TOFAŞ Türk Otomobil Fabrikası A.Ş.

First Quarter 2024

Financial Results Conference Call and Live Webcast

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Conductors:

Mr. Cengiz Eroldu, Chief Executive Officer

Mr. Fabrizio Renzi, Chief Financial Officer

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

Conference Call Conducted by Chorus Call Hellas

CHORUS CALL HELLAS

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 First Quarter 2024 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 started the year with a good performance and the solid financial position that will allow us to properly manage the year 2024, which will be for Tofas year of transition, transition towards a new product range, starting with the investment and the launch of the K0 model in Bursa plant, transition to a new commercial setup with the opportunity to distribute in Turkish market, all the Stellantis brands when the merger will be approved by the Competition of Authority.

Meanwhile, in April, we have distributed dividend for an amount of TRY 10 billion, in line with the consolidated policy of our company to reward its shareholders. As we explained in our previous call, starting from Full Year 2023, we have implemented the inflation accounting principles. And now the restated financials we are going to provide give a better understanding of the operating performance as the impact of the historical cost on margin is eliminated.

In our guidance, we have confirmed that our profit before tax of 10% over the year, even though we registered a lower margin in the First Quarter due to the impact of the IAS 29 restatement. On the domestic market with 13.5% market share, we were able to defend our leadership position in a market that is becoming more and more competitive. New players are entering the Turkish market with attractive products and very aggressive offers. Now a days, 7% of the market is owned by brand not present in Q1 2023.

On top of that, the actual special consumption tax scheme is not providing any support to the most affordable cars locally produced and all our range of products is subject to 80% taxation.

In this challenging environment, in the First Quarter, we tried to protect as much as possible our margins. Regarding export, we have registered a good performance of Fiorino in Europe, boosted by a positive trend of the LCV segment, but we are also very pleased to see the strong demand of Tipo in the MENA region. Thanks to the successful presence of Stellantis in that region, now almost 50% of Tofas export is commercialized in MENA region. As a result of that, we are assuming a stable situation of the export volumes in the outlook 2024.

With reference to the Manufacturing area, the refurbishment of the LC line is on track, and we are preparing the ground to make possible the launch of new models. Technically, the Bursa plant will be able to start the production of new models in Quarter 4, but the final decision will depend from the commercial strategy of all our partners.

Finally, the Strategic Agreement for the acquisition of Stellantis Türkiye. As we disclose in December, we are waiting for the final approval of the transaction by the competition authority. The dialogue is continuous and fruitful, and we remain confident that the projects will be concluded positively.

Now I will give the floor to Mehmet for the presentation, and then we will be happy to take your question.

AGYÜZ M: Good afternoon, and good morning. In the First Quarter of the year, Turkish Automotive production grew by around 3% year-over-year to 377,000 units whereas Tofas constituted slightly below 15% of the industry production with a production of around 56,000 units, suggesting 7% to 8% decline compared to the First Quarter of 2023. In terms of production mix, there is a slight increase in the PC production, which constituted 69% of our production whereas LCV constituted 31% of our total production in the First Quarter.

Our total shipments were parallel to our production, and we shipped 59,000 units, which was down by 7% compared to the previous year. Although we had strong growth in the export side, which grew by 26% year-over-year it was offset by the 16% decline in our domestic business.

In terms of our shipment volumes by the business, as you can see in the middle pie chart, the most visible change was in our passenger car business in export side. Its share came to 62% of the export shipments, which is around 24 percentage points higher compared to the previous year. In terms of total shipment volumes by the business, we maintained balanced structure with 61% of our shipments going to the PC and the remainder for the LCV.

Moving on to domestic market. In the First Quarter, although there has been notable tightening in the macroeconomic conditions, domestic market was strong and grew by 25%, reaching to 296,000 units. This was mainly driven by the passenger car demand, which grew by 33% year-over-year, reaching to 233,000 units, whereas LCV demand remained healthy, which was up slightly at 3%, reaching to 62,000 units.

This slide shows the monthly evolution of the local retail sales. As you can see in the first two months, there is strong growth. And this growth was mainly supported by the sales to the disabled citizens, which benefit from special consumption tax exempt sales as the government determines the cap at the end of the year.

Whereas March was also a record high month, it was also partly due to the pull-forward demand ahead of the local elections as consumers were anticipating local currency depreciation, which would have triggered price increases, so consumers pull their demand forward. Actually, with April, we have seen signs of a slowdown, which may continue in the coming months.

At Tofas, we shipped 19% less vehicles with 41,400 units. However when we actually compare it with a more normalized pace of 2022, our shipments almost doubled in parallel to the market growth. The decline in our domestic market performance was driven by lower passenger car shipments which declined by 29%, reaching to 25,000 units whereas we outperformed the market in the LCV segment as our shipments expanded by 6%, reaching to slightly above 16,000 units.

In terms of market share, Fiat brand were able to maintain its market leadership with a market share of 13.5%, albeit to a lower market share compared to the previous year. But when we compare to the First Quarter of '22, the slide in our market share is less material with 120 basis points decline.

This decline was driven by, as Mr. Renzi mentioned, increasing competition in the local market with new entrants to the market, as well as our reduced local producers advantage due to lack of any revision in the consumption tax brackets, which is implemented every year. This essentially moved most of our products to the 80% SCT range for the vehicles below 1.6-liter engine.

For the brands under Stellantis umbrella, the total market share was realized slightly above 30% in the First Quarter of the year. In passenger car market, we moved down to the second position with a market share of 10.2%. Although it marks a significant reduction compared to the prior year, it should be viewed as the more normalized level for the First Quarter. Passenger car market share under Stellantis umbrella declined by around 11 percentage points to slightly below 27% in the First Quarter.

In light commercial vehicle market, Fiat brand moved to market leadership position with a 25.9% market share, which is 60 basis points higher compared to the prior year. The main driver of this performance is although it is coming to the end of its life cycle, our small LCV, Fiorino which is performing very strongly as well as better availability of imported vehicles. Brands under Stellantis umbrella improved their market share by around 100 basis points, reaching to above 45% in the First Quarter of the year.

Moving on to Export Business. In Europe, there has been a recovery in registrations in both PC and LCV market. PC markets climbed by around 5% in the First Quarter and hybrid/plug-in hybrid and BEV were the main drivers of growth, although the pace of the growth has been decelerating. On the LCV side, the market remains healthy with a growth rate of 12% year-over-year with growth across all the main markets in Europe.

We outperformed the underlying markets with 26% growth in our export volumes to slightly less than 17,000 units. The main enabler of this growth is our passenger car exports, which more than doubled to 10,000 units, thanks to our sustained penetration into the MENA region, which we have been capitalizing on the wide distribution network of Stellantis in this region.

This shows the monthly evolution of our export volumes, which we have a more favorable base, and we are expecting a more stable situation during this transition year.

This slide shows market breakdown for our exports. As you can see, the most notable change is our shipments to the MENA region whose share increased from 15% to 42%, thanks to our passenger car shipment. Although it's important to note that this figure is relatively a low number as we are in a transition year and this pie chart should change in the coming quarters as well as next year.

In terms of our total shipment volumes by our model, in the exports business on the left-hand side, we shipped 3400 units more vehicles. This was enabled by more than doubling of our passenger car shipments, which constituted almost 65% of our export shipments, whereas our MCV model has been performing quite well with a stable shipments of more than 6,000 units.

On the right-hand side, our domestic shipments, we shipped around 8,000 units less compared to last year with 42,000 units. The main driver of this is lower shipments in our good performing product, Egea, which we shipped 10,000 units less due to the factors we mentioned before.

Moving on to Financial Performance. In a nutshell, 7% decline in our shipment units translated into 5% growth in our revenues, thanks to price adjustments as well as a weaker Turkish lira compensating for the lower shipments. As a result, our EBITDA grew by 1% to slightly below TRY 4.5 billion and our profit before tax declined by 17%. The gap between operational performance and the PBT is mainly due to the application of IAS, inflationary accounting practices, which penalizes our cash-rich balance sheet through monetary losses.

This slide shows the snapshot of our P&L, and you can see the 4% growth at the top line translated into around 2% growth in the bottom line. In a price aggressive local market our gross margin improved, which shows our pricing discipline and with our net margin flattish at 8.3%.

Moving on to Balance Sheet. we have a significant amount of cash of TRY 28 billion, which is similar to the year-end. I should note that this year, we distributed dividends right after the end of quarter, around TRY 10 billion, which is not reflected here. On the inventory side, due to the declining activity in the market, it has improved slightly to around TRY 10.6 billion. As a result of the dividend payout, our shareholder equity declined by around TRY 7 billion with TRY 35 billion as of the end of First Quarter.

In terms of CapEx, we spent EUR 9 million in the First Quarter and most of that was allocated to the K0 investment. Although this seems to be tracking below our year-end expectation, our commitments for further spending is actually much higher than this figure.

Moving onto Outlook. Given the strong performance in the First Quarter, whereas counterbalanced by our relatively more cautious outlook for the rest of the year, we are maintaining our local market demand outlook to 800 to 1 million units, whereas we have decided to take a more cautious approach and reduced our domestic shipment outlook by 20,000 to 140,000 to 160,000 units given the First Quarter performance. On the other hand we are maintaining our export shipment outlook at 60,000 to 70,000 units.

As a result, we are reducing our production volume outlook at the low end by 10,000 units and at the high end by 20,000 units to 170,000 to 190,000 units during this transition year while we are maintaining our EUR 200 million CapEx and our PBT margin target of plus 10%, although this was lower in the First Quarter with the utilization of the cash position, we are expecting this to improve for the rest of the year.

And this marks the end of our presentation, and we are happy to take your questions. Operator?

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

DEMIRTAS C: Thank you for the Presentation and congratulations for good results. My first question is as usual about the Competition Board decision expectations. You mentioned during the presentation but I would like to understand, is there any time limitation to that because last December, it was like postponed possibly. And the next timeline, what could be the possible timeline, if any decision will come out of this? Should we expect within 1 or 2 months, that's my first question.

And the second question is about the market conditions. So far, the trend is above the expectation possibly? And in which quarter we should expect some significant decline, if any? And related to that, do you see any signal from the fleet side because they were not in the pipeline in the past, but now the credit interest rates are higher, so it might not be also effect for them. But I would like to understand the fleet and the retail demand side on the domestic side. Thank you.

RENZI F: Thank you for your question, Fabrizio speaking. But for the Competition Authority, as I mentioned during my initial speech, we remain confident. Of course, your question is focusing on the deadline. As we communicated in December, in December, the authority ask for an extension of the investigation. And as you know, the extension is for additional 6 months. So now we are waiting for their feedback. But to be honest, even though they need additional 1 month, 2 weeks, 2 months, we don't see any problem on this. We're ready to take any comment and to apply any solution and remedy that they will ask to Tofas.

But for the moment, we continue to be positive on this. Of course, we cannot say they need 1 month, they need 2 months. Of course, we are exchanging a lot of data because as you can imagine, the transaction is relevant transaction for the Turkish market considering that both company will exceed 30%.

If we take into consideration the actual situation, but as you have seen in our market share is going a bit down. Also, we are going to discontinue Fiorino in the second half. So, there could be also some contraction of our market share. So, in a nutshell we remain confident that is not a problem if the authority needs some more time to analyze all the data that we are providing.

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

AGYÜZ M: I think we haven't answered the second question of Cemal. Sorry, Hanzade. Let's first answer and then we'll take your question.

EROLDU C: So, regarding the market conditions as you know we had a not very good performing April, but now in May what I can say there is also now a little bit complication in the market due to the GSR-B application at the beginning of July. So, for some brands, which is the cars that will not be sellable after the July first week.

` Now they are trying to get rid of from these kinds of stocks, cars. And this in May artificially can also increase the market what we are seeing. Also, this is impacting fleet customers because they are looking for the best opportunities in the market in the environment.

So, this is -- there's a trade for the brands like ours because you're seeing also from our margins. So, we are trying to protect our margins under these circumstances of the market, but the retail part is doing well. So, this is, I think, promising for the coming months. And after this GSR-II-B passage in July we will see I think more normalized market.

Of course, GSR-II-B building also some cost ups in the market. Some players are already selling those kinds of cars with the updated costs, but for some will be issued for the acceptance of the cost ups. So, what I'll see, we will see more normalized market after the June. Also, June will be under this pressure of GSR-II passage mainly for the importers.

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

KILICKIRAN H: Thank you very much. Actually, Cengiz partially answered my question. I had a follow-up question on competition in the market. Do you also currently participate in the fierce pricing in the industry? And do you -- actually you answered this, but do you expect competition to intense in the rest of the year given that consumption may slowdown. That's my question for the domestic market.

And second, you highlighted that your -- I mean, your PBT margin is going to be higher than Q1 in the rest of the year given the reversal of the monetary losses, I understand. But is there another driver to move the PBT margin above Q1, I mean, operationally.

EROLDU C: The price war in the market, I think till the end of June will continue due to the stock management of the brands. But I think after normalizing stocks level in the second half of the year the aggressiveness of the brands will be limited because this level of market now, of course, creating a big pressure on the margins for all players in the market. So, for this reason for two months, I think the aggressiveness will continue. But after we will see more normalized periods from competition point of view into the local market.

RENZI F: For the second question Hanzade, Fabrizio speaking, for the PBT. As I mentioned, in this guidance, we have confirmed the

10% PBT for this year. This is our target, but this is also what we believe is achievable. We haven't seen this margin in the First Quarter, exactly the margin achieved is 8.8% PBT margin but as I tried to mention in the initial speech, we had a specific and extraordinary condition in the Q1.

So, we ended the quarter with a lot of cash in our end and also huge amount of equity and market inflation economy with the effect of the restatement, these generates a negative monetary cost that you can see in our P&L. So, in a nutshell, we believe that the effect of the hyperinflation adjustment will be lower in the coming months because we will lever less cash.

We distributed the dividend in April, most probably, if everything will go well. Also, we are going to acquire Stellantis Türkiye in the coming months. So, we expect that hyperinflation will be lowered the effect on our balance sheet as a consequence also in the P&L. So, we remain confident that this 10% can be achieved.

KILICKIRAN H: Fabrizio thank you very much. I just wonder, is it possible also to comment without the inflation accounting. So how was your PBT margin develop if you consider that cash was not a problem because of the accounting growth in the First Quarter?

RENZI F: Hanzade, I don't like too much to answer this question, so which is the effect of the hyperinflation effect. But I can remember you that -- the last quarter, we published the PBT without hyperinflation. We were in the range of 20% PBT. So

-- but we cannot say that the effect is 10% because as I tried to explain before, it depends how your balance sheet evolves.

So, we cannot say that it's 10% of the negative effect of the every inflation because it's such two-flux question. So please take the 10% as the new guidance for the future.

KILICKIRAN H: I tried to understand if there was a positive development in the First Quarter, in terms of PBT margin, if you were to report according to previous accounting growth, I mean because this quarter, as you explained well, monetary losses was a reason of the lower PBT margin, and this is going to reverse. But in the meantime, have you also absorbed some sort of stable PBT margin if you didn't apply this inflationary accounting into your financials.

RENZI F: Okay, we clarified your question here. The trends in this moment, we can say is a stable trend. So -- when we compare it with previous year, 10.9%, this is what we believe we can achieve also this year. So, if you want, is a stable trend. Of course, we have some concern about the coming quarter because as Cengiz mentioned, the competition on the ground is very, very tough.

But for the moment, we can say that we try to stabilize on the 10% our PBT margin. It would be not easy, but this is our target.

KILICKIRAN H: Okay. Thank you very much Fabrizio.

OPERATOR: Ladies and Gentlemen, there are no further audio questions at this time. I will now move to our webcast questions. And our first question comes from Murat Bulut with Azimut Portföy and I quote. "Hello, thank you for the call. Do you see a material risk on the production and sales volume side due to GSR II regulation?

To what extent do you expect an increase in unit prices due to the requirements of the new regulation? Is there any change in the timing of K0 production? Or should we continue to expect it to be completed in Fourth Quarter '24? Thank you."

RENZI F: Okay. For the material risk of a solid sense, we don't see any risk because this regulation is largely split and planned. So, we didn't see any risk. Of course, we will be in June, some pressure to commercialize as much as possible all the cars that the Company has in their stock. But in terms of material, we use it to plan organized very well the end of life of any product. So, we don't see too much product.

In terms of effect of the new regulation GSR II on the price, of course, there will be an increase but it's not an increase that it will change the position of the car on the market. So finally, the impact will be not so huge. The remaining question, K0, no. For the moment, okay, we are in the final phase of negotiation of the K0 contracts. So, for the moment, also for K0, start of production, we don't see any need to postpone. So, the plan is in line with the expectations. So, we don't expect further delay from this point of view.

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 people attended this Conference Call and for your interesting questions. Have a nice evening.