

TOFAŞ TÜRK OTOMOBİL FABRİKASI A.Ş.

TOFAŞ Türk Otomobil Fabrikası A.Ş. 20Q4 Financial Results Conference Call and Live Webcast

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Conductors:

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Mr. Fabrizio Renzi, CFO

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Conference Call Conducted by Chorus Call Hellas



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Q&A SESSION

OPERATOR: The first question comes from the line of Bepalov Vladimir with VTB Capital. Please go ahead.

BESPALOV V: Hello, congratulations on good results and good performance in 2020. And let's hope this year will also be great for you. I have several questions. My first is on the CAPEX guidance that you provide. If my understanding is correct, that this CAPEX number doesn't take into account the potential conflicts of...for the new Doblo, and once you sign it, you'll adjust the number.

The second question maybe you could share... provide more color on the sales of cross-over, because you started this in December, but I didn't see anything in the 2020 numbers on unit sales. But maybe you can say how this go and what share in total sales you expect domestically and in excess maybe some range, if not exact numbers?

And you know, the third question will be on potential synergies, that apart from the Doblo contract that you might expect from the completion of the merger of FCA and PSA, and in particular at the domestic market? How do you expect for example, like the distribution to be arranged following this merger in particular, maybe you can take over distribution of Peugeot, Citroen and Opel? And also, on international markets, what opportunities do you see, and maybe in the technology parts of your business? Thank you.

RENZI F: Good afternoon, Vladimir, Fabrizio speaking. I will try to explain better the assumption behind the CAPEX 2021. So, the guidance is €100 million to be spent in 2021. In this number, we have as usual the amount for the spending for the maintenance, we have the residual part of the Tipo project. As you have seen in 2020, we spent around 85 million, but as you can remind the project is 200 million, so we have our pending balance in order that will shift from 2020 to 2021.

So, with this explanation, I want also to give you an explanation for the 2020, why we are below the guidance. So the amount that we are seeing in 2020 is the accounted amount, but what we follow generally internally is the committed amount, so the real amount approved. So, in 2020, we can consider that the real amount approved was around 140 million.

Coming back to 2021, remember that we have approved also the prolongation of Doblo, and prolongation of Fiorino and in 2021 will be visible also the spending... the first spending for these 2 projects. When it comes to Doblo, yes, we have also an amount for Doblo because we continue to study, and we continue to carry on this project. Of course, as we mentioned also in the previous conference call the program slowed down in 2020 because FCA decided to give the priority to other projects and Tipo is one of the project that we pushed and we gave the priority in 2020 also because of the restriction and problem resulting from the COVID. But yes, we have also in 2020 an amount for the continuation of the study for Doblo. So, this is the first question related to CAPEX.

For the cross-over.

EROLDU C:

Okay, I am going to respond. Hi, Vladimir. So, the crossover... so before the crossover, overall MCA since that is very well accepted in the Turkish market. We are not seeing yet in the figure of January because we started production in the plant 13th of January due to the maintenance work in the plant, because you would remember in August 2020, we reduced the closing period of the... of our plant in order to respond to the local market demand.

And we postponed at that time some maintenance activities from August 2020 to January 2021. So, for this reason, we had this additional week of closure in January. And unfortunately, also our passenger car stocks were very low at the end of the year, because we succeed to solve all the availability in December.

So, for this reason, in January, we had a problem of availability from the production side. But now starting from February, we will see much better numbers in the local market. Also, the cross numbers will be very interesting. So, the attention and the demand, what we are seeing is very high. So, we had a lot of orders that we are also trying to respond. So, we are happy with the first reaction of the market regarding the not only to cross, but also to MCA. That's also valid from the pricing point of view. Also, the new MCA prices are well expected in the market. Similar attention we are seeing also in European markets. But in Europe, as you know, there is a lot of market and still the commercial launches are ongoing.

So, to see the better numbers of the European demand, we will wait. We should wait till the finalization of all the commercial lines on all the markets in Europe.

Regarding your third question, the potential synergies and the merge issue, of course, the establishments of the Stellantis is happened a couple of weeks ago. So now we started to contact with the new... say new management, because in the meantime also all the managerial positions are changed. So, we will need some period for the alignment also, because now we will work with the new management and the... so for this reason to talk about the possible synergies in Turkey or in the global activities is early, but as soon as we will have some decision or some better visibility, we will share with you. Thank you.

BESPALOV V: Thank you very much.

OPERATOR: The next question comes from the line of Kunter Selim with AK Invest. Please go ahead.

KUNTER S: Yes, hi. Thank you for the opportunity. I have 2 questions, if I may. The first one is going to be on your guidance. I know January is not an indicated month for the year, but last month was nevertheless exceptionally strong for passenger vehicles. First of all, what was the main driver of this performance? And I'm not only asking for your side, maybe on the sector as well. And how comfortable are you with your full-year projection?

I mean, do you see any upside risks now or would you call this a one-off spike in demand for the previous year's models?

And my second question is related to your working capital, during the last two Quarters, I see that your days receivables doubled, and so did the payable days. So, in that sense, this was a balance trend, but how should we project your working capital going forward, in other words, is the new cycle sustainable or should we expect normalization? Thank you.

EROLDU C:

Thank you for the questions. First of all, the guidance for local market. So, our guidance for local market for 2021 is between 700,000 and 750,000 units. From the opening of the year, what we see there is a upside potential. So, as you know, as Tofaş we are always conservative on the market side, because unfortunately, Turkey is such a country that you should be optimistic, but also conservative. But what I can say now, I see upside potential in the local market.

As you said January is not indicative, because when I see the 4 big players in the market, all 4 in January lost market share, including us. And the main part of the sales... are coming from the other players. As you know, in Turkey, the model-year impact is very important. So, customers, they always want to buy new model-year cars or if they are going to buy a year before model-year cars, they are asking more discount and so on. So, for this reason the passage compared to Europe in Turkey is different and is important.

And in this exchangerate environment, what we are seeing, all the importers due to the... they are going to import 2021 models with a better Turkish lira terms costs. They try to get rid of from their stocks.

For some of them, they used... they had orders from December, and now they are making the shipments in January. But as I said, this is not representing the total year because the total year will be different and the 4 big players in the market will continue to dominate also the market in 2021.

Regarding the working capital issue. So, our targets on the working capital side to be at zero level. So also, for the 2021, we will follow this direction. So, for your estimation, you can use this natural situation for Tofaş side. Thank you.

KUNTER S: Very useful, thank you very much.

OPERATOR: The next question comes from the line of Demirtaş Cemal with ATA Invest. Please go ahead.

DEMİRTAŞ C: Thank you for the presentation. My question is again about the merger. I would like to ask about the timing of potential developments regarding Tofaş, regarding this merger in domestic side or international side or the planning side. Could we see any signal in the first half of the year or it's very optimistic to think that some, you know, picture about Tofaş within this new family will become clear in the first half or should we wait for a year or more... for more credit clarification? Thank you.

EROLDU C: Thank you, Cemal. But I think not too... first off, I don't know, but this year yes, because when you see our also range. So also, for the passenger car line we... for a moment is planned, that you are going to end this line in 2024. So, we should be ready for 2025.

This means that it's taken into consideration the time for the development of a new passenger car. So technically, we have time until the year end of this year. So, for this reason, I think, this year we should...conclude also the future plans with Stellantis.

DEMİRTAŞ C: Thank you, Cengiz.

EROLDU C: Thank you, Cemal.

RENZI F: Okay. Maybe we can add that the Strategic Plan of Stellantis is expected to be officialized by the new CEO before the summer. So, the expectation is to see to have better visibility, but not only for Turkey but in general for the FCA, future allocation, play it safe with allocation at the end of the second quarter, so at least this is my expectation.

In terms of information, you know, the tangible asset most probably as Cengiz mentioned will be... might be in the coming years. But the visibility most probably in the strategic... the first strategic plan of Stellantis, as a combination of the FCA and PSA Group will be... might be visible at the end of the semester. This is our... my estimation if you want.

DEMİRTAŞ C: Thank you.

OPERATOR: The next question comes from the line of Kurbay Berna with BGC Partners. Please go ahead.

KURBAY B: Good afternoon and thank you for the call. I have also a couple of questions. The first one is about your export guidance. Do you see this year-on-year growth from almost 120,000 to over 150,000 coming from all the geographies you currently export in a similar manner or is one geography ahead of others like the MENA region coming to the fore last year? That's my first question. So, if there's any more growth in one region versus the other?

My second question is about the strength of the domestic market last year and how, whether it's meant that the solidarity rules kicked in for your take-or-pay arrangements in 2020? Another question I have is also on the semiconductor shortage that seems to be affecting the automotive industry globally. And I saw news that FCA and other global automakers see disruptions to their production. Is this an issue for Tofaş as well?

And finally, just touching upon the remarks that you've made about Stellantis and how your investment plans will materialize going forward, would it be correct to assume then that your more imminent projects, as far as, we know was the revvable of Doblo, but this announcement is more likely to come in the second-half of the year and is the prolongation of the current Doblo project, also a possibility? Thank you.

RENZI F: Okay, good afternoon, Berna. Fabrizio speaking. Let me start from your first question, the export guidance. As we mentioned during the presentation, our guidance... imply an increase of 35% compared to the 2020. This is an important number, but we believe that is achievable.

Also, if you consider that we have a very strong base effect, we cannot forget that the Second Quarter 2020 basically the export was close to zero, we have exporting in the Second Quarter 2020, 8,000 vehicles. So, for sure there is a base effect behind this estimation.

I would like to head a couple of also positive things that we are seeing. First of all, in Italy for example, there is a prolongation of the incentives. So the incentives in Italy will be available till June, so the prolongation will last one semester, and government has refinanced also the incentives for the internal combustion engines, so not only an incentive for the electric and hybrid solution, but also for the traditional car, let me say, so... and our people could enjoy these benefits in, at least in Italy, and this is a good news for us.

Second good news is that we are monitoring also the stock level of FCA, and the stock level at the end of December is good, so it means that is very low. So as a sum of different positive things, we believe that this guidance is realistic, is achievable. Last but not least, also the cross version is having a good introduction in the European market, so let's see, but we believe that these are a reachable and reliable guidance.

Second your question is a bit technical, you mentioned solidarity is not easy to speak about solidarity in this conference call, but yes, we can say that the solidarity in 2020 had an effect on the results. So, I don't want to enter into the details, but part of the solidarity mechanism is related to the fixed cost.

And you have to take into consideration that the distribution of the volumes between exports and local in 2020 was very different from the usual one in Tofaş. You follow Tofaş, so you know that usually the split is 65% of the volume is for export and 55% of the volume is in for the local market.

Take into consideration that this year, this percentage is completely different. So, we have a 55% for the local. So, let me say the penetration is up 20% and the residual 45% is related to export. So, I don't want to enter into detail, but yes, the distribution of the fixed cost had an effect in 2020, but it's...

EROLDU C: But it's not so material, so it's not important issue...

RENZI F: Semiconductor...

EROLDU C: For the semiconductor, I can explain, but regarding the export exploration, so this year we are awaiting better numbers from Western Europe because also we can see at the Mehmet presentation in 2020, the share of the non-European markets were increased in our exports. And the low performance was coming from the... mostly from European markets. And this year, we are awaiting the improvements, mainly on the Western European markets.

Regarding the semiconductors issue, see it's difficult to answer. So actually, we have the visibility for February production, but for March... I am not sure. So, because we are also following and recreate, but also on a daily basis the situation... so, still in Turkey on the... for the automotive industry, we are not seeing the impacts.

Last week, Renault made a declaration for the 1-week additional production stock in their books or plants, but they said for the less demand from the export market. So, it's a risk, we are trying to follow-up this share and manage the situation. As you know, we are...we have a good flexibility, we shown this also in 2020. But overall, the semiconductors issue is a risk for this Quarter and probably also for the next Quarter.

Regarding the Doblo passenger car, Stellantis issues, as I answer also to Cemal Bay. So, in this moment, we cannot make any disclosure about it, so we start to talk with the new management. So also, we are also trying to understand each other for our needs, their needs. So, we are at that situation. I hope, soon we will able to talk also about it. Thank you, Berna.

KURBAY B: Thank you very much.

OPERATOR: The next question comes from the line Kılıçkiran Hanzade with JP Morgan. Please go ahead.

KILIÇKIRAN H: Hi, good afternoon. I have a follow-up question on the supply disruption. Fiat closed its production plant temporarily in Ontario and Mexico, as far I gather. And how is your stock level in Doblo at the moment? Do you think that you're still going to end supply disruption, you will be able to meet the demand in the first two Quarters, and is it fair to make the agreement on the semiconductor side?

And the second question is about the pricing trend, particularly for the Turkish market. Do you see strong pricing in 2021, even

though you expect some sort of slowdown in the market?
Thank you.

EROLDU C: Okay. Thank you for your question. So, regarding the stocks, unfortunately, we are not in a good level, because the company also... we are also trying to manage our business, our working capital with the lowest possible level of stocks. So, for this season, so it will have some issues regarding sensors, conductors, and so on. So, we will have the problem. So, we don't have a huge number of the cars in our network stock, neither in Tofaş. So, this is the first issue.

Secondly, for the pricing, now of course, with the 2021 modular passage, all the mix made the price increases and after in the Turkish market we are seeing revaluation of the Turkish lira starting from year-end. This is also creating a positive gap for the profitability in the local market.

So, for this season, I can say that we start a good position and we... we also close two consecutive views as a leader in the local market. Last year, we sold around 140,000 units and the... we want to realize it for the third time, and I think we can do it with a better economics also.

KILIÇKIRAN H: Okay. So Cengiz is it reasonable to assume that, even though metal prices are increasing globally, I mean, there's a raw material issue now for the industrial companies. In Turkey, you will be flexible to reflect the cost inflation on pricing, on retail prices?

EROLDU C: Yes.

KILIÇKIRAN H: All right, thanks very much.

OPERATOR: We have a follow-up question from the line of Bespalov Vladimir with VTB Capital. Please go ahead.

BESPALOV V: Hello, again. Thank you for taking my follow-up question. I would like to ask you about the capital allocation, you have more than €4 billion of cash right now. So, the CAPEX guidance that you provided for this year is not that huge at least at the moment and probably could be easily financed by either debt or operating cash flows. So, what kind of dividend do you expect to distribute and to what... in general, what are you planning to do with this cash, which is on the balance sheet right now? Thank you.

EROLDU C: Thank you, Vladimir. But in all this meeting in the last years, I always said that we have excess cash in the company, and our policy is to distribute what we can in a maximum level. So also, this year, we will continue with the policy. But of course, I cannot disclose the numbers, now but the policy is unchanged. So, you also underline, we have excess cash in the company, and not huge investments in 2021. So, you should not be worried about the distribution of the dividends.

BESPALOV V: Okay. Thank you very much.

EROLDU C: Thank you.

OPERATOR: At this time, we will move to the questions from our webcast participants. Our first question is from Unal Cem with Goldman

Sachs. Could you please elaborate the reasons behind the significant and net FX losses especially in the financial line in 4Q20?

EROLDU C: But, as you know, in Turkey mainly in the last quarter we had an important volatility on the exchange rate site. And the... so to manage the... the... a fixed position was not ease in the company. And on top of this also as you know, we have the hedge accounting application, and every month we are passing some of page value to the P&L of the company. And on the peak months of the exchange rates, unfortunately were October and November this year.

So, this application has improved our operative and EBITDA level, but we had some burdens on the financial side, that's the reason why you are seeing worsening numbers on the financial part of the P&L of last quarter. Thank you.

OPERATOR: Okay. The next question is from İşyar Burak with ICBC. Hello, could you please explain the reason behind high FX loss in the Quarter, and whether we would see a similar trend in 1Q? Thanks.

EROLDU C: Yes, thank you for the question. It seems to be the same, but maybe for the First Quarter bearing any volatility we should not see a similar impact. But, you know, we are still at the beginning of the quarter. Yes, we can take the next question, operator.

OPERATOR: The next question is from Kolesnikova Maria from Millennium. Thank you for the presentation. Could you please comment on

the trends we are expected to observe in 2021 that would impact your gross margin, product mix, geographical mix? Thank you.

RENZI F: Okay. If this is a kind of guidance for the result 2021, as you know, as usual we prefer to guide you with PBT and not with the gross margin. So, as you know, we believe that our sustainable level is profit before tax above 7%, and we confirm also for 2021, this level of profitability. When it come to the geographical distribution, I believe that we mentioned before, we believe that there will be a recovery on the export markets.

And in this moment in our guidance for the local market we remain prudent, but as Cengiz mentioned before might be in the coming months there will be space for...on upside. So, if this is correct, we will see an increase in both export and local. And that's all. Thank you for the question.

OPERATOR: The next question is from Uz Aytunc with Ata Yatırım. 1) Can you talk about possible models that's can be produced by Tofaş after Stellantis merger? Is there a possibility about electric vehicles or batteries? Is there a possibility for Tofaş to produce PSA models? 2) Can you talk about dividend payment? What is your expectation about dividend payout ratio?

EROLDU C: Okay. Might be we are going to repeat something that we already touched in the previous... in the previous answer. First of all... okay, first of all, which is the tangible effect of the merger, it's too early to be more precise. As I mentioned before the expectation is to see the first strategic plan of the Stellantis

at the end of the semester. So, most probably this will be also the right moment to evaluate the Tofaş position.

For the second question, okay, basically we don't have visibility for the future product allocation, and also, we don't have visibility on an electric vehicle if it could be an option. Dividend payments okay, we touched this point before, as usual, from technical point of view, and also from cash point of view we don't have any problem to distribute dividends. So, we... no change in the policy of the company. So, let's see, what will be the amount proposed by the board and approved by the general assembly. Okay, about the penetration of...

EROLDU C: Operator, we can take the next question, please.

OPERATOR: Okay, we have a question from Ocur Ozgur with Q&B. Thanks for the presentation and congratulations on your 2020 performance. My question is, how many crossover units were estimated in your 2021 export guidance?

RENZI F: Okay. Fabrizio, speaking. As we mentioned before the first reaction of the market was very positive, but anyway our estimation is that the crossover could cover the 20% of the Tipo production, so this is our first target. And then, let's see if we can improve this target or is a reliable and achievable target. For the moment 20% of Tipo is expected to be in the future Cross version.

OPERATOR: We have a question from Memisoglu Osman with Ambrosia Capital. Tofaş was rated as one of the best plans in the FCA

systems. Is there any indication where would rank in the combined system after the merger?

EROLDU C: Osman, hi thank you for question. But I see from the first stage that the PSA industrial footprint seems to me better than FCA, so for this reason we are on the top of FCA footprint. But, on the PSA side also we need, I think we need to work harder in order to...in the same position in the Stellantis Group. This is a strategic important issue also for us. So, we already started on this direction in order to improve also our... the performance on the industrial area. Thank you.

OPERATOR: We have a follow-up question from Kılıçkiran Hanzade with JP Morgan. Please go ahead.

KILIÇKIRAN H: Hi, I do apologize for asking this question again, but I am not likely about the CAPEX cycle on the guidance. You were mentioning about that €100 million is what you had... your guidance, but committed amount could be higher right? I mean, from a modeling perspective is it reasonable to assume that we may end up with a higher CAPEX spending in 2021, I mean, because €100 million seems to be very low if someone assumes that you are going to start investment on Doblo. What is your maintenance CAPEX, I mean, it should be probably close to these numbers, right? I am trying to understand the breakdown of this €100 million. Sorry, for asking this, but...

RENZI F: No, maybe explanation was not so clear. So, let's restart from 2020 result. Okay, we ended the year with €108 million of spending. I tried to underline that the real amount approved is

higher than this 108 million. So, this was my comment related to 2020.

So, the real amount approved but not in our accounting is around €40 million that will be visible in 2021. Okay, so in the €100 million that is the guidance of 2021, we have also this €40 million of carry over relating mainly to Tipo projects. Okay, so if you want the real amount 2021 is €60 million plus a carryover €40 million related to Tipo.

KILIÇKIRAN H: Okay, that's very clear for me. So... but €60 million isn't it a very smaller amount for a plant in your size I mean for maintenance and also Doblo?

RENZI F: Okay. Doblo, I mentioned that is not the full project Doblo, most probably I mentioned that is only the continuation of the study and we mentioned that we will have more visibility most probably in the second semester. So, you cannot...

KILIÇKIRAN H: So, you can upgrade it?

RENZI F: Yes, so most probably we can upgrade. But you have to take into consideration that now the new model will come in 2023, because we have prolonged the actual Doblo till 2022. So, the major part anyway...the major part of the new spending will come into 2022 most probably.

KILIÇKIRAN H: Okay, alright. No, I just want to be sure that you may upgrade it, if Doblo is agreed or I mean when the terms are, you know, I couldn't understand that initially. Thank you very much.

RENZI F: Welcome.

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: Thank you, operator. I would like to take the opportunity to thanks all the participants to this call and for the interest on Tofaş. I wish you all nice day and nice week.