

TOFAŞ

TÜRK OTOMOBİL FABRİKASI A.Ş.

TOFAŞ Türk Otomobil Fabrikası A.Ş. 4Q22 Financial Results Conference Call and Live Webcast

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Conductors:

Mr. Cengiz Eroldu, CEO

Mr. Fabrizio Renzi, CFO

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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 Fourth Quarter 2022 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 going to present the Fourth Quarter 2022 and the Full Year, as you know. In spite of the difficult operational condition resulting from the microchip and raw material shortage, we were able to achieve an outstanding result, which is the best in the history of the Company in our currency.

Profit before tax amount to TRY8.6 billion, more than double compared to the full year 2021. PBT margin stands at 13.1%, up 1.3%, with an increasing trend year-over-year, reason why we have upgraded our sustainable guidance to 12% from 2023. The cash position and cash generation are improving significantly, and this will support the dividend policy and the strategic plan of the company in the near future.

Regarding the Manufacturing Operations, we have produced 264,000 units with a rebound of 15% compared to the previous year, boosted by the great performance of the domestic sales, which accounts now for 55% of the total business of the Company. This excellent result was possible only thanks to the solid execution and maximum flexibility of our Manufacturing Logistics Organizations.

In the local market, we consolidated our leadership position with a market share of 18.7%. In this regard, I believe that the numbers are self explanatory. Fiat brand leader four years in a row. Egea model best-selling car for the seventh consecutive year. About Egea, the new version hybrid and automatic introduced in 2022 are performing well and contributing to reinforce the price positioning and profitability of the model.

Our export sales have shown a slight recovery compared to 2021, up 8% in spite of the weaker European market, remarkable the performance of Fiorino in Europe and Doblo in the NAFTA market.

About the future projects, we don't have news to announce today. I can only remind what has been stated by Stellantis some weeks ago. Discussions are ongoing between the partners in order to take the full advantage of this long-standing cooperation and maximize the possible synergies in Turkey in the production and commercial field.

We expect the conclusion of this discussion in the coming weeks. But in the meantime, the participation of Tofaş to

Stellantis value chain has been increasing significantly, and our R&D center in Bursa is growing and is contributing to the most important projects of Stellantis in Europe.

Now, I will give the floor to Mehmet for the full presentation, and afterwards, we can take your question. Thank you.

AĞYÜZ M:

Hi. Good afternoon, and good morning, everybody. In 2022, total production, automotive production in Turkey has rebounded by around 6%, reaching to slightly below 1.4 million units. This is supported by slight easing in the component shortages that the sector has been experiencing in the past two years.

Tofaş performed better than the overall sector and our production grew by around 15%, reaching to 264,000 units for the full year. In fourth quarter, there was an acceleration in our production we delivered 70,000 units of production in the fourth quarter, suggesting around 25% growth over the same period of last year.

In terms of production Mix, it was relatively stable with passenger car production constituting around 52% and LCV at 48%. Our shipments performed parallel to our production growth for the full year, and it grew by 15%, reaching to total shipment units of 270,000 units. In fourth quarter, the growth was more evident with around 34%, and our shipments was around 84,000 units. This was mainly enabled by very strong growth in the domestic shipments, which grew by more than

50%, and there was a slight rebound in the export business as well with around 15% growth.

In terms of Shipment mix by our business, the most visible change was in the export mix where LCV shipments constituted around 68% of the total export business, which is around nine percentage points higher, compared to the previous year. In terms of total shipments, we maintain a balanced shipment structure with around 48% shipments from LCV and the remainder from passenger car.

Moving on to domestic Market. Overall, with the easing in the component shortages, light vehicle demand posted around 6% growth, reaching to 783,000 units. But, nevertheless, this demand has continued to be driven by supply rather than the actual robust demand and the suppliers tried to catch up with demand, especially in the fourth quarter of year with higher availability. The growth was balanced between passenger car and LCV, whereas, passenger car shipments grew by around 6%, reaching to 593,000 units, and LCV demand growth was slightly higher at 9% and reached to around 190,000 units.

In the fourth quarter, the growth was remarkable at 47% compared to the previous year with a balanced growth between passenger car and LCV. And it seems robust demand had continued in January also, which were released yesterday, and it was a record high January in the history.

This slide shows the monthly evolution of the light vehicle market demand on a monthly basis, and you can see a

significant acceleration towards the end of the year, also even higher than the second half of 2020, which was also a very strong semester for the light vehicle demand in Turkey.

Tofaş performed much better than the market and our shipments expanded by 20%, reaching to 150,000 units and above 2020 levels. And on the passenger car side, we significantly outperformed the market's underlying demand and our PC shipments surged by more than 30%, reaching to slightly above 100,000 units, whereas, our LCV shipment growth slightly lagged the market with around 2%, reaching slightly below 50,000 units in 2022.

The monthly evolution of our local sales are showing a similar pattern, and you can see especially our performance towards the end of the year was quite remarkable. And as you have witnessed from our market share towards the end of the year, which was quite strong compared to the first half of the year.

In terms of market share, in total, Fiat continued to lead the market, way ahead of the closest competitor with around 18.7% market share, which is around 230 basis points better compared to the previous year. And this market leadership is a sustainable one, which now marked the fourth year in a row. In fourth quarter, the market share was slightly higher than our overall market share throughout the year with around slightly below 19%.

Including premium Brands, the market share evolution is similar, which was around 19.2% and 2.3 percentage points

better. And here, in addition to strong performance of our core Fiat brand, Alfa Romeo and Maserati were high performers, especially Alfa Romeo sales has more than quadrupled compared to last year.

This was enabled by a successful launch of the new SUV model Alfa Romeo introduced and whose world premier took place in Istanbul, Tonale, and we are looking for another strong year in 2023 as well. Also on the premium side, Maserati shipments more than tripled due to a new SUV launch. These are important developments because import business profitability has been also improving significantly, and in the coming years should contribute to the strong profitability of Tofaş going forward.

In terms of Stellantis brands, they performed quite strongly and now the brands under Stellantis umbrella command around 32% market share, which is more than 330 basis points than the previous year.

In terms of market share, the Fiat brand attained passenger car market leadership with 16.4% market share, more than 340 basis points better. The better positioning of our main core Egea model was the main enabler, and we introduced hybrid and automotive transmission versions mid-year, which they have been gaining quite a strong traction in addition to the launch of crossover in the previous year. And with those, Egea has maintained its best-selling car status in the market. This is the seventh year in a row since its launch. In fourth quarter, the market share improvements of Fiat was also quite evident with around 520 basis points better, reaching to 17.4%.

In LCV, Fiat brand maintained its number two position with a slight retreat in market share at 25.7%. Note that this is substantially above the pre-pandemic levels, where Fiat LCV market share has been holding around 20%. And, slightly better

availability impacted this market share decline. Considering the aging vehicle portfolio, it was still a remarkable position for the Fiat brand in 2022.

Moving on to Export markets. In 2022, similar to local markets, the demand was driven by supply and the component shortages played an important role for the overall light vehicle registrations in European markets. For passenger cars, registrations were down around 4%. In fact, in the first half, the contraction was much more severe, and actually the market has started to recover since August.

Nevertheless, full year PC demand in Europe was the lowest since 1993. So, we can say that there is sizable pent-up demand in the system. When we look at major markets and Germany was the only market that was able to post a slight growth due to the strong recovery in December. On the LCV side, the situation was weaker in terms of component shortages and the registrations declined by around 18% compared to the previous year.

At Tofaş, our export shipments outperformed the overall underlying demand at Europe. We shipped 8% more vehicles, reaching to slightly below 122,000 units. And this was mainly enabled by light commercial vehicle shipments, which grew by 24% versus the notable decline in European markets.

On the Passenger car side, our shipments were down more than the market with around 15% decline. As the component shortages we have been experiencing on the PC side for the export markets was more severe compared to the LCV, especially on some certain engine types that we use for the export market, there is the highest scarcity, and as well as

regulatory issues in Egypt pressured our performance FOR passenger car exports in 2022.

This slide shows the monthly evolution of our export volumes. And as you can see, there has been a slight recovery in the second half of the year, except in December, there were inventory clearing at Stellantis networks, which caused some decline in December; this creates a healthy pipeline for 2023.

In terms of end-market breakdown of our export business, the lion share goes to Italy, even though its share has been declining, slightly below 30%. It remains our biggest export market. The second largest export market is the North American market, whose share had more than doubled due to LCV shipments to this region.

The other factor impacting here are the regulatory issues I mentioned in Egypt, which resulted in halving of our export shipment mix to the MENA region, which is now slightly below 10%, compared to 19% in the previous year. As soon as those issues are resolved, we are expecting the MENA region to pick up growth trend it has shown in the past couple of years.

In terms of our Shipment Volumes by Model, on the left-hand side, in our Export business, we shipped around 9,000 units more in 2022. And this was mainly enabled by strong performance of Fiorino, which is a relatively old vehicle, and also our strong shipments to the North America for Ram ProMaster was another factor. Our crossover version of Tipo has been gaining notable momentum, which has also increased by more than 1,300 units for our exports, offset by lower Doblo shipments to EU, as well as lower Sedan export shipments.

On the right-hand side, domestic shipments; we shipped more than 26,000 units compared to the previous year. And you can see, the main driver is the strong performance of Egea, our passenger car, which we shipped more than 26,000 units and reached slightly below 100,000 units for local markets. It's been a great success for this model for the local market. And for Fiorino, the appetite of consumers in local market remain strong, and we shipped more than 5,000 units. For Doblo, which is already an aging product, which declined by around 5,000 units.

On the imported vehicle side, we continued to suffer from availability issues, but the situation has been improving. In the first nine months, this figure was negative, but with the growth in the fourth quarter, we shipped around 133 units more in 2022 compared to the previous year. So in total, we shipped almost 36,000 units more with 270,000 shipments in 2022.

Moving on to Financial Performance. 15% growth in shipments translated into more than 120% growth in revenue, and the main drivers of this is the better pricing in the local markets on the back of weaker lira and higher input costs. And, also, on the export side, weaker lira against euro supported this performance and resulting in strong growth on the revenue side. And in terms of profit before tax, which is our main KPI, it almost grew by 150%, reaching to TRY8.6 billion in 2022.

In terms of revenue breakdown, revenue growth was quite strong and this was mainly enabled by 171% growth in domestic business, and our turnover in the fourth quarter reached almost TRY24 billion. Healthy pricing in the local market, increasing production tempo as well as weaker lira against euro were the main drivers of this performance. As a result, our turnover for the full year reached to TRY66 billion

thanks to strong growth in the domestic as well as the export revenue.

Here shows our profitability snapshot. You can see on a year-over-year basis, our profit before tax, there has been an improving trend. And despite the high base of fourth quarter of last year, our PBT in the fourth quarter also grew by more than 110 basis points, reaching to 15%, the highest in the company history. And as a result, our full year PBT margin also improved by 130 basis points, reaching to 13.1%. In addition to healthy pricing dynamics, of course, our protective export contracts also supported our profitability in addition to higher volumes.

Net Profit evolution is similar and our net profit margin for the full year was similar to our PBT margin as we did not pay taxes, and reached 13.1%, which is 200 basis points better than the previous year. And in the fourth quarter also, we reached an all-time high net income margin of 14.9%, suggesting TRY3.5 billion in the fourth quarter.

This is the snapshot of our Financial Performance Income Statement. And as you can see, the strong growth had translated into strong profitability. I should note that here -- although our main KPIs has been improving, there is some decline on a year-over-year basis from gross margin to EBITDA margin due to the very high base of fourth quarter last year, as there were abnormal conditions in the market with the currency notably weakening towards the end of 2021.

In terms of balance sheet, we have a solid balance sheet ahead of the new potential Capex cycle and other projects. We have more than TRY12 billion of cash and cash equivalents. This suggests around TRY8 billion increase despite paying more than TRY3 billion in dividends in the year. Overall, there was a solid net working capital management. There was notable

deleveraging on our balance sheet, which we also paid back some of our outstanding loans, as you can see.

We have a strong financial position with more than €500 million. Compared to the same period of last year or the previous quarter, this suggests significant improvement in our financial position. This was partly due to continued solid net working capital management. As you know, we have been running quite a tight ship. In terms of net working capital, we try to run a neutral position and at the end of the year, we had minus €44 million of net working capital.

In 2022, we spent around €46 million in Capex, bulk of which constituted from the almost completion of our upgrade project for the passenger car family. And the second important item was our ongoing structural investments, which was around 25% of our total Capex for the full year.

Moving on to Outlook...After a decent rebound in the market in 2022, in 2023, we are expecting slight growth for 2023 as we are expecting further easing on the supply shortages and the initial signs of strong demand for the full year, confirms our view. At Tofaş, we are expecting to perform better than the market with 7%-8% growth in our shipments with 155,000 units to 165,000 units.

We are looking for lower export volumes of 70,000 to 80,000 units due to phasing out of Doblo for export markets. And in line with the lower export shipments, we are anticipating slightly lower production with around 215,000 to 235,000 units. And after a slight decline in investments in 2022, we expect a rebound in our Capex reaching to €100 million. Given our strong performance in terms of profitability in the local market, as well as what we see with our current portfolio, we are upping our sustainable PBT margin guidance. This is the third revision in

the last 18 months, and now we are anticipating PBT margin to be above 12% from previous level of plus 10%.

With that, I stop there, and we'll be happy to take your questions. Operator?

Q&A

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

KILICKIRAN H: Hello. Thank you very much for the presentation, and congratulations for your strong results. I have three questions, if I can. The first one is about the pricing in the domestic market. The last two years were extraordinary years for the industry and given the availability issues in the market. And I understand this also lead to substantial repricing in second-hand cars, which also provides some room for further pricing for first-hand cars. So, assuming that 2023 will be a better year in terms of production ramp-up, would you still expect pricing to remain strong in Turkey in hard currency terms, not in Turkish Lira? And I want to complement this question about your market positioning. I mean, you benefited a lot from -- I mean, your availability and also affordable pricing. So how sustainable is the current market share in 2023 under easing supply issues?

And the second question is about your export guidance. I mean, I don't know if you can, I mean, breakdown this guidance per model. So how much of them is expected to be PC and commercial vehicle?

And finally, on your capex guidance, I mean would you give us some sort of breakdown of this capex, because I really wonder how much is related to the structural capex and how much is related to what, I mean, I want to see what you are planning under this capex guidance? Thank you very much.

EROLDU C: Thank you, Hanzade for your question, also good words from your side for the results of this year. First question was regarding the pricing in the domestic market. What you see, first of all, in 2023, we are expecting better raw material prices. Thus, first of all, can help us on the pricing side.

From other end, the price positioning of our products, of course, but we see there is a still room to improve the positioning because as you know, the prices in the local market are mainly driven by two factors. One is the cost and exchange rate and the other one is the competitive position.

So, what you see in 2023, both two sides are positive for our products, and we are -- we will able to do better margins in the local market, what I can say. Sustainability of market share, our target is to improve our market share in 2023 compared 2022, and our product portfolio is suitable for this target. So, we are confident also on this.

Regarding export breakdown, as you know, we stopped the Doblo export at the end of 2022. So, on the light commercial vehicle side, our export, we've been limited with Fiorino model. So, for this season, I can say that the one-third can be exported

as light commercial vehicle and the remaining two-thirds or more passenger car.

Capex details, your last question. The capex -- our capex forecast includes only the structural investment and the ongoing projects.

KILICKIRAN H: Okay. So, I mean, if you are going to be awarded with the new projects, models, you are going to revise this capex. So this doesn't include any sort of potential preliminary work for the new models?

EROLDU C: Of course.

KILICKIRAN H: All right. Thank you very much.

EROLDU C: You are welcome.

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

DEMIRTAS C: Thank you for the presentation and congratulations for very good results, okay. My question is about the domestic outlook. In January, we already see some availability issues. It's really hard to find products in your models. How do you see the trend in February and March? Will you have more availability, and will you see higher demand? How do you see the demand outlook in the domestic side?

And the other question is about the situation in Stellantis issue. I know maybe no new development, but still any word on that? Or is there any kind of -- at least, should we assume that nothing that -- bad luck, but it's a process no timing kind of thing? Any comments, if possible? Thank you.

RENZI F: Thank you Demirtas. I would like to start from the second one. So, we are the joint venture management. So, to talk on the words of Mr. Tavares is not correct. So, because he said in open way that the communication between the shareholders are ongoing, and he was also -- he said that in a short period, they are going to conclude their discussions.

Regarding the domestic market, unfortunately, is also we made a public disclosure. We closed our plant for two weeks. This is mainly because we changed our production software, which is a very tough -- was very tough issue for this season. We also dedicated this period between the year-end inventory and the software changes on the manufacturing side. And we work only two weeks, and with this production, we reached 20% of market share. We are also following the local market numbers. So, in February, we assumed that we will have better conditions for raw material availability site. That's all. Thank you.

DEMIRTAS C: Thank you, Cengiz.

OPERATOR: Our next question is a follow-up question from Ms. Kilickiran Hanzade with JPMorgan. Please go ahead.

KILICKIRAN H: Sorry, I have few more questions. I mean, it's about the dividend. So you keep your dividend policy for this year, as I can see in the remarks, in the opening remarks. Would you be able to distribute maximum dividends if you agree with Stellantis on new projects and also potential collaboration on sales activities that you have highlighted?

And on the PBT margin, I mean sustainable margin is now taken over 12%, but you have very high PBT margin in the fourth quarter. I mean, I assume that in 2023 this year, could this be sustainable? I mean, it's not related with the sustainable margin of the new models or this type of things because majority of your models are amortized already. So, would it be too optimistic to assume something to be kept at slightly over 12% in 2023?

RENZI F: Fabrizio speaking. About the dividends, what I've mentioned is the technical capability of the company to distribute dividends. So, at this stage, as usual, as a management, we can comment only on the possibility and technicality to distribute dividend and based on our good cash position, of course, we have this possibility.

So, I can say that we can stay in line with the previous year level of dividends. But as you know, this will be decided by the Board of Directors in the next couple of weeks. I don't expect big change, but I cannot comment on the decision that is in charge of the Board of Directors of Tofaş. We can distribute, and we can support also the spending for the second part of the year

related to the preliminary activity for the new project and new model.

Second question about the PBT sustainability, as Mehmet mentioned in the presentation, we have increased significantly this PBT in the last years. So, 7.8% was the result in 2020, 11.8% in 2021, and now we have this 13.1%. That, of course, is also the result of the great fourth quarter. But what we would like to provide you is a sustainable level. So, we cannot take into consideration the seasonality of this.

So, I believe that as a starting point in 2023, 12% is a good starting point. We believe that this 12% is achievable, but also challenging because we expect tougher competition in 2023 due to the better availability of the cars and the imported cars on the market.

Of course, if we, in the coming weeks in the next conference call, we can forecast an upside of this 12%, you will learn this, and we will share with you this. But as a starting point, 12%, I believe is fair enough, also taking into consideration the competition environment that in 2023 could be more aggressive than in 2022. Thank you.

KILICKIRAN H: Thank you very much, Fabrizio.

OPERATOR: We have a follow-up question from the line of Demirtas Cemal with Ata Invest. Please go ahead.

DEMIRTAS C: My question is about the currency side. You see more stable US dollar. Europe Turkish Lira is a little bit appreciating. How do you see the impact of inflation and those factors at least on your

profitability in the first half of the year, or at least in the first quarter? Because maybe even in fourth quarter, that might be some contraction but we see improvements in fourth quarter a little bit surprising for me at least. How do you see the trend on that side?

And about the take-or-pay, now you don't have Doblo, with the others also, I think there might be some take-or-pay. How should we expect that to affect your financials now your capacity utilization lower, much lower. But I'm sure you'd take those things into account. So at least in the first -- for the first half, assuming that nothing will be announced very soon, how could we consider the trends on your financials? Thank you.

EROLDU C:

First of all, the macroeconomic environment is not going to create a problem for our business, because as you know, you are also following Tofaş since long years. We are working with cost-plus principles. So, for export, we are protected. On top of this also existing products has the protection from the take-or-pay applications.

Regarding the local market, as I said at the beginning of the meeting that we have possibility to compensate our cost increases. So, in 2023, of course, we will have the increase on the inflation. Until the elections, the exchange rate most probably reflect, but after the election, it's a question mark. And on top, we are waiting also improvements on the raw material side. So, in this combination, we are able to protect and also improve our margins. So, we don't -- I don't see any problem from the margin management side for both markets.

DEMIRTAS C: Any comment on Take-or-Pay side?

AĞYÜZ M: Products are also covered with Take-or-Pay conditions, because we have Tipo Egea and Fiorino. Those other existing products, and we are continuing with the existing agreements.

DEMIRTAS C: Okay. Thank you.

OPERATOR: Ladies and gentlemen, we don't have any other audio questions at this time. We'll now move on to our webcast participants with the written questions. The next question is from Mr. Burak Salman with Tera.

Thank you for the presentation. I have a couple of questions. One, can you elaborate the possible cooperation with Stellantis? Will it be possible to have a new model in 2023? What is the reason for your year doubling capex guidance in 2023? Thank you.

RENZI F: Okay. Fabrizio speaking. Thank you for the question. Okay. About the cooperation with Stellantis, apart of the ongoing discussion that we don't want to comment, we can say that cooperation is going well, and the proof of that is that our R&D center, as I mentioned at the beginning, is working hard is contributing to many important projects of Stellantis like, for example, the new Panda, the new Jeep, the Jeep that'll be launched on the market with the commercial name of Avenger also we contribute to that. So, from cooperation point of view, it's going well.

About the potential new products in 2023, there is any decision, but we expect something like that. If something will be allocated in 2023, what I can comment is that our time-to-market is 18 months. So, if this decision will come in the next month or week, we can stay on the market in the second half of 2024. Might be even better than 18 months can be the time to market in the Stellantis environment because what we have learned that the level of complexity of the cars in Stellantis, but also the level of diversification, or if you want, the level of integration is very, very high. So maybe we can reduce this time to market. So even though the decision will be -- maybe in the coming months, we can stay on the market. We could stay in the market in the second half of 2014. I believe that's all, right?

The last point was capex. As we mentioned, we have -- in this amount, we have basically -- the recurring amount that we spend in the plant for the renewal, for the maintenance and even for the project optimization. In particular, in the 2023, we want to start a very important project of energy. Because of the cost increase we experienced in 2022, we decided to go on with a very important project on energy in order to improve our renewable energy, solar energy. So part of this €100 million is also represented by this important energy cost spending. That's all. Thank you.

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 thank you all for the participation and the interesting question. So, I wish you all a good day and a good weekend.