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TÜRK OTOMOBİL FABRİKASI A.Ş.

TOFAŞ Türk Otomobil Fabrikası A.Ş.

Twelve 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, CFA - Investor Relations Manager

Conference Call Conducted by Chorus Call Hellas

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PROVIDER OF TELECONFERENCING SERVICES

TEL: +30 210 94 27 300

FAX: + 30 210 94 27 330

Web: www.choruscall.com

OPERATOR: Ladies and Gentlemen, thank you for standing by. I am Konstantinos 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 Twelve 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: Thank you. Good afternoon. Thank you all for joining our call. We are very pleased to announce the result for the full year 2023, which is the best result, however, of our company in hard currency after restatement.

As you know, for the first time, we are going to present our data with the hyperinflation effect following the decision of the Turkish reporting authority to apply IAS 29 in Turkey. We ended the year with a remarkable 14.4% profit before tax margin, boosted by an excellent financial performance on the local market, which accounts now for 77% of the total business of the company. This strong performance on the domestic market was able to more than compensate the contraction of the exports due to the discontinuation of Doblo.

The financial components contribute to this outstanding results, thanks to the solid cash position. We ended the year with more than EUR700 million in our end, and the company is ready to deal with the new investment phase and to reward the shareholders according to the consolidated distribution policy.

On the domestic market, with 15.7% market share, we kept our leadership position in a market that is becoming more and more competitive, better availability of imported cars combined with new brands entering the market are transforming quickly the competitive scenario. On top of that, the actual Special Consumption Tax scheme is not providing any support to the most affordable cars locally produced.

In spite of that, with a 13% market share, we are the leader in the PC segment, and Egea remains the most sold cars in Turkey after eight years.

On the LCV segment, we confirmed our position on the market with Fiorino that was able to fill the gap created by the discontinuation of Doblo. To be underlined, it also -- they increased penetration of the imported cars, around 9% in 2023, driven by the growth of Alfa Romeo and Jeep brands.

Regarding export, not too much to say, waiting for the new generation of vehicles to be launched in Bursa. We are very pleased to see the good performance of Tipo in MEA region. As a result of that, we are assuming a stable situation of the export volumes in the outlook of 2024.

Last, but not least, the implementation of the strategic agreement signed between the parties on March 2023 and specifically, the acquisition of Stellantis Turkey. As we disclosed in December, we are now waiting the final approval of the transaction by the Competition Authority.

Now I will give the floor to Mehmet for the presentation, and then we can take your question in the Q&A session. Thank you.

AGYÜZ M: Thanks. Good afternoon and good morning, everybody. In 2023, Turkish automotive production was quite strong, which reached slightly below 1.5 million units suggesting 9% growth compared to the prior year. Tofas constituted around 16% of the industry with a production of around 240,000 units, around 9% decline compared to the prior year.

In terms of production mix, there was a significant change due to the phase-out of Doblo. Passenger car production constituted 71% of total production at the expense of LCV.

Moving on to our shipments. We shipped 3% less last year at 261,000 units. Local market performance was quite strong, and we shipped around 35% more units, but this was offset by around halving of the export volumes due to expiry of Doblo contract.

In terms of business mix, the most notable change was observed in our export business, where the LCV shipments constituted around 30% of our export shipments compared to around 70% in the prior year due to Doblo.

Moving on to domestic market. In 2023, domestic light vehicle demand in Turkey reached a record high level of slightly above 1.2 million units. As you may recall, the market was close to 1 million units in 2016 and 2017. And since 2019, there has been a recovery mode, but in 2023, the growth was phenomenal with 57% growth in the total market.

Demand shifted slightly more to the passenger cars, which grew by 63%, slightly below 1 million units, whereas LCV demand was also quite healthy with 40% growth, which was around 265,000 units. Despite tightening in the macro conditions since the elections last year in the second half of the year, domestic light vehicle demand remained robust, although the loan rates has gone up, the loan availability has become more limited.

The light vehicle demand in fourth quarter sustained its strong momentum with 43% growth in the quarter alone. At Tofas, we shipped 33% more with 200,000 units, slightly below the market. But when you look at since 2021, actually, our growth is parallel to the market growth in the last two years.

Despite the phase-out of Doblo, our LCV shipments were parallel -- the growth was parallel to the market growth, which grew by 39%, thanks to very strong performance of our MCV model. Whereas our passenger car shipments trailed the market with 30% growth due to better availability of the import vehicles as well as other factors I will mention later.

In 2023, we maintained our passenger car market leadership, which has been the case since the second half of 2022 with a market share of 13%. Egea, since its launch eight years ago, it has consistently been the market leader, and we maintained that position last year as well.

Passenger car market share of Fiat brand declined by around 340 basis points compared to the prior year, mainly due to better availability of imported vehicles with the end of the supply crunch in the automotive sector, there has been an influx of imported vehicles to the market, to Turkish market, as well as new entrants from especially from China. Lastly, increasing penetration of electric vehicles impacted our market share.

There hasn't been any revision in the Special Consumption Tax bracket, which has been done annually. This also reduced our competitive position as a local producer as most of our product portfolio now at around 80% SCT level for vehicles up to 1.6-liter engine.

And to a lesser extent, the last factor was some production constraints at our plant. We are refurbishing our plant after the halt of production for Doblo and opening space for the new models. So this creates slight bottleneck with less-than-ideal production tempo, which impacted also our market share last year.

When we look at brands under Stellantis umbrella, they had a remarkable year with a PC market share of 31%, which was 90 basis points improvement compared to the prior year.

In light commercial vehicle market, we performed quite strong with a flat y/y market share of 25.7%, a second position in the market despite our limited product offering, thanks to strong performance of our MCV model, we were able to fill the gap from Doblo shipments. When you look at the total market share of brands under Stellantis, they had also quite a strong year whose market share improved by 730 basis points compared to the prior year.

In total light vehicle market, Fiat brand maintained its market leadership, fifth year in a row, despite a 300 basis point retreat in the market share, which is standing at 15.7%. This is still a distant position ahead of the second player. Including premium brands, Tofas market share was 16.2%, and the brands under Stellantis umbrella also improved their market share by 220 basis points reaching to 34% in 2023.

Moving on to export business. Both PC and LCV markets recovered in 2023 in Europe, which showed 14% and 16% recovery last year. It is worthwhile to mention that despite this recovery, especially for the passenger car market, it remains 20% below the pre-COVID levels observed in 2019. At Tofas, due to the change in the product portfolio, our export shipments were down 50% to slightly above 60,000 units. And as you can see here, the driver of this is lower LCV shipments due to our temporary gap in our vehicle portfolio.

On the other hand, our passenger car shipments grew by 9%, thanks to leveraging the existing distribution network of Stellantis as we have been mentioning and very strong penetration into the MENA region, which we expect to continue for the years to come. You can see the monthly evolution of our export volumes. And towards the end of the year, it seems the contraction rate had accelerated, but it is important to note that the base effect of the prior year's fourth quarter was quite high due to the front-loaded demand ahead of the expiry of the Doblo contract.

This is the regional breakdown of our export business and the most notable change you can observe here is the MENA region, which is now our biggest market with almost half of our export shipments going to this region. But of course, due to the transition period we are in, the numbers are also small. It should change, starting with our new investment. The second biggest market is Italy, which now constitutes almost 30% of our export shipments.

This slide shows our shipment volumes by model. On the left-hand side, our export business, we shipped around 61,000 units less, but you can see Doblo and the Ram ProMaster City, which is the Doblo going to the North America, is explaining this decline.

On the other hand, you can see that our sedan model, which more than tripled its volumes, thanks to the penetration into MENA region was the star performer for our export business. On the domestic side, it is the continuation of trends in our strong domestic shipments, and we shipped 52,000 units more in the domestic market. And this is thanks to the combination of sustained performance of Egea and also Fiorino performance, which was quite remarkable in 2023.

Moving on to financial performance. As you know, this is our first webcast with the inflationary accounting and this slide reflects the real growth in our business. So essentially, our shipments were down 3%, while this translates into 3% revenue growth due to the change in the business mix. Whereas the 3% growth in the top line translates into 45% growth in our operating profit thanks to strong improvement in our local business.

And on on the PBT side, the growth was even higher than our operational level with 70% growth with a PBT of TRY18.3 billion, supported by the higher financial income due to our growing net cash position. This shows the snapshot of our P&L. 3% y/y growth in the revenue translates into higher growth on the PBT and net profit, thanks to strong improvement in our profitability across the board.

Moving on to balance sheet. We have TRY5 billion more cash and cash equivalents, which is now almost TRY25 billion, positioning us quite well during the investment cycle and to be able to distribute our historical dividend payout policy. Inventories almost doubled to slightly below TRY10 billion due to slight increase in our imported vehicles. On the other hand, shareholders' equity improved by TRY11 billion, reaching to TRY37 billion despite the TRY3 billion dividend distribution.

Moving on to investments. We spent around EUR50 million last year, bulk of which was for Egea and structural investments. We started the preliminary investments for the K0 model, which we spent EUR8 million last year.

Moving on to outlook. After a record year of 1.2 million units in the local market and considering the tightening conditions on the macro side, we think there would be some pullback in the markets. And we also want to start the year with a more cautious terms as you are familiar with. Hence, we are expecting local market to be 800 million to 1 million units in 2024. And in parallel to that, we are also expecting 160,000 to 180,000 units for our local volumes. This suggests a lower decline than the market.

With a more value-oriented product offering, we are expecting to recover some market share in the market. For exports, we are looking to flat to slightly better export shipments with 60,000 to 70,000 units, thanks to continuation of our penetration in the MENA region. In terms of production, we are looking for 180,000 to 210,000 units, which is slightly lower than the decline in our local business as we are projecting a higher penetration of imported vehicles in our local sales this year.

For Capex, we are looking to ramp up our capex from EUR50 million to EUR200 million this year with the ongoing investments for our upcoming shift in our product portfolio. And for the PBT margin, we are looking for minimum PBT margin of 10% in 2024. I would like to mention our sustainability efforts and last year, we had improved our ESG score, which is done by Refinitiv at -- by around 10 points, standing at 82. This positions us globally among 290 auto and auto parts companies in a 13th position, which we are glad to share with you.

Lastly, since this is the first quarter with hyperinflation accounting, we want to provide some color on our financials before IAS 29 impact since we already announced nine month figures without this impact. You can see here clearly that our performance was quite robust in 2023 with 57% revenue growth, translating into 150% to 140% growth in PBT and net profit due to the similar factors I mentioned for our financial results with IAS 29.

This concludes our presentation, and we are happy to take your questions. Operator?

OPERATOR: The first question comes from the line of Kilickiran Hanzade with J.P. Morgan. Please go ahead.

HANZADE K: Thank you very much for the presentation. I have three questions. The first one is about your guidance. As you flagged that you are targeting to gain market share in 2024, but in the meantime, you are highlighting rising competition in the market. So what are the key drivers behind this target in terms of market share gain in 2024?

And the second question is about K0 project. I know it's not confirmed yet. But is it possible for you to share if there is any sort of risk on this project in case there could be a further delay in the acquisition of Stellantis Turkey distribution? I'm trying to understand whether they are tied to each other.

And the third question is about your PBT margin. I think you are quite conservative with around 10% PBT margin. I mean, I'm trying to understand whether you are conservative, or you see some sort of total margin pressure in 2024? Thank you very much.

RENZI F: Okay. Hanzade, Fabrizio, speaking. I will start from the last question about PBT, 10%. You're right, we are a bit below the level that we reached after restatement in 2023. But this is the first guidance for 2024. And as you know, we like to be a bit conservative at the beginning also because we want to observe the market in the first quarter.

As we mentioned already in the call, there are aggressive competition on the market. Also, the evolution of our mix is not favorable, means that we are seeing an increased portion of fleet, but also in 2024, we are planning to increase the import vehicle and both these trend evolution can be unfavorable.

On top of that, please take into consideration that the good result 2023, as there's strong contribution of the financial, around 2% of the PBT margin came from the financial component. And at this stage, we cannot assume that we can duplicate this effect in 2024 because as you know, we are going to start a new phase of investment, so we cannot count on a same level of cash.

This is regarding your third question. For the K0...

HANZADE K: Fabrizio, can I make a follow up here? You highlight that you are planning to increase the share of imports. But this is separate from the Stellantis Turkey distribution assets, right? I mean you are not including the distribution asset into your guidance.

RENZI F: Yes. You are right. In this moment, it is -- our guidance is total stand-alone without any effect of the potential consolidation. So as Tofas, we are going to import more cars. One of the model that you can assume is Doblo that now is produced out of Turkey. So you're right.

HANZADE K: All right. Okay. Thank you.

RENZI F: About K0, okay, what I can highlight is that now the K0 project that is an industrial project is going on autonomously. So without any interference with the project of acquisition at the merger. So if you want in this moment -- we are carrying on the commercial project of integration separately from the integration from the launch of the new generational vehicle in Bursa that is an industrial project.

So in this moment, we are carrying on the two projects in parallel. What could happen if there is a delay in the consolidation -- commercial consolidation, I'm not able to answer, but what I want to underline is that, in this moment, there are two different projects. So the shareholder can agree to go on independently in the future.

But at this stage, there is no slowdown in both projects because of the competition authority process. So we carry on the project with the same speed that we planned at the beginning. So no delay on this. For the market share 2024, I will give the floor to Cengiz that is much better than me on this based on his experience.

EROLDU C: Hello good afternoon. On the market share side, Hanzade said, we are targeting to improve our market share. This mainly will be from the light commercial vehicle side because in 2023, although we closed the light commercial vehicle market with around 27% of market share, but we had also a lot of problems regarding availability of imported cars.

And this year, we are not planning to have this kind of problems. For this reason, with the successful numbers of Fiorino also and imported light commercial vehicles, we will try to improve our market share. So that's the rationale behind how we will increase the market share.

HANZADE K: Okay. So you are trying to compensate the Doblo through importing and will compensate the market share like this...

EROLDU C: Yes. Because Doblo is also kind of segment name because now it's a kind of more than this Fiat brand in the commercial vehicle market. So after long years in Turkey, Fiat Doblo became a name of the segment like Jeep, now everybody is also calling

Jeep also Doblo has a different heritage in Turkey. We would like to use it with imported ones.

HANZADE K: Okay. Thank you very much Cengiz.

EROLDU C: Welcome.

OPERATOR: The next question comes from the line of Gezer Evren with TEB Investments. Please go ahead.

GEZER E: Hi, thank for the presentation. I have also 3 questions. The first one is about K0 project. One, do you expect that to start shipping off these vehicles? And does your guidance includes any sales from this project for 2024? For the Stellantis automotive merger, do you see any risk of competition board rejecting the merger? And do you have any alternative plan, if this merger fails?

And finally, a question on your depreciation charges. I see that your charges declined from TRY7.3 billion to TRY3.9 billion from 2022 to 2023. What is the reason of this decline? I mean, I see that there are some declining tangibles and intangibles, but the annual charges are lower compared to your growth effects as well. So can you clarify this four things.

RENZI F: Thank you for the questions. First of all, the depreciation reason is the phaseout of Doblo in 2023. Second question regarding the competition authority, actually, we are not seeing any important risk because we get the permission already a couple of years ago when the -- this Stellantis and this ex Fiat Chrysler and ex Peugeot, Citroën decided to merge at that time also we applied to competition board in order to get their approvals. And at that time, the issue, I think, was much more complicated.

So for this, we are not seeing a problem. In fact, we can find also different ways because what we are asking is not different than the rest of the world. Today, in all the countries in the world, there is this kind of structure.

The older brands are working together. And as Turkey is one of the important markets, we want to follow the European and work the structure in order to benefit from the synergies. So we are not asking anything more than what's happening in the rest of the world.

For this reason, we are we are not seeing any risk, but the shareholders, as this decision -- so if they -- we can find those other ways of making this kind of merger, if needed. But I don't think we will need -- and we will proceed with the competition board and it should not be a problem. For this, practically we didn't work any alternative scenarios.

Regarding K0 for a moment, in this position, we cannot make any disclosure about the timing and when the first cars will be produced in the Bursa plant. But as we also communicated in the previous meetings, we are working on the profitability phases and for the preparation activities.

OPERATOR: The next question is a follow-up question from the line of Kilickiran, Hanzade with JPMorgan.

HANZADE K: Thank you very much. I have one more question about your dividend policy. When we get into this inflation accounting standards, it looks like that it's better to be a leveraged company rather than a net cash company because you are recording monetary loss when you have higher cash position. So could there be any strategic change in cash management in 2024, such as distributing more dividends and leveraging yourself, not carrying too much cash on the balance sheet?

EROLDU C: But actually, we are not forecasting any changes on our dividend distribution policy. So you remember, so in the last years, we always try to distribute our maximum levels. So of course, this is not a decision of the management. It will be decision of the general assembly, but we want to keep the same policy also for the coming years.

HANZADE K: Okay. So with the capex, you are not planning to cut the dividends, and it will continue on the same strategy. Thank you very much.

OPERATOR: There are no further audio questions at this time. We will now move to our webcast questions. The first webcast question comes from Erim Isparta with Ata Portfoy. And I quote, "Thanks for the presentation and congratulations for the strong results. What do you think about Chinese producers and high competition in the industry? Could you mention about competitive strengths of Tofas against it? Is there any moats?" Thank you.

EROLDU C: Thank you for the question. Of course, the Chinese producers' attacks is a problem for the Turkish automotive industry. They have some competitive advantages, that's also true. First of all, they are in a better position regarding raw materials. As you know, in Turkey, we are -- as producers, we are not benefiting from local raw materials, all the raw materials in Turkey are imported from plastic to the sheet metal, mostly I guess, Tofas 50% of our sheet metal also is imported.

So they have the better raw material costs compared to us. This is the first advantage. And second advantage, of course, due to the economy of the scale, they have competitive costs on the, let's say, more technological part. That's also another competitive advantage of the Chinese producers.

But comparing -- for the rest, Turkey is a competitive as Chinese producers, what I believe, and but I see also from our analysis. So for this reason, we have -- first of all, we have a very established service network in Turkey. And we know better the customers so in the most countries, we are seeing also lot of problems coming from customers for Chinese product, so for the service side.

And as Tofas, our position, of course, we are very strong in the light commercial vehicles where Chinese for a moment, they are not present. And also, we are performing in the B and C segments, there also Chinese are not here. So compare the other importers, I think -- we should not have a important issues with the Chinese competition.

But of course, they will get some market share in the Turkish market. And what also we are expecting from government also they should support the local production in the country because this penetration is not for the benefit of the country. We should also support the Turkish automotive industry, which is an important power for the Turkish economy. Today, the automotive industry is making more than 30%, 40% of total exports. We should not forget also this.

OPERATOR: The next webcast question comes from Furkan Zengin with Ziraat Portfoy. And I quote, "Thanks for the presentation. Do you foresee the completion of Stellantis process in 2024?"

EROLDU C: Yes. As I probably said also during our meeting in the mid of 2024, we are expecting to close the process. So that's our expectation.

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

RENZI F: Thank you, operator. I would like to thank all the participants for their questions, for their interest, and I wish a pleasant day.

OPERATOR: Ladies and gentlemen, the conference has now concluded, and you may disconnect your telephone. Thank you for calling. Have a good afternoon.