

# TOFAŞ

TÜRK OTOMOBİL FABRİKASI A.Ş.

## TOFAŞ Türk Otomobil Fabrikası A.Ş. 1Q23 Financial Results Conference Call and Live Webcast

Friday, 27<sup>th</sup> May 2023, 17:00 TR

### **Conductors:**

**Mr. Cengiz Eroldu, Chief Executive Officer**

**Mr. Fabrizio Renzi, Chief Financial Officer**

**Mr. Mehmet A. Ağyüz, CFA – 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 Popi 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 First Quarter 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.

In the first quarter, '23, we keep improving our financial performance, and we are delighted to present you outstanding results today. Profit before tax amount to TRY 3 billion, almost 3x the results achieved a year ago. PBT margin stand at 16.5%, up 500 basis points compared to Q1 '22 and in line with the strong second half of '22. The cash position and cash generation are strong and will support the implementation of the strategic agreement in the second half of the year.

In terms of production, we have produced 61,000 units in the first three months with a rebound of 25% compared to the previous year by exploiting the normalization of the supply chain and a better material availability. On the full year, we are increasing our guidance to meet the increased commercial requests coming from the local market.

The key factor of this excellent financial result is the performance in the local market, where we have consolidated our leadership position with a market share of 21.1%, up 6.4% compared to the first quarter 2022. In particular, on the PC segment, we have reached a market share of 19.6% with an expansion of 8.6%, when compared with 2022, with a strong contribution of Egea. Egea remains by far the most selling car in Turkey, with 34,000 units shipped to final customers in the first three months. Remarkable also the performance of Alfa Romeo, thanks to the contribution of the new Tonale model. Our electrification plan is on track with the launch of 500 BEVs and Tonale plug-in.

Regarding exports, no big surprise. The contraction of the sales was expected and already included in our guidance. The decline is due to the discontinuation of Doblò for the export market. Overall, we confirm our guidance backed by an increase in penetration in the EMEA market.

Last but not least, the strategic agreement announced on March 1<sup>st</sup> . As announced in the past weeks, this is not only an extension of the industrial cooperation between the partners, but with the consolidation of the commercial activities of Stellantis in Turkey, Tofas is going to open a new chapter of this long-standing collaboration. Subject to some closing conditions, Tofas will purchase 100% of Stellantis

Turkey and will be in charge of the commercialization of five different brands, Fiat, Peugeot, Citroen, Opel and DS.

Regarding the industrial field, we have announced different initiatives. First of all, the allocation of K0 model to Tofas, a mid-sized LCV and combi version, will start up production at the beginning of 2025. It has been announced the prolongation of Egea till 2025, one additional year, while Doblò will be produced until July 2023. We are now working on some regulatory items, but we are all excited to start this new journey.

Now I will give the floor to Mehmet for the presentation, then we can take the Q&A, your questions.

AĞYÜZ M:

Hi. Good afternoon, and good morning, everybody. In first quarter, Turkish automotive market expanded by around 21%, reaching to 367,000 units, whereas Tofas constituted 16.6% of the industry production, with a production level of 61,000 units, which is 25% higher compared to the same period of last year. In terms of production mix, there was a shift towards PC, which now constitutes 65% of our production due to the discontinuation of Doblò production for export markets.

Our total shipment growth was parallel to our production. We shipped 25% more with a total shipment volume of 64,000 units. This was driven by a very strong performance in the local market, which was up close to 120%. This is a similar level to the fourth quarter despite the low seasonality of the market in the first quarter. And this more than offsets the pullback in our export volumes due to our product mix. In

terms of our business mix, the most notable change was observed in our export business, with the share of passenger cars increasing to around 40% level, compared to around 25% in the same period of last year.

Moving on to domestic market. In the first quarter, domestic market, as you all observed, was very strong and healthy, and it grew by around 55% compared to the same period of last year. It's important to note that it was only down around 10% compared to the seasonally highest fourth quarter of the year. The strength was driven by both segments, where PC demand grew by around 50%, reaching to 175,000 units. And on the LCV side, the growth was slightly stronger at 72%, reaching to close to 61,000 units.

The main driver of this performance is, as you know, automotive sector has been suffering from the limited availability due to semiconductor shortage and the challenges remain with us, but it is getting better every month. So better availability was able to meet strong demand. In addition what we have been observing and actually at an accelerating pace we observed in the first quarter, is the front-loaded demand, which is for investment purpose. Considering the limited alternatives for savings for the consumers to protect the value of their money, they are trying to buy hard assets, and automotive is one of them. We should note that limited macro visibility post elections also drives this front-loaded demand.

As Tofas, we significantly outperformed the market. Our total local volumes more than doubled to around 51,000 units, which is actually a similar figure when you compared to the fourth quarter of last year, and the main driver is our passenger car, which has been the best-selling vehicle since

its launch, which was up by more than 160% compared to the first quarter of '22, reaching to 36,000 units. But also, given the continuation of Doblò for the local market, our LCV shipments have performed pretty much in line with the market, which was up 61%, reaching to slightly above 15,000 units. This slide shows the monthly evolution of our domestic retail sales. As you can see throughout the quarter, there is an accelerating pace in February and March, also aided by the relatively lower base effect of last year.

In terms of market share, Fiat brand in first quarter maintained its market leadership with a further widening against the closest competition, reaching a market share of more than 21%, suggesting more than 640 basis points improvement compared to the previous year and also 220 basis points better sequentially. Including premium brands, the performance was similar, and Tofas market share stands at 21.6% in the first quarter of the year. In the first quarter, the increase in the market share of Stellantis brand was remarkable, with an expansion of almost 10 percentage points compared to the previous year and 6.4 percentage points sequentially, reaching slightly below 40% of the market in the first quarter of the year.

In passenger cars, we maintained our also distant market leadership with a market share slightly below 20%, suggesting notable improvement compared to the previous year and also compared to the strong performance in the fourth quarter. Here, the picture is similar for Stellantis brand. Its market share increased by around 11 percentage points and now stands at 37% in the first quarter.

In LCV markets, Fiat brand maintained its second position with a market share of slightly above 25%, which is slightly below compared to the previous year. Improving availability of the imported brands plays a role here for the year-over-year retreat, whereas it's improved by 120 basis points sequentially. In LCV market, Stellantis brand's market share reached close to 45% and around 500 basis points better compared to the previous year.

Moving on to export business. In the first quarter, European demand overall recovered, we can say with better availability as well, which had suffered the most last year. PC registrations was up by around 18% year-over-year. Battery electric and as well as the hybrid and plug-in hybrid markets are performing quite strongly and now constitutes almost 50% of sales in Europe in the first quarter of the year for the passenger car segment. LCV registration recovery was also decent with around 9% growth, also supported by the low base of last year.

As Tofas, our export performance is not comparable to the underlying demand due to the shift in our product mix stemming from discontinuation of Doblò. Our shipments declined by around 52%, mainly driven by the decline of 61% in our LCV shipments. If we were to exclude Doblò, the year-over-year contraction was only 3% for our overall export business. This slide shows the monthly evolution of our export business and which is tracking in line with our guidance and at a slightly improving pace, and we are looking for a further acceleration, especially in the second half of the year.

This is the regional breakdown map of our exports, although the volumes are low, so it's not very representative as small numbers make a big change in these percentages. But it seems that the share of Italy increased notably to around 45% of our export volumes, around 20 percentage points higher compared to a year ago. MENA region comprises around 15% our volumes, which we expect to increase throughout the year.

This slide shows the shipment volumes by model. On the left-hand side, we shipped around 14,000 less exports. And you can see Doblò is the main driver of this performance, whereas we shipped more MCV, and Tipo shipments were roughly flattish year-over-year. On the right-hand side, our domestic shipments, we shipped 27,000 more, around 51,000 units of domestic vehicles. And Egea here was star performer, which we shipped 21,000 more, which is now 34,000 units in the -- just in one quarter. Our smaller LCV Fiorino performed quite well, aided by the low base of last year due to some production shortages, it increased more than 5x, reaching to 7,000 units. Despite its aging profile, almost end of its life cycle, Doblò continues to perform relatively well in the local market. So overall, we shipped 13,000 units more and we shipped a total number of 64,000 units in the first quarter of the year.

Moving on to financial performance. As you can see on the left-hand side, we shipped 25% more, and this translates into 76% growth in the revenues and mainly driven by strong volume growth in the local market and healthy pricing in this environment, which more than compensated for the lower volumes in the export business.

EBITDA growth was parallel to the revenue growth, which grew by 65%, reaching to TRY2.9 billion. And profit before tax, which is our main KPI, grew by more than 150%, reaching to slightly below TRY3.1 billion in the first quarter of the year. In terms of revenues, the growth breakdown, as I mentioned, our domestic revenue more than tripled and compensated for the weakness in the export revenues.

Overall, as you can see here, our profitability was quite robust across the board on a year-over-year basis and our main KPI, PBT margin, reached an all-time high level of 16.5%, which is even higher than the previous quarters of last year. This is mainly due to our continued strong execution in the local market as well as financial income on the back of our growing cash pile with our strong cash flow generation aided by limited capex, as you know, we will be starting the K0 investment in the second half of this year.

Net income growth was around 120%, slightly below the growth in the PBT, and with a net margin of 13%, still way better than the same period of the last year. And the reason for that is the onetime tax we incurred due to the regulation by government for the earthquake relief we experienced last quarter. Overall, this is a snapshot of our income statement and the -- you could see here is the year-over-year improvement across the board in our P&L.

As of the end of first quarter, we have a very sizable cash, which is now TRY15.6 billion, up by TRY3.6 billion sequentially, despite the dividend payment of TRY3 billion in the first quarter. So we are going into this capex cycle with a very healthy balance sheet position, and we are in a quite

comfortable position to fund our acquisition as well as the capex program with internal as well as external resources.

Our financial position is very strong, reaching more than EUR700 million as of quarter end. And solid net working capital management continued as we tend to operate with negative to negligible working capital, and now it's reached minus EUR153 million as of the quarter end. In the first quarter, we spent a limited amount of capex, which was EUR9 million as we expect it to ramp-up in the second half of the year with the investment of K0 project.

Moving on to outlook. Given very strong performance in the first quarter, but also considering potential uncertainties after election, we decided to revise up our local market guidance from mid-end of 800,000 units to 900,000 units. And in parallel to that, we are also revising our local market sales by around 20,000 units, to 175,000 to 190,000 units. We maintain and we remain comfortable with our export shipment guidance despite relatively low volumes in the first quarter. And as a result of the revision in our local markets, we are also raising our production volume guidance by around 15,000 to 20,000 units to reach 230,000 to 255,000 units. With K0 investment, we are revising our capex from EUR100 million to EUR125 million, and we reiterate our PBT margin for this year to be above 12%, which would be deemed conservative given the election cycle we are entering in.

With that, I stop there and we would be happy to take your questions.

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

DEMIRTAS C: Thank you for the presentation. I'd like to ask about the take-or-pay agreements for the remaining export portion. In first quarter, how much did that have impact on the margins? And do you see the negative impact of Turkish Lira, your parity at current levels later because we have been hearing the cost pressures, especially on the exports? So I know that you have some markup agreement, possibly, but I would like to understand how things could develop on your side, at least in the medium term. I'd like to understand the margin side and the take-or-pay agreement side too.

And the other question is about the regulatory issues like the competition board issue. Sorry, if I missed in the presentation, but you now have -- with the Stellantis combined, you have around 40% market share this year. Maybe last year it was lower. Do you think that could have any impact on the decision of the regulator or the competition board authority? I don't know if you have made some clear research on those issues. It's better to understand if -- could it be in a limitation for the completion of the Stellantis agreement? Thank you.

EROLDU C: Okay. Thank you, Cemal. This is Cengiz speaking. Thank you for your questions. First of all, of course, we cannot disclose what is the precise impact of the take-or-pay in this first

quarter financial statements, but it's easy to understand that this year, we are working without Doblò exports. So this has made the difference between 2022 and 2023.

Regarding the exchange rate and inflation on the export side, we are working with the cost-plus conditions. So for this reason, this is not generating a burden for the company. Of course, can create a threat for the better export figures because it's true that partially also we are losing competitiveness. But loss of competitiveness is not only valid for Turkey, also in Europe, there is a higher inflation compared to the past years. So from this perspective, we are not seeing an important issue. And this gap, we are able to cover in the local market. You are seeing also from our improvement on our margins, which are extremely high compared the past quarters.

Your last question regarding the competition authority, of course, we are not the authority, but we entered into the deal thinking that there won't be any important issues because we already discussed the international merger with also Turkish authorities two years ago, and we get the green light. So for this reason, our assumption, of course, while we entered also into this merger operation, is not to have issues with the local authorities for permissions. Thank you.

DEMIRTAS C:

Thank you. And Cengiz, there's a follow-up. That's my classic question, maybe. But how do you see the outlook, at least for May and June, from your -- been a long-time experience? I know that there are many tricky issues like macro policies and etcetera, but at least, as you know the distribution line

very well, how do you see this picture going forward, at least the transition period in -- I guess, in April, it might be still good. But for May, do you receive any cause for negative signal? Thank you very much.

EROLDU C: You are welcome. First of all, of course, your question is also related with the election, the election result and how we will be after the election issue. But I see Turkey, we should think about two elections, not one election in May, but also we will have the second election at the beginning of next year.

For this reason, actually, we are not waiting. Whoever will be the winner of the elections, important changes on the macroeconomic side because as I said, there will be another election period, which is very close. For this reason, today, end of April, also in the May, the demand is very high, very, very high. So we are seeing in April, but also it will continue in May. What I see, and we also made our also plans accordingly, we are forecasting the continuation of the demand.

I would like to open also parenthesis for the Fiat brand. We are a little bit, let's say, out of the market in the last couple of years. You are also following our market share, so the demand and the affordability of the Fiat brand in Turkey is completely different than competition. So for this reason, we strongly believe that whatever will be the market size, we will

always find a way to sell at the maximum level our products which are fitting perfectly with the Turkish reality today.

DEMIRTAS C: Thank you. Thank you, Cengiz, thank you very much.

OPERATOR: The next question comes from the line of Lanka, Sashank with Bank of America Merrill Lynch. Please go ahead.

LANKA S: Yes. Thank you for the presentation. I have two questions. The first one is, I'm just trying to understand, when I look at your passenger car exports, they were down when the market in Europe was up year-on-year. So just wondering, what was the reason for this drop? Did it have to do anything with the kind of vehicles that were sold being non-electric? That's the first question.

And the second question is, with this K0 model, I understand the production will begin in 2025. So how should we look at the potential for capacity, I mean, arising from this should you reach closer to your unutilized capacity right now in Turkey? Thank you.

EROLDU C: Okay. First of all, regarding the export, of course, in Europe, the passenger car sales are increasing, First, we are facing yet problems with the availability of some components for our hybrid engine models, which are creating a little bit

performance problem regarding Western European countries. But we are looking further by market diversification activities. And we started to be actively present on the North African markets like Algeria, Morocco and Egypt. So starting April, we will increase our passenger cars export in those markets where we don't have material availability problems because mainly the high-end part of the range, we are facing some availability issues. With the new project, taking into consideration today's production conditions, of course, our target is to fulfill the demand in the coming years.

LANKA S: Thank you for that.

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

KILICKIRAN H: Thank you very much for the presentation. Cengiz I have a question about the distribution assets and also projects. I'm not really sure that whether you are disclosing this, but I want to understand the current profitability dynamics in the Stellantis distribution network. Is it possible to share some sort of data with us about the profitability in this new asset?

And second, I mean, are you disclosing the potential export contract size for the new K0 models? And -- or this is still not confirmed yet? Thank you.

EROLDU C: Thank you for the questions. First of all, as we, at the beginning of the meeting, Cemal asked about the competition court and issue. So in Turkey, still we are working with the competitors. So until we will have the green light from the competition authority, for this reason, honestly, I don't know also exactly their single profitability level. I should not know also because we are -- as I said, we are competitors, so as today. For tomorrow, of course, we are making some deals working on some agreements and so on.

And the secondly, K0 export contracts, volumes investments are still under study. So for this, now at that moment, we are not able to make any disclosure regarding. But when we will ready and finalize the feasibility studies, we will disclose all the information with all parties.

KILICKIRAN H: Okay. Thank you very much.

OPERATOR: Ladies and gentlemen, there are no further audio questions at this time. I will now move into written questions from the webcast participants.

Our first webcast question is from Murat Ignebekcili, and I quote -- with HSBC. And I quote, can you provide us a guidance on the timing of the PSA deal? When is it going to be finalized?

RENZI F: Hello, Fabrizio speaking. Based on the guideline that has been agreed and all the condition and the regulatory activity that we have to perform, we believe that closing can be possible in the last quarter. So in this moment, we cannot be more precise if last quarter means October or December. But to avoid any doubts, in our financial we haven't included any effect from the merger. So the numbers you have seen in the financials are Tofas standalone. We will update you in the coming conference call, but it's highly probable that will be at the end of the year.

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. Thank you, all the participants for the questions and for the attention on Tofas. I wish a good day to everyone.