the .... newspaper, and accepting the conditions determined in the form, I demand the mentioned provisions as written in this form on ../../...(date).

....
(date)

....
(signature)

APPENDIX IV:

ANNEX 2:

....
(Name of the issuer)

....
(The kind of security demanded)

DEMAND FORM

Investor

Name/Surname

Address

Number of securities demanded:

Minimum acceptable quantity (i.e. lots):

Unit price (interest rate) offer :

Total purchase price paid

(This section will be filled by the underwriter)

1- Acceptance No:

2- Number of the securities accepted:

3- Purchase price taken :

4- Returned cash :

After reading the circulars that are declared in the .... newspaper, and accepting the conditions determined in the form, I demand the mentioned provisions as written in this form on ../../...(date).

....
(date)

....
(signature)

APPENDIX V:

COMMERCIAL REPUTATION OF THE INVESTMENT BANK	COMMERCIAL REPUTATION OF THE FOREIGN PARTNER
Türk Merchant Bank A.Ş.	Bankers Trust Co. (main shareholder)
Yatırım Bank A.Ş.	Trans-Arabian Investment Bank E.C. (main shareholder)
Birleşik Yatırım Bankası A.Ş.	Dollar Exchange Company of Kuwait, Trade Union Insurance Company of Bahrain
Tekfenbank Tekfen Yatırım ve Finans Bankası A.Ş.	Banco Espanol de Credito T.S.T. International Finance S.A.
Avrupa Türk Yatırım Bankası A.Ş.	Banque Indosuez, Amuro Bank, Générale Banque, Société Générale de Belgique (main shareholders)

APPENDIX VI:

SECURITIES ISSUES REGISTERED WITH THE BOARD

	1990		1991		1992		1993		1994	
Securities	# of issues	Volume (TL Billion)	# of issues	Volume (TL Billion)	# of issues	Volume (TL Billion)	# of issues	Volume (TL Billion)	# of issues	Volume (TL Billion)
Shares	206	4,142.3	244	4,443.5	140	5,322.8	183	9,573.4	191	10,672.2
Corporate Bonds	148	762.3	141	813.3	110	796.9	71	715.2	89	797.5
Profit Sharing Certificate	1	4.0	1	15.0	1	60.0	-	-		
Bank Bonds	4	330.0	8	726.0	9	770.0	10	2,387.5		
Commercial Paper	21	215.1	35	667.4	30	1,006.6	17	1,205.5		
	35	855.0	4	65.0	5	92.0	33	5,355.0		
Asset Backed Securities	-	-	-	-	30	14,480.6	119	52,756.4		
TOTAL	415	6,308.7	433	6,730.2	325	22,538.9	433	71,993.0		

SOURCE: Capital Market Board

APPENDIX VII:

TOTAL NUMBER OF OPERATIONS IN THE SECONDARY MARKET ACCORDING TO THE TYPES OF SECURITIES

	1990	1991	1992	1993	1994
I- BANKING SECTOR	106,183.3	290,242.8	581,155.2	1,724,140.2	1,938,330.4
Private Sector Securities	10,654.4	21,801.1	23,805.7	96,684.2	114,380.0
- Shares	7,021.9	9,114.1	9,497.3	56,392.0	88,039.5
- Corporate Bonds	2,913.7	12,235.7	10,923.5	7,441.0	8,568.2
- Commercial Paper	627.2	398.6	1,068.0	719.7	908.2
- Bank Bonds	91.6	52.7	337.2	246.0	352.5
- Asset Backed Securities	-	-	1,979.7	31,885.5	23,864.1
Public Sector Securities	95,528.9	268,401.7	557,349.5	1,627,454.0	1,728,243.2
- Government Bonds	61,499.1	139,905.8	194,056.3	620,863.3	748,263.7
- Treasury Bills	31,319.6	123,733.0	340,612.1	957,840.9	978,416.2
- Revenue Sharing Certificate	910.6	1,898.2	13,503.0	-	1,968.1
- Foreign Exchange Ind. Bonds	1,631.9	2,818.4	9,144.6	48,749.8	56,332.5
- Mortgage Backed Securities	167.7	46.3	33.5	2.0	26.2
II- INTERMEDIARIES	6,822.6	36,623.0	86,112.8	291,814.9	352,741.5
Private Sector Securities	5,797.6	26,537.3	47,351.1	199,822.0	212,513.3
- Shares	5,556.6	26,136.6	46,906.2	199,262.5	243,322.8
- Corporate Bonds	92.3	193.1	291.5	416.6	552.2
- Commercial Paper	43.7	113.7	73.8	41.5	52.7
- Bank Bonds	105.1	93.9	79.6	100.7	115.8
- Asset Backed Securities	-	-	-	0.7	1.2
Public Sector Securities	1,025.0	10,085.7	38,761.7	91,992.9	95,563.2
- Government Bonds	303.8	2,274.8	8,911.2	31,754.6	35,852.5
- Treasury Bills	725.1	7,992.2	29,631.3	60,059.0	71,112.3
- Revenue Sharing Certificate	7.7	4.4	180.6	-	75.5
- Foreign Exchange Ind. Bonds	-	9.7	38.6	179.3	191.2
III- BROKERS					
- Shares	3,400.9	524.5	-	-	641.3

SOURCE: Capital Market Board

APPENDIX VIII:

SEQUENCE NO	REPUTATION	NUMBER OF OFFICES
1	Integrated Resources	1,750
2	Edward D. Jones & Co.	1,395
3	Thomson McKinnon Securities	800
4	Dean Witter Reynolds	691
5	Shearson Lehman Hutton	645
6	Merrill Lynch & Co.	550
7	A.G. Edwards & Sons.	368
8	Raymond, James Financial	365
9	Prudential-Bache Securities	330
10	Paine Webber Group	296

APPENDIX IX:

CASH-FLOW STATEMENT

Company : Dardanel Önentaş, Inc.
Business : Production of Canned Tuna Fish and Frozen Food

	(in millions of TL)				
CASH FLOW STATEMENT	1990	1991	1992	1993	6/1994
Profits before Tax	2,021	4,787	1,393	8,049	62,331
Add : Depreciation		3,928	6,472	11,115	
Add : Provisions			1,582	2,572	
Add : Increase in Accounts Payable		12,269	22,249	57,403	75,809
Less : Increase in Accounts Receivable		15,994	47,858	53,066	273,516
Less : Increase in Inventory		10,276	37,401	99,845	127,382
Cash Flow From Operations		-5,286	-53,563	-73,772	-262,758
Less : Net Investment in Fixed Assests	6,347	10,885	31,801	31,976	76,101
Less : Previous year's Corporate Taxes			507	177	1,193
Less : Previous year's Dividends		1,286			
Free Cash Flow		-17,457	-85,871	-105,925	-340,052

APPENDIX X:

BALANCE SHEET

I - ASSETS

Company : Dardanel Önentaş, Inc.
Business : Production of Canned Tuna Fish and Frozen Food

(in millions of T.L.)

ASSETS	12/31/1991	%	12/31/1992	%	12/31/1993	%	06/30/1994	%
CURRENT ASSETS	54,344	59.32	158,140	58.73	306,906	57.38	806,877	68.55
Cash & Banks	1,763	1.92	2,525	0.94	7,267	1.36	25,872	2.20
Marketable Securites (Net)	2	0.00	0	0.00	0	0.00	13,105	1.11
Accounts Receivable (Net)	27,451	29.96	75,309	27.97	128,374	24.00	401,891	34.15
Other Receivables (Net)	4,494	4.91	7,475	2.78	9,693	1.81	56,652	4.81
Inventories (Net)	19,894	21.71	67,516	25.08	158,002	29.54	288,097	24.48
Other Current Assets	740	0.81	5,315	1.97	3,570	0.67	21,260	1.81
NON-CURRENT ASSETS	32,274	40.68	111,113	41.27	227,981	42.52	370,128	31.45
Accounts Receivable (Net)	114	0.12	319	0.12	259	0.05	269	0.02
Other Receivables (Net)	0	0.00	0	0.00	0	0.00	0	0.00
Financial Assets (Net)	2,239	2.44	2,239	0.83	2,239	0.42	39	0.00
Tangible Fixed Assets (Net)	33,542	36.72	99,741	37.04	224,626	42.00	369,210	31.37
Tan. Fixed Assets (Gross)	40,219	43.90	83,027	30.84	137,802	25.76	161,070	13.68
Accumulated Dep. (-)	(17,329)	-18.91	(28,486)	-10.58	(49,632)	-9.28	(57,836)	-4.91
Construction-in-progress	10,752	11.74	45,200	16.79	136,456	25.51	261,552	22.22
Advances Given	0	0.00	0	0.00	0	0.00	4,424	0.38
Intangible Assets (Net)	138	0.15	134	0.05	517	0.10	0	0.00
Other Non-current Assets	1,141	1.25	8,680	3.22	340	0.06	610	0.05
TOTAL ASSETS	91,618	100.00	269,253	100.00	534,887	100.00	1,177,005	100.00

APPENDIX X:

BALANCE SHEET

II - LIABILITIES & SHAREHOLDER'S EQUITY

Company : Dardanel Önentaş, Inc.
Business : Production of Canned Tuna Fish and Frozen Food

(in millions of T.L.)

LIABILITIES & SHAREHOLDER'S EQUITY	12/31/1991	%	12/31/1992	%	12/31/1993	%	06/30/1994	%
CURRENT LIABILITIES	58,345	63.68	209,968	77.98	372,815	69.70	805,159	68.41
Financial Liabilities	31,261	34.12	141,315	52.48	242,615	45.36	584,941	49.70
Accounts Payable (Net)	18,644	20.35	40,893	15.19	98,294	18.38	174,103	14.79
Other Short-term Liabilities	7,933	8.66	27,583	10.24	27,823	5.20	10,041	0.85
Advances from Customers	0	0.00	0	0.00	0	0.00	0	0.00
Accrued Expenses	507	0.55	177	0.07	4,083	0.76	36,074	3.06
LONG-TERM LIABILITIES	9,934	10.84	21,428	7.96	94,156	17.60	228,715	19.43
Financial Liabilities	9,934	10.84	21,428	7.96	94,156	17.60	224,526	19.08
Long-term Acc. Pay. (Net)	0	0.00	0	0.00	0	0.00	0	0.00
Other Long-term Liabilities	0	0.00	0	0.00	0	0.00	0	0.00
Adv. Received on Orders	0	0.00	0	0.00	0	0.00	0	0.00
Accrued Expenses	0	0.00	0	0.00	0	0.00	4,189	0.36
SHAREHOLDERS' EQUITY	23,339	25.47	37,857	14.06	67,916	12.70	143,131	12.16
Paid-in Capital	3,000	3.27	20,000	7.43	20,000	3.74	20,000	1.70
Share Capital Premium	0	0.00	0	0.00	0	0.00	0	0.00
Revaluation Surplus	15,131	16.52	11,433	4.25	34,636	6.48	50,870	4.32
From Tangible Assets	15,131	16.52	11,433	4.25	34,636	6.48	50,870	4.32
From Participations	0	0.00	0	0.00	0	0.00	0	0.00
Retained Earnings	929	1.01	5,208	1.93	6,424	1.20	16,169	1.37
Legal Reserves	295	0.32	534	0.20	604	0.11	1,151	0.10
Other Reserves	634	0.69	4,674	1.74	5,820	1.09	15,018	1.28
Net Profit	4,279	4.67	1,216	0.45	6,856	1.28	56,092	4.77
Accumulated Losses	0	0.00	0	0.00	0	0.00	0	0.00
TOTAL LIABILITIES & EQUITY	91,618	100.00	269,253	100.00	534,887	100.00	1,117,005	100.00

APPENDIX XI:

INCOME STATEMENT

Company : Dandanel Önentaş, Inc.
Business : Production of Canned Tuna Fish and Frozen Food

(in millions of T.L.)

INCOME STATEMENT	12/31/1991	%	12/31/1992	%	12/31/1993	%	06/30/1994	%
Gross Sales	121,290	103.07	237,024	103.69	559,667	104.42	881,542	104.23
Domestic Sales	48,054	40.83	138,200	60.46	331,407	61.83	298,208	35.26
Export Sales	59,300	50.39	86,984	38.05	193,060	36.02	458,738	54.24
Others	13,936	11.84	11,840	5.18	35,200	6.57	124,596	14.73
Rebates	3,611	3.07	8,430	3.69	23,691	4.42	35,739	4.23
Net Sales	117,679	100.00	228,594	100.00	535,976	100.00	845,803	100.00
Cost of Goods Sold	76,270	64.81	155,164	67.88	282,774	52.76	454,770	53.77
GROSS PROFIT (LOSS)	41,409	35.19	73,430	32.12	253,202	47.24	391,033	46.23
Operating Expenses	19,722	16.76	31,254	13.67	90,929	16.97	59,565	7.04
R&D Expenses	4,737	4.03	7,772	3.40	31,641	5.90	0	0.00
Selling Expenses	10,493	8.92	15,519	6.79	34,945	6.52	46,048	5.44
Administrative Expenses	4,492	3.82	7,963	3.48	24,343	4.54	13,517	1.60
PROFIT (LOSS)	21,687	18.43	42,176	18.45	162,273	30.28	331,468	39.19
Inc. & Gains from Operations	4,020	3.42	8,105	3.55	12,046	2.25	19,845	2.35
Exp. & Losses from Ops.	2,951	2.51	3,650	1.60	6,126	1.14	31,625	3.74
Financial Expenses	17,817	15.14	45,122	19.74	159,461	29.75	244,799	28.94
OPERAT. PROFIT (LOSS)	4,939	4.20	1,509	0.66	8,732	1.63	74,889	8.85
Extraordinary Inc. & Gains	13	0.01	2	0.00	38	0.01	3,063	0.36
Extraordinary Exp. & Losses	166	0.14	118	0.05	721	0.13	15.62	1.85
EBIT	4,786	4.07	1,393	0.61	8,049	1.50	52,331	7.37
Interest & Taxes Payable	507	0.43	177	0.08	1,193	0.22	6,239	0.74
NET PROFIT (LOSS)	4,279	3.64	1,216	0.53	6,856	1.29	56,092	5.63
Depriciation Charge	3,928		6,474		11,116		8,232	

APPENDIX XII:

BALANCE SHEET

I - ASSETS

Company : Mutlu Akü, Inc.
Business : Production of Car Batteries

(TL Million)

ASSETS	12/31/1991	12/31/1992	12/31/1993	04/30/1994
CURRENT ASSETS	81,078	145,218	282,269	276,468
Cash & Banks	10,133	16,308	17,183	7,575
Marketable Securites (Net)	-	-	-	-
Accounts Receivable (Net)	43,340	90,867	178,988	143,724
Other Receivables (Net)	260	166	177	3,402
Inventories (Net)	27,000	37,371	83,710	113,642
Other Current Assets	345	507	2,211	8,125
NON-CURRENT ASSETS	27,974	56,228	170,048	298,644
Accounts Receivable (Net)	-	-	-	-
Other Receivables (Net)	-	-	825	734
Financial Assets (Net)	1,708	2,723	607	32
Tangible Fixed Assets (Net)	25,627	52,260	164,842	296,954
Tan. Fixed Assets (Gross)	96,129	140,484	302,208	382,938
Accumulated Dep. (-)	75,971	108,008	239,564	293,796
Construction-in-progress	5,469	19,784	102,398	207,812
Advances Given	0	0	0	0
Intangible Assets (Net)	424	750	0	0
Other Non-current Assets	216	446	1,940	924
TOTAL ASSETS	109,052	201,446	452,318	575,112

APPENDIX XII:

BALANCE SHEET

II - LIABILITIES & SHAREHOLDER'S EQUITY

Company : Mutlu Akü, Inc.
Business : Production of Car Batteries

(TL Million)

LIABILITIES & SHAREHOLDER'S EQUITY	12/31/1991	12/31/1992	12/31/1993	04/30/1994
CURRENT LIABILITIES	32,781	75,751	157,327	186,386
Financial Liabilities	5,677	33,713	108,187	145,927
Accounts Payable (Net)	15,994	36,394	36,856	10,828
Other Short-term Liabilities	11,110	5,644	12,284	20,900
Advances from Customers	0	0	0	89
Accrued Expenses	1,136	0	0	8,642
LONG-TERM LIABILITIES	17,085	20,522	57,171	111,127
Financial Liabilities	17,085	20,522	57,129	111,127
Long-term Acc. Pay. (Net)	0	0	0	0
Other Long-term Liabilities	0	0	42	0
Adv. Received on Orders	0	0	0	0
Accrued Expenses	0	0	0	0
SHAREHOLDERS' EQUITY	59,186	105,173	237,820	277,599
Paid-in-Capital	26,265	37,122	75,000	75,000
Share Capital Premium	0	0	0	0
Revaluation Surplus	12,269	24,270	51,016	85,132
From Tangible Assets	12,269	24,720	49,657	85,132
From Participations	0	0	1,359	0
Retained Earnings	5,102	6,280	10,549	81,700
Legal Reserves	1,507	2,684	8,079	14,046
Other Reserves	3,495	3,595	2,470	67,654
Net Profit	15,550	37,501	101,255	35,767
Accumulated Losses	0	0	0	0
TOTAL LIABILITIES & EQUITY	109,052	201,446	452,318	575,112

APPENDIX XIII:

BANK CREDITS OF MUTLU AKÜ, INC. & PAYMENT CONDITIONS

	T.L. (* 1,000,000)	Japanese Yen (* 1,000)	US $ (* 1,000)
1994	2,122	-	597
1995	2,680	44,634	-
1996	6,841	44,634	-
1997	5,792	44,634	-
1998	5,117	44,634	-
1999	4,440	44,634	-
2000	4,224	44,634	-
2001	-	22,209	-

APPENDIX XIV:

INCOME STATEMENT

Company : Mutlu Akü, Inc.
Business : Production of Car Batteries

(TL Million)

INCOME STATEMENT	12/31/1991	12/31/1992	12/31/1993	04/30/1994
Net Sales	247,350	311,327	669,179	213,043
Cost of Goods Sold	196,263	235,698	444,952	104,557
GROSS PROFIT (LOSS)	51,087	75,539	224,228	108,486
Operating Expenses	22,491	21,252	56,701	46,315
R&D Expenses	-	-	52	444
Selling Expenses	15,531	12,754	51,383	16,785
Administrative Expenses	6,960	8,498	5,263	29,086
PROFIT (LOSS)	28,596	54,287	167,526	62,171
Inc. & Gains from Operations	6,407	9,866	7,936	2,402
Exp. & Losses from Ops.	4,492	4,783	34,759	-
Financial Expenses	20,536	22,699	43,962	51,377
OPERAT. PROFIT (LOSS)	9,975	36,671	96,742	13,196
Extraordinary Inc. & Gains	6,056	1,372	7,896	22,571
Extraordinary Exp. & Losses	480	541	3,382	-
EBIT	15,550	37,502	101,255	35,767
Interest & Taxes Payable	1,136	4,487	11,545	-
NET PROFIT (LOSS)	14,414	33,015	87,173	-

APPENDIX XV:

ENVIRONMENTAL ASSUMPTIONS

Company : Mutlu Akü, Inc.
Business : Production of Car Batteries

(Prepared in June 1994 with Current Prices)

Environmental Assumptions	4/94	12/94	12/95	12/96	12/97	12/98
Annual TL Inflation Rate		70.0%	80.0%	70.0%	60.0%	50.0%
Cumulative TL-Inflation Coefficient	1.000	1.304	2.281	3.390	6.580	10.194
Yearly Devaluation Rate TL against $		70.0%	75.0%	65.0%	55.0%	45.0%
Current (base year) $/TL Parity	30,000	39,115	67,467	114,644	183,340	274,858
Average Depreciation Rate		5.0%	5.0%	5.0%	5.0%	5.0%
Expected Annual Revaluation Rate		58.4%	77.5%	67.5%	57.5%	47.5%
Cumulative Revaluation Coefficient	1.000	1.584	2.812	4.709	7.417	10.941
Effective (Corporate)Tax Rate	12.0%	15.0%	15.0%	15.0%	15.0%	15.0%
Short-term Loan Interest Rate		150.0%	110.0%	85.0%	80.0%	70.0%
Long-term Domestic Loan Interest Rate		66.0%	80.0%	70.0%	60.0%	50.0%
Long-term Foreign Loan Interest Rate		6.0%	6.5%	7.0%	7.0%	7.0%
Eurobond Interest Ratw (of new issues)		6.0%	6.0%	6.0%	6.0%	6.0%

APPENDIX XVI:

CAPITAL INCREASES

Company : Mutlu Akü, Inc.
Business : Production of Car Batteries

(Prepared in June 1994 with Current Prices)

Capital Increases	12/94	12/95	12/96	12/97	12/98
Increase in Paid-in-Capital	0	0	0	0	0
Paid-in-Capital (t-1)	75,000	75,000	75,000	75,000	75,000
Revaluation Fund (t-1)	85,132	111,878	518,172	1,595,227	4,275,455
Amount to Convert (Bonus Shares)	0	0	0	0	0
Capital Increase in Cash	0	0	0	0	0
Current Revaluation Surplus	26,746	406,294	1,077,055	2,680,228	5,966,027
Fiscal year-end Paid-in-Capital	75,000	75,000	75,000	75,000	75,000
Total Revaluation Surplus	111,878	518,172	1,595,227	4,275,455	10,241,482
New Revaluation Fund	77,762	372,921	1,182,018	3,119,509	7,581,198

APPENDIX XVII:

CAPITAL EXPENDITURES

Company : Mutlu Akü, Inc.
Business : Production of Car Batteries

(Prepared in June 1994 with Current Prices)

Capital Expenditures	12/94	12/95	12/96	12/97	12/98
Participation Investments	0	0	229,287	1,265,048	3,765,550
- Participation In Group Companies	0	0	229,287	1,265,048	3,765,550
- Participation In Non-Group Companies	0	0	0	0	0
Investments in Fixed Assets	67,652	70,840	705,632	926,785	2,211,230
- Land	0	0	0	0	0
- Buildings	35,000	0	0	0	0
- Machinery & Equipment	27,652	67,467	699,327	916,702	2,198,861
- Vehicles	0	0	573	917	1,374
- Furnitures & Fixtures	5,000	3,373	5,732	9,167	10,994

APPENDIX XVIII:

LONG-TERM DOMESTIC LOAN AMMORTIZATION TABLE

Company : Mutlu Akü, Inc.
Business : Production of Car Batteries

Long-term Domestic Loan Ammortization Table	(US $'000) 12/94	12/95	12/96	12/97	12/98
(+) Beginning of Period Loan	$2,816	$2,816	$2,382	$1,949	$1,516
(-) Principle Repayment		$433	$433	$433	$433
(+) New Loans Raised	$0	$0	$0	$0	$0
(-) Repayment Schedule of New Loans		$0	$0	$0	$0
(=) End of Period Outstanding Loans	$2,816	$2,382	$1,949	$1,516	$1,082
End of Period Loan (TL Million)	110,135	160,727	223,438	277,878	297,479

Long-term Domestic Loan Ammortization Table	(TL Million) 12/94	12/95	12/96	12/97	12/98
(+) Beginning of Period Loan	50,754	29,094	26,414	19,573	13,781
(-) Principle Repayments	21,660	2,680	6,841	5,792	5,117
(+) New Loan Raised	0	0	0	0	0
(=) End of Period Outstanding Loans	29,094	26,414	19,573	13,781	8,664
Interest Expenses	11,763	10,629	18,291	13,793	9,661

APPENDIX XIX:

MANAGEMENT OBJECTIVES

Company : Mutlu Akü, Inc.
Business : Production of Car Batteries

Management Objectives	12/94	12/95	12/96	12/97	12/98
Domestic Sales of Starter Batteries (to Car Producers)					
Targeted Market Share	49.0%	50.0%	50.0%	50.0%	50.0%
Average Sales Price					
- US $ per unit	$11.76	$12.00	$12.00	$12.00	$12.00
- TL per unit	406,422	639,491	1,092,662	1,787,904	2,749,188
Targeted Sales					
- Quantity	160,000	200,000	250,000	300,000	350,000
- US $ (000)	$1,882	$2,400	$3,000	$3,600	$4,200
- TL Million	65,028	127,898	273,166	536,371	962,216
Domestic Sales of Starter Batteries (to Wholesalers)					
Targeted Market Share	30.0%	35.0%	40.0%	40.0%	40.0%
Average Sales Price					
- US $ per unit	$24.13	$25.00	$25.00	$25.00	$25.00
- TL per unit	833,738	1,332,273	2,276,379	3,724,800	5,727,475
Targeted Sales					
- Quantity	400,000	500,000	570,000	650,000	720,000
- US $ (000)	$9,650	$12,500	$14,250	$16,250	$18,000
- TL Million	333,495	666,137	1,297,536	2,421,120	4,123,782

APPENDIX XX:

MANAGEMENT OBJECTIVES

Company: Mutlu Akü, Inc.
Business: Production of Car Batteries

Export Sales of Starter Batteries	12/94	12/95	12/96	12/97	12/98
Average Sales Price					
- $ per unit	$25.66	$26.00	$26.00	$26.00	$26.00
- TL per unit	886,702	1,385,564	2,367,435	3,873,792	5,956,574
Targeted Sales					
- Quantity	400,000	460,000	530,000	600,000	650,000
- $ (000)	$10,263	$11,960	$13,780	$15,600	$16,900
- TL Million	354,681	637,360	1,254,740	2,324,275	3,871,773
Total Number of Starter Batteries Sold	960,000	1,160,000	1,350,000	1,550,000	1,720,000
Domestic Sales of Industrial Batteries					
Average Sales Price					
- $ per Kg.	$2.96	$3.46	$3.54	$3.57	$3.59
- TL per Kg.	102,291	184,123	322,084	531,194	822,922
Targeted Sales					
- Quantity - Kg.	300,000	400,000	500,000	550,000	600,000
- $ (000)	$888	$1,382	$1,769	$1,961	$2,155
- TL Million	30,687	73,649	161,042	292,157	493,753
Unit Material Cost of Starter Battery for Car Manufacturers	$7.00	$7.25	$7.25	$7.50	$7.50
Unit Material Cost of Starter Battery for Replacement	$7.00	$7.25	$7.25	$7.50	$7.50
Unit Material Cost of Starter Battery for Export	$7.00	$7.25	$7.25	$7.50	$7.50
Unit Material Cost of Industrial Battery ($/Kg.)	$1.00	$1.00	$1.00	$1.00	$1.00
(TL Million)					
Total Material Cost of Starter Battery for Car Manufacturers	38,705	77,272	165,038	335,232	601,385
Total Material Cost of Starter Battery for Replacement	96,761	193,180	376,286	726,336	1,237,135
Total Material Cost of Starter Battery for Export	96,761	177,725	349,880	670,464	1,116,858
Total Material Cost of Industrial Battery ($/Kg.)	11,735	26,987	57,322	100,837	164,915
Total Number of Starter Batteries Sold	960,000	1,160,000	1,350,000	1,550,000	1,720,000

APPENDIX XXI:

PRO FORMA BALANCE SHEETS

I - ASSETS

Company : Mutlu Akü, Inc.
Business : Production of Car Batteries

(TL Million)

ASSETS	04/94	12/94	12/95	12/96	12/97	12/98
CURRENT ASSETS	276,468	414,546	785,889	1,452,465	2,648,819	3,648,207
Cash & Banks	7,574	9,876	17,275	30,219	49,839	77,210
Marketable Securites (Net)	0	0	0	0	0	0
Accounts Receivable (Net)	147,128	216,083	411,439	808,158	1,494,971	2,016,087
Advances Receivable	16,761	21,854	38,228	66,872	110,289	170,858
Inventories (Net)	96,880	130,140	254,934	435,238	809,044	1,097,952
Letters of Credit	0	26,000	45,481	79,560	131,214	203,275
Other Current Assets	8,125	10,594	18,532	32,417	53,463	72,529
NON-CURRENT ASSETS	297,720	383,029	831,961	2,121,487	5,060,576	12,142,644
Accounts Receivable (Net)	734	825	1,674	2,928	4,830	7,482
Participations	32	607	607	229,894	1,494,942	5,260,492
- In Group Companies	32	607	607	229,894	1,494,942	5,260,492
- In Non-Group Companies	0	0	0	0	0	0
Construction-in-Progress	207,812	0	0	0	0	0
Tangible Fixed Assets	382,938	884,712	1,801,315	3,681,069	6,688,155	12,045,439
Accumulated Dep. (-)	(293,796)	(503,115)	(971,635)	(1,792,404)	(3,127,351)	(5,170,769)
Intangible Assets	0	0	0	0	0	0
Other Non-current Assets	924	1,939	3,392	5,933	9,786	15,160
TOTAL ASSETS	575,112	799,514	1,621,242	3,579,885	7,719,181	15,806,011

APPENDIX XXI:

PRO FORMA BALANCE SHEETS

II- LIABILITIES & SHAREHOLDER'S EQUITY

Company : Mutlu Akü, Inc.
Business : Production of Car Batteries

(TL Million)

LIABILITIES & SHAREHOLDER'S EQUITY	4/94	12/94	12/95	12/96	12/97	12/98
CURRENT LIABILITIES	186,386	213,441	281,787	511,954	915,796	1,394,792
Short-term Liabilities	40,185	19,630	36,077	55,472	84,566	5,117
Bank Credits	105,742	60,000	10,000	10,000	10,000	10,000
Accounts Payable	10,828	43,930	83,647	164,301	303,932	512,345
- Vendors	10,828	43,930	83,647	164,301	303,932	512,345
- Other Debts	0	0	0	0	0	0
Advances from Customers	89	361	688	1,350	2,498	4,211
Taxes Payable	17,994	73,003	139,004	273,035	505,074	851,416
Other Short-term Liabilities	11,548	16,516	12,372	7,796	9,727	11,703
LONG-TERM LIABILITIES	111,127	119,599	151,064	187,540	207,093	306,143
Outstanding Securities	0	0	0	0	0	0
Long-term Bank Loans	111,127	119,599	151,064	187,540	207,093	306,143
- Foreign Curr. Denominated	60,373	93,185	131,491	173,759	198,429	297,479
- TL Denominated	50,754	26,414	19,573	13,781	8,664	8,664
SHAREHOLDER'S EQUITY	277,599	466,474	1,188,391	2,880,391	6,596,292	14,105,076
	75,000	75,000	75,000	75,000	75,000	75,000
Paid-in-Capital	75,000	75,000	75,000	75,000	75,000	75,000
- Raised Capital	75,000	75,000	75,000	75,000	75,000	75,000
- (-) Unpais Capital	0	0	0	0	0	0
Retained Earnings	81,700	83,274	91,617	113,021	159,649	248,312
Revaluation Fund	85,132	111,878	518,172	1,595,227	4,275,455	10,241,482
Net Profit	35,767	196,323	503,601	1,097,144	2,086,187	3,540,282
TOTAL LIABILITIES & EQUITY	575,112	799,514	1,621,242	3,579,885	7,719,181	15,806,011

APPENDIX XXII:

PRO FORMA INCOME STATEMENTS

Company : Mutlu Akü, Inc.
Business : Production of Car Batteries

Income Statement	4/94	(TL Million) 12/94	12/95	12/96	12/97	12/98
Sales (Net)	213,042	864,331	1,645,758	3,232,633	5,979,884	10,080,435
Domestic Starter Battery Sales	117,502	398,523	794,035	1,570,702	2,957,492	5,085,998
Export Starter Battery Sales	67,254	354,681	637,360	1,254,740	2,324,275	3,871,773
Industrial Battery Sales	7,451	30,687	73,649	161,042	292,157	493,753
Intermediary Goods Sales	11,351	44,400	77,668	135,863	224,071	347,129
Material Sales	9,214	36,041	63,047	110,286	181,889	281,781
Cost of Goods Sold (-)	104,557	455,491	892,267	1,740,953	3,236,177	5,489,761
Raw & Auxiliary Material Cost	69,728	317,090	603,085	1,172,297	2,201,924	3,692,028
Labor Costs	23,624	92,406	193,973	373,245	677,129	1,153,905
Depriciation Expense	8,673	37,742	78,606	164,916	304,315	557,925
Overhead Expenses	2,532	8,253	16,603	30,496	52,809	85,902
Gross Profit (Loss)	108,485	408,840	753,491	1,491,680	2,743,706	4,590,674
Selling Costs	16,785	43,770	88,051	161,728	280,065	455,568
Administrative Expenses	29,529	77,002	154,904	284,519	492,703	801,457
Operating Profit (Loss)	62,171	288,068	510,536	1,045,433	1,970,938	3,333,648
Financial Expenses	51,377	124,307	63,893	47,926	49,075	47,936
Inc.& Gains from Operations	24,973	32,561	56,958	99,636	164,324	254,570
Exp.& Losses from Operations	0	0	0	0	0	0
EBIT	35,767	196,323	503,601	1,097,144	2,086,187	3,540,282
Net Profit (Loss)	31,475	166,874	428,061	932,572	1,773,259	3,009,240

APPENDIX XXIII:

DEBT COVERAGE

Company : Mutlu Akü, Inc.
Business : Production of Car Batteries

(Prepared in June 1994 with Current Prices)

Debt Coverage	12/94	12/95	12/96	12/97	12/98
(+) Financial Expenses and EBIT	320,629	567,494	1,145,069	2,135,262	3,588,218
(+) Depreciation Expense	37,742	78,606	164,916	304,315	557,925
(-) Increase in Current Assets	106,678	334,500	602,127	1,098,668	863,107
(-) Cash Taxes (t-1)	4,292	29,448	75,540	164,572	312,928
(-) Capital Expenditures	67,652	70,840	705,632	926,785	2,211,230
(+) Streching of Accounts Payable	47,609	51,900	210,772	374,748	558,444
(+) Long-term Debt Raised	8,472	31,465	36,475	19,554	99,049
(+) Increase in Capital & Reserves	1,574	8,344	21,403	46,629	88,663
(=) Free Cash Flow	237,404	303,020	195,337	690,482	1,505,036
Financing Costs	132,379	69,393	52,176	49,075	47,936
Current Maturity of Long-term Debt (t-1)	22,425	19,630	36,077	55,472	84,566
Times Interest Earned Ratio	1.91	4.74	4.08	14.07	31.40
Debt to Equity	1.44	3.63	2.33	6.60	11.36

APPENDIX XXIV:

BALANCE SHEET

I - ASSETS

Company : Mutlu Akü, Inc.
Business : Production of Car Batteries

(TL Million)

ASSETS	09/30/1993	%	09/30/1994	%
CURRENT ASSETS	252,638	71.60	348,549	49.88
Cash & Banks	60,131	17.04	4,523	0.65
Marketable Securites (Net)	5,000	1.42	11,805	1.69
Accounts Receivable (Net)	71,966	20.40	167,410	23.96
Other Receivables (Net)	44,859	12.71	537	0.08
Inventories (Net)	69,769	19.77	130,297	18.65
Other Current Assets	913	0.26	33,977	4.86
NON-CURRENT ASSETS	100,203	28.40	350,223	50.12
Accounts Receivable (Net)	0	0.00	687	0.10
Other Receivables (Net)	0	0.00	0	0.00
Financial Assets (Net)	613	0.17	32	0.00
Tangible Fixed Assets (Net)	98,250	27.85	345,611	49.46
Tan. Fixed Assets (Gross)	191,155	54.18	367,916	52.65
Accumulated Dep. (-)	(152,755)	-43.29	(295,596)	-42.30
Construction-in-progress	54,268	15.38	257,013	36.78
Advances Given	5,582	1.58	16,273	2.33
Intangible Assets (Net)	787	0.22	0	0.00
Other Non-current Assets	553	0.16	3,893	0.56
TOTAL ASSETS	352,841	100.00	698,772	100.00

APPENDIX XXIV:

BALANCE SHEET

II - LIABILITIES & SHAREHOLDER'S EQUITY

Company : Mutlu Akü, Inc.
Business : Production of Car Batteries

(TL Million)

LIABILITIES & SHAREHOLDER'S EQUITY	09/30/1993	%	09/30/1994	%
CURRENT LIABILITIES	131,046	37.14	276,559	39.55
Financial Liabilities	37,407	10.60	139,577	19.96
Accounts Payable (Net)	27,477	7.79	19,727	2.82
Other Short-term Liabilities	57,791	16.38	49,886	7.13
Advances from Customers	0	0.00	20,316	2.91
Accrued Expenses	8,371	2.37	47,053	6.73
LONG-TERM LIABILITIES	26,863	7.61	147,030	21.03
Financial Liabilities	26,863	7.61	126,779	18.13
Long-term Acc. Pay. (Net)	0	0.00	0	0.00
Other Long-term Liabilities	0	0.00	0	0.00
Adv. Received on Orders	0	0.00	522	0.07
Accrued Expenses	0	0.00	19,729	2.82
SHAREHOLDERS' EQUITY	194,920	55.24	275,703	39.43
Paid-in Capital	55,000	15.59	75,000	10.73
Share Capital Premium	0	0.00	0	0.00
Revaluation Surplus	39,790	11.28	76,362	10.92
From Tangible Assets	39,790	11.28	76,362	10.92
From Participations	0	0.00	0	0.00
Retained Earnings	32,074	9.09	81,699	11.68
Legal Reserves	4,873	1.38	14,046	2.01
Other Reserves	27,201	7.71	67,653	9.67
Net Profit	68,056	19.29	42,642	6.10
Accumulated Losses	0	0.00	0	0.00
TOTAL LIABILITIES & EQUITY	352,829	100.00	699,292	100.00

APPENDIX XXV:

INCOME STATEMENT

Company : Mutlu Akü, Inc.
Business : Production of Car Batteries

(TL Million)

INCOME STATEMENT	09/30/1993	%	09/30/1994	%
Gross Sales	425,661	100.00	734,740	100.35
Domestic Sales	419,700	98.60	425,705	58.14
Export Sales	0	0.00	279,065	38.11
Others	5,961	1.40	29,970	4.09
Rebates	0	0.00	2,566	0.35
Net Sales	425,661	100.00	732,174	100.00
Cost of Goods Sold	350,709	82.39	389,822	54.47
GROSS PROFIT (LOSS)	74,952	17.61	333,352	45.53
Operating Expenses	14,274	3.35	182,022	24.86
R&D Expenses	0	0.00	1,217	0.17
Selling Expenses	0	0.00	102,942	14.06
Administrative Expenses	14,274	3.35	77,863	10.63
PROFIT (LOSS)	60,678	14.26	151,330	20.67
Inc. & Gains from Operations	7,066	1.66	8,140	1.11
Exp. & Losses from Ops.	1,638	0.38	4,132	0.56
Financial Expenses	0	0.00	97,714	13.35
OPERAT. PROFIT (LOSS)	66,106	15.53	57,624	7.87
Extraordinary Inc. & Gains	1,950	0.46	23,028	3.15
Extraordinary Exp. & Losses	0	0.00	17,137	2.34
EBIT	68,056	15.99	63,515	8.67
Interest & Taxes Payable	0	0.00	20,873	2.85
NET PROFIT (LOSS)	68,056	15.99	42,642	5.82