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TÜRK OTOMOBİL FABRİKASI A.Ş.

TOFAŞ Türk Otomobil Fabrikası A.Ş.

Nine Months 2023

Financial Results Conference Call and Live Webcast

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Conductors:

Mr. Cengiz Eroldu, Chief Executive Officer

Mr. Fabrizio Renzi, Chief Financial Officer

Mr. Mehmet Ağyüz, Chartered Financial Analyst – Investor Relations Manager

Conference Call Conducted by Chorus Call Hellas

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OPERATOR: Ladies and Gentlemen, thank you for standing by. I am Gelly your Chorus Call operator. Welcome and thank you for joining the TOFAŞ Türk Otomobil Fabrikası A.Ş conference call and Live Webcast to present and discuss the Nine Months 2023 Financial Results.

At this time, I would like to turn the conference over to Mr. Cengiz Eroldu, CEO, Mr. Fabrizio Renzi, CFO, Mr. Mehmet A. Ağyüz, CFA - Investor Relations Manager.

Mr. Renzi, you may now proceed.

RENZI F: Good afternoon. Thank you, operator. Thank you all for joining our call today. We are very pleased to announce the results achieved in the first Nine Months of the year, which are once again the best ever in our currency of our company. In spite of some headwinds in the Third Quarter, we were able to deliver strong financial and commercial performance.

Profit before tax amount to TRY13.6 billion. That means almost 3x the results achieved in 9M22. PBT margin stand at 19.8%, 7.8% up compared to the same period 2022. Thanks to our strong operating results and excellent financial gain, we decided to slightly increase our PBT guidance to 15%. With TRY22 billion at the end of September, our cash position remains very solid, and we are in condition to self-finance the acquisition of Stellantis Turkey in the last quarter of the year.

Regarding the manufacturing operation in the Quarter 3, we have implemented our new production setup. We stopped

LCV line to enable the preparatory activity for the new K0 model, reason why in August we have planned a long stoppage. At the same time, we have unified the production of Tipo and Fiorino in the passenger car line, implemented a third shift.

In spite of rising competition and the production constraint, we mentioned in the Third Quarter, the performance of the local market remains excellent, and we were able to keep our leadership position with a combined market share of 16.6%.

In particular, in the PC segment, with a market share of 14.6%, we remain the leader with Egea best seller car for seven years in a row. Remarkable also the contribution of the imported vehicles that account for 8% of our mix in the first Nine Months. In the last quarter, we are planning to further increase the penetration of the imported cars and also the contribution of Alfa Romeo and Jeep brand is becoming significant for our domestic business. In conclusion, we remain positive on the last quarter, and this is the reason why we have upgraded our guidance to 200,000 to 205,000 units.

Regarding exports, the contraction compared to 2022 was largely expected, and it is not a surprise due to the discontinuation of Doblo. In this context, it's very promising the performance of Tipo in the EMEA market, mainly Algeria. And at the moment, the EMEA region accounts for almost 40% of the total volumes exported.

By the way, regarding the export guidance, we decided to reduce the range to 60,000 units, 70,000 units. But on the other side, we increased the vehicle that's delivered to the local market. And as you can imagine, this reallocation will be beneficial for our profitability.

Finally, regarding the strategic agreement announced on March 1. The parties continue to work hard. On 28th of July, we have announced the signature of the stock purchase agreement based on which Tofas will acquire 100% of shares of Stellantis Turkey. The closing of the transaction is expected within this year, and the effect of the consolidation will be visible in the first quarter 2024.

In parallel, we are working on the finalization of the K0 contract. We are at the final stage of negotiation. But as I mentioned before, the preliminary activity for the introduction of this new model in Bursa plant are already ongoing.

Now I will give the floor to Mehmet for the full presentation, then we can start our Q&A session.

AĞYÜZ M: Hi. Good afternoon and good morning, everybody. In the first Nine Months, the Turkish automotive production increased by around 12% producing 1.1 million units. Tofas production was around 174,000 units during this period, which was slightly down compared to the previous period.

In the Third Quarter, due to production constraints and the long maintenance activity, our production was down around 25% and reached to 51,000 units. In terms of production mix, passenger car production has increased its share with the phase-out of Doblo and reached 72% of our production versus around 52% during the same period of last year.

In terms of unit shipments. We shipped 2% higher compared to last year at 190,000 units in the first Nine Months. Very strong shipments in the local business, which was up around 50% were largely offset by lower export volumes, which was down at the similar amount due to the product mix.

In the Third Quarter alone, our shipments were down around 10% and similar-wise our domestic shipments was strong at 20% growth, whereas export shipments were down around 48% compared to last year.

In terms of shipment mix, the most notable change was observed in our export business due to discontinuation of Doblo mainly to North America market. Now LCV business comprises around 33% of our export business, which is down to half of the level of last year.

Moving on to domestic market. In the first Nine Months, domestic light vehicle demand was quite robust and -- grew by around 65%, reaching to 858,000 units. And Third Quarter light vehicle demand remained robust with a growth of 85%, actually showing an acceleration compared to the second quarter growth level of 56%.

The growth in the first Nine Months was broadly balanced between light commercial vehicle and the passenger car sales, of which PC were up by around 67%, reaching to

667,000 units. Whereas, LCV shipments were also strong with 57% growth, reaching to 191,000 units, which are way above the historical averages.

You can see the monthly evolution here. And you can see in -- especially, since March, the light vehicle sales reaching about 100,000 level threshold. And in May, June, July period these were very strong months, historical high months, even if you consider seasonality. Whereas, you can see in August and September, there's a slight slowdown and sequentially in the Third Quarter, the market seems to slow down a little bit, but still well above the historical ranges.

And this is partly due to the after elections implementation of more orthodox policies by new economy management team, by raising interest rates by the Central Bank, which actually curbed investment demand for the automotive as a result of better alternatives with higher deposit rates as well as less credit availability for consumption.

As Tofas, we shipped 48% higher in the local market, where our shipments reached a historical high figure of 147,000 units in the first Nine Months. Passenger car shipments were stronger with 53% growth. On the other hand, LCV shipments were slightly lower due to the change in our product mix.

The monthly evolution of our domestic retail shipments are showing a similar pattern to the overall light vehicle market, except only in August, our shipments were lower compared to the previous year due to the long closure period as well as the strong demand in the market, which capped our ability to build inventory before the closure.

In terms of market share, Fiat brand maintained the PC market leadership with 14.6% market share, still remarkably above the closest competition, which has been the case since the Second Half of 2022. Our market share retreated by around 160 basis points to 14.6%, and this is mainly due to the production constraints at our plant related with the refurbishment for -- to make the plants ready for the next investment cycle as well as improving availability of imported vehicles during strong demand period.

Egea model, since its launch in 2015, has maintained its market leadership. Now this is the eighth year in a row. While our import business is also doing very well. We have seen six-fold and three-fold increases in our Alfa Romeo and Maserati sales, respectively. When we look at the other brands under Stellantis umbrella, they have been performing also quite strongly year-to-date with passenger car market share of all brands under Stellantis umbrella improved by 470 basis points, reaching to slightly below 34% in the first Nine Months.

In terms of LCV market share, we maintained our number two position with 23.7% market share and a slight retreat compared to the previous year due to normalization, as expected with our limited product offering in this segment. Whereas, brands under Stellantis umbrella continue to perform very strongly. And the total market share was up by 520 basis points year-over-year, reaching to 43.5% in the first Nine Months.

So in total market share, we maintain our distant market leadership with 16.6% market share compared to the closest competition of 10.4% despite around 200 basis points decline in our market share. Including premium brands, Tofas market share was down similarly at 210 basis points and standing at around slightly below 17% in the first Nine Months. Stellantis market share was up by around 450 basis points during this period and reached slightly below 36% in this period.

Moving on to export business. In the first Nine Months, demand in the European passenger car markets remained strong with a 17% year-over-year recovery. Despite this recovery, demand in the European markets remains around 20% below the pre-pandemic levels that's observed in 2019. LCV registrations, the data is not available at the moment, but it continues to perform well, which was up around 13% in the first Six Months of the year.

Our export shipments were down around 51%, and we shipped 42,400 units in the first Nine Months. On a positive note, our passenger car shipments showed a growth trajectory with 4% growth compared to around 18% contraction in the First Half of the year. And this is due to strong penetration of our Egea model to MENA region, which we expect to continue for the remainder of the year. This slide shows the monthly evolution of our export volumes, which is showing a similar pattern also due to the base effect and the product mix.

In terms of regional breakdown of our export business. MENA now constitutes the biggest portion of our export business, which is 39% of our shipments. And Italy is the second biggest region that we are -- the country we are exporting to 36%. And we expect strong momentum in the MENA region to continue in the upcoming period.

In terms of our shipment volumes by model. On the left-hand side, you could see we shipped 45,000 units less exports. And the main driver of this decline is Doblo and the RAM ProMaster City which we shipped around 40,000 units less compared to last year.

On the right-hand side, we shipped 48,500 units more in the domestic business which reached to 147,000 units. And the main driver of this increase are strong performance of the Egea, which we shipped 31,000 units more. Fiorino, despite is almost at its late cycle of its lifetime, it doubled the volumes with 26,000 units. Also, our imports vehicle business performed quite strongly, which almost quadrupled its volumes now constituting around 8% of our local business. All in all, we shipped 3,500 units more in total with a total shipment of close to 190,000 units in the first Nine Months of the year.

Moving on to financial performance. 2% shipment growth translated into 64% top line growth in the first Nine Months, and the delta being due to the depreciation of Turkish lira as well as good pricing in the local market. EBITDA growth of 72%, which reached TRY12 billion is parallel to the revenue growth. Whereas, profit before tax, our main KPI, grew by 171% reaching to a record high level of TRY13.6

billion. The composition of our revenue growth was mainly due to the growth in our domestic business, which grew by 152% in the first Nine Months compensating the 32% slide in our export business, which translates into 64% consolidated growth in the first Nine Months of the year.

In terms of profitability, as you can see, across the board, we have shown improvement from gross margin to the PBT margin significantly compared to the previous period. And this is mainly due to good performance in the local market and higher local business mix in our total revenues and also increasing financial income on the back of our growing cash pile on our balance sheet as well as higher interest rates.

Our net profit showed a similar performance to our PBT, except we paid taxes this period compared to the previous year and our bottom line surged by around 150% year over year, reaching to TRY12.5 billion in the first Nine Months.

You can see the snapshot of our P&L here and strong growth at the top line translates into even stronger performance to the bottom line due to operating leverage as well as very efficient cost management during this period despite the pressure from higher input costs in a high inflationary period.

Moving on to our balance sheet. Our balance sheet as of September remains very strong. We continued to generate significant amount of cash and our cash position increased by TRY9.6 billion with a cash position of TRY21.5 billion despite TRY3 billion of dividends. And on the receivable side, despite higher activity, we managed that quite well, which was flat compared to year-end. And as a result, our shareholder equity grew by almost TRY10 billion, standing at TRY21 billion compared to the year-end.

Our financial position remains solid, with a net financial position of EUR686 million as of the end of Third Quarter. And despite some increase in our net working capital, it remains at a negligible level compared to our turnover, standing at EUR32 million at the end of the quarter.

Moving on to capex. In the first Nine Nonths, we spent EUR30 million and half of which was structural due to the refurbishment at our plant for the new investment cycle. The remainder was spent for the passenger car investment.

Moving on to outlook for 2023. On the back of very strong year-to-date light vehicle market in Turkey, we decided to raise our local market estimate by around 12% to 1.1 million to 1.15 million units. With this, we are also raising our local market shipment guidance by around 5,000 units to 195,000 to 205,000 units. We are also reallocating some from export to the local, and we are reducing our export shipments by around 10,000 units to 60,000 to 70,000 units. As a result, we are maintaining our production volume almost the same to 240,000 to 250,000 units for the year.

Due to the year-to-date slow investments, we are also reducing our capex guidance by EUR25 million to EUR100 million. I should note that it is also an accounting issue with related the acceptance of the receipts, although our committed figure is much higher than this. Lastly, given the strong profitability year to date, we decided to raise our PBT margin guidance from plus 14% to plus 15%.

This marks the end of our presentation, and we would be pleased to take your questions. Operator?

OPERATOR: The first question is from the line of Demirtas, Cemal with Ata Invest. Please go ahead.

DEMIRTAS C: Thank you for the presentation and congratulations for good results. My question is about the domestic market. So far, you have impressive performance and the market has been growing. After the latest interest rate hikes, do you see any initial signal of slowdown? Maybe -- not maybe this year, but for 2024, could you further elaborate how the supplier demands conditions and maybe from the leasing side or the individual buying, how do you see the trend? That's my first question.

And the second question is about the inflation accounting issue. Did you have a chance to elaborate how the impact will be on your company? Any -- just in color about the potential impact or do you expect it to be implemented? That's my second question.

EROLDU C: Good afternoon. This is Cengiz speaking. Thank you for the question. So, regarding the local market situation, of course, we are seeing signal of a certain level of slowdown, which is clear. So now from the pull market, we are moving to the push market. So, this will be the last quarter of this year and also in 2024, our expectation is to be not anymore into the pull market, but market will be the push on.

So of course, this will increase the competitiveness in the market. But as Mehmet explained, for this year, we are not expecting any important slowdown in the market size after the numbers till September and also October seems will be around 90,000, 95,000 units. So with this tempo, our forecast is around 1,150 or more market for this year.

For the next year it is not easy to make a forecast. But of course, until the elections we are waiting some improvement in the market conditions. Until March, the market will be, I think, high. And -- but after the elections, we will see how will be the situation of the exchange rate also will be important to understand the market. But actually, we are not waiting also huge drop in 2024 compared to 2023 because we are -- I am also hearing some rumors talking about 30% reduction in 2024. We are not so pessimistic for the next year.

Regarding the inflation accounting. This application will be valid at the beginning of the next year. Only at the statutory side, of course, not for the IFRS. So according to our knowledge is today and our -- we are preparing our system in order to be ready for the application. Thank you.

DEMIRTAS C: And maybe as a follow-up the question about the exports plans, Cengiz bey. Do you think all after the agreement with Stellantis, are all process going as you expected or the market is very eager to see the new project and the Stellantis?

Do you think everything is just as planned? Or do you experience any slowdown, for instance, the competition boards or others? I know that in the past, you have conviction. But just to remind, everything goes as planned or should we expect things are going on time, just a check?

EROLDU C: According to my knowledge and my expectation, the activities are on track, so are going as we planned. So of course, for the export now, we are facing a transition period between the existing range and the future range for this season, this year and next year, we will see some, let's say, moderate numbers in the export volumes, but we have the plans for the future, and we will disclose when we'll be ready and confident about the future plans.

OPERATOR: The next question is from the line of Kilickiran, Hanzade with JP Morgan. Please go ahead.

KILICKIRAN H: Thank you very much for the presentation. I have a question regarding your FX position. What is the main driver behind the FX losses in this quarter despite you had the long FX position at the time when Turkish lira depreciated? It's very difficult for me to understand this FX position in the Third Quarter?

And how should we think about your FX base going forward? Because as your domestic volume is -- I mean, the domestic revenue share will increase, you will have lower receivables in FX, but payables are still in dollar terms. So, I think you will start running short FX position. So, I just wonder how you are going to manage the short FX position out of the export side?

EROLDU C: But first of all, Hanzade, we are very careful with the FX position of the company. So, we have some clear rules and we are following those. But in our financials, of course, some of the impacts we are seeing at the financial front, but some impacts we are seeing at operative level. For this reason probably looks like we have some FX loss, but in fact we are not having any position overall.

Because our -- in fact, we have the -- our position is a balance between the cash that we are carrying in hard currency. Our hard currency payables, hard currency trade payables and hedge accounting application, as you know. So, in this environment, we are not carrying any important long or short position.

KILICKIRAN H: In the interim phase, it's going to change next year because next year, you will have more domestic revenues. So, you will have less receivables in FX more trade payables in dollars. So, you will -- mathematically, you should be a short FX position if you are not going to hedge it.

EROLDU C: But as I said, this is the company rule. So, we cannot carry, as a compliance...

KILICKIRAN H: So, you will hedge it?

EROLDU C: Yes, we will hedge them or naturally or with banks.

KILICKIRAN H: Okay. And regarding -- I don't know if you are going to guide us, but -- because it's still in process. You are guiding very strong PBT margin for this year over 15% and you had a very successful year. But going into 2024 when the distribution assets are included, is it reasonable to assume this PBT margin declining to historic levels? Or you will still feel comfortable to run over 15% PBT margin?

EROLDU C: But actually, today, we are bit higher than 15% PBT margin. And this 15% or before it was 14% is also showing the next year target because now we have 2, 3 months till the year end. And for this year, we want to keep our position.

KILICKIRAN H: Including the distribution assets ones, Cengiz bey?

EROLDU C: Yes, next year. So, we are also trying to give a guidance, not in the short term for a couple of months. But let's say 1 year, 1.5 years period targets.

KILICKIRAN H: Okay. Thank you. Thanks a lot.

OPERATOR: Ladies and gentlemen, there are no further questions at this time. I will now turn the conference over to Mr. Renzi for any closing comments. Thank you.

RENZI F: Okay. Thank you, operator. Thank you all for this participation on the interest on our results. I wish you good evening.