

TOFAŞ

TÜRK OTOMOBİL FABRİKASI A.Ş.

**TOFAŞ Türk Otomobil Fabrikası A.Ş. 3Q21
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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Q&A SESSION

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

BESPALOV V: Hello, thank you for this presentation. I have actually a couple of questions. The first will be on your investments and CAPEX. As far as I can see, this year base CAPEX was not that huge basically, and the investments in Doblo were slightly small, probably for the rest of the year, it's not going to be bigger as well based on your Full Year guidance. So, maybe could you update so, how the project is developing, do you have enough time to convince you to sign a deal to bring to the market the new model by the end of next year? So, if you could provide any updates on this?

The second one is on exports, I apologize if I missed something, but could you please also elaborate a little bit, so with the decrease of your guidance, what is the key drivers here; the problems with supply of microchips, or there are some demand issues as well, and if it's the demand issues, how you are going to address those going forward?

And apart from microchips, are there any other logistic constraints or whatever like components, supply which are probably putting some pressure on your sales volumes? Thank you.

RENZI F: Hello, good afternoon, Vladimir. Let me start from the investment cycle. As you have seen from the presentation, we are planning to invest €100 million this year, and in this

number, we have the completion of the investments for the MCA and also the investment for the prolongation of Doblo and Fiorino. When it comes to next year, of course we will start to see in the second half the start of the investment for the new generation, but at this stage, we cannot be more precise on the new generation.

You asked about Doblo. In this moment, we are working on multiple solution. One of the solution is with Doblo, but we have other options that include many other brands, so in this moment, this is what we can say.

In every case, in the second half 2022, you can see the tangible effect of the new cycle of investments. I cannot be more precise in this moment. As we mentioned during the introduction speech, Stellantis will officialize the Strategic Plan in the upcoming months, and also will be much more... clear which will be the allocation strategy of Stellantis in the new environment.

Second question is about exports, okay, on exports, as I mentioned before, we need to differentiate LCV and passenger car. On LCV, our position is still strong, so we are following the rebound of the market.

When it comes to passenger car, of course, we are suffering the shortage of the micro chips, the scarcity of the material and this is the reason why we are not so positive and optimistic also in the coming period. You have to take into consideration that we are part of the Stellantis supply chain. What we are seeing is that they are prioritizing, they are optimizing the distribution of

this limited quantity of semiconductor and microchips, and of course, as you can imagine, not only Stellantis but all the car makers are trying to optimize from financial point of view this allocation.

It's obvious that the preference is, in this moment, in favor of high profitability market and products. So, this is the reason why on exports, we cannot be so optimistic.

But as usual, I would like to underline that what is important for our financials is in particular to protect the local market and from this point of view, we are doing our best to protect local sales and also the financials. Thank you.

BESPALOV V: Thank you very much.

OPERATOR: The next question comes from Ignebekcili, Murat with HSBC. Please proceed.

IGNEBEKCILI M: Hello, thank you, everyone, for the opportunity. I have 2 questions, one is short-term and one longer-term. We can get your mix, it's now more favorable, more shifted to domestic. And we've seen the positive impact of what is on the PBT margin. Yes, the volumes are low, but I think as you overcome the supply difficulties, one would expect the volumes to pick up in the fourth quarters. Is it fair to assume that you can sustain this PBT margin, as the volumes recover in the fourth quarter and into 2022? This is my first question and one that is for short-term.

And the second one, Stellantis intention to expand its hybrid and EV business is easier to see. How should one think about Tofaş's contribution to these efforts both in terms of intellectual contribution or in terms of production contribution?

And we know that your exports have been lagging and Stellantis is pushing this EV business. So, in the next 6 months to 1- year period, how should we think about Tofaş's contribution to these efforts? Thank you.

EROLDU C:

Thank you, Murat for your questions. This is Cengiz. So, your first question was the favorable mix on the domestic side. Now, this is actually now the availability of the semiconductors are managing a little bit also mix I can say. So, this is not purely due to the demand because in both markets, we don't see problem with the demand. So, with the availability of the materials and the chips, we are trying to satisfy both demand in local and export.

So, in the first 9 months, the availability was much more in favor of the local side, this has also impacted, but also, I should say that the demand in the local market is little higher than our export demand. So, this is another fact.

But both markets we are suffering with the availability because you are seeing also from our production numbers. So, we are producing less than what we can produce, unfortunately. And also, this is not good for the company management because, we see the high demand, but unfortunately, we are not able to satisfy this.

So also, what's happening, we're missing opportunity. This situation probably will continue also next year, also next year we have plans in order to reinforce our range, our offers. So, we will insert new versions and new engines in our range, so, this will also help to protect and improve our performance in both markets.

So, we are happy with the double-digit PBT and we want to keep this. If as I said, according to our forecast the similar situation will continue also next year for the company.

Regarding the Stellantis EV business. Now, let's say all the cars that is subject to production after 2025 by default will have EV hybrid and ICE engine. So, everybody is... all the brands are preparing themselves in this direction... also Stellantis is one of the leader companies in this area as Fabrizio explained, also Mehmet, the EV Day of the Stellantis. So, also Tofaş products after 2025 will include a whole mix because the market demand will be in this direction, and we cannot be far off this direction. So, we will follow the market and market needs; so, this is the important issue.

Regarding our intellectual contribution. Of course, Stellantis new structure will give us not only opportunities on manufacturing side but also on the R&D side as you know, we have a well-structured and high competency.

The R&D center in Turkey, which is a very competitive. So, this also I believe, will help also to the group from the intellectual point of view. So, we have planned in order to enlarge our end activities in the next future. Thank you.

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

SASHANK L: Yes, thank you for the presentation and the opportunity to ask questions. I have a question more related to your growth in the MENA region. I think, when I look at the revenue split, it's the second largest market for you now, after Italy. So just wanted to understand what's driving this growth here. And I'm assuming most of this growth is coming from the passenger car segment. Thank you.

RENZI F: Okay, thank you for the question. Yes, of course, we are following with interest there, good performance of the... in particular for the Tipo, in this case. The main market, in particular in North Africa in some specific country this car has become very successful. So now, the second markets after Italy is Egypt, so we are following, of course, this performance.

Of course, the fact that now from organizational point of view, we are included in the Middle East area of Stellantis could also be a good driver of... further development in this area. So, the characteristic of the car, the affordability of the car, make this product very, very interesting and not only now but also for the future project and the future program that will be developed under Stellantis.

And once again, the fact that we are now including the new organization of Stellantis could be really an important element in the future.

SASHANK L: Thank you.

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

KILICKIRAN H: Hi, thank you for the presentation. I have 2 questions. The first one is actually regarding your previous announcements related to this R&D opportunity. And I couldn't really well understand the R&D opportunity; what could be the impact? Is it something I think extra revenue tool or you are going to sell the IP rights, if it's going to be given to you or it is something completely different?

And the second question is about the supply shortages. There are some news flow in the market that there is a big magnesium shortage in the market which may affect auto production. Do you agree on this? Do you see any sort of pressure? What is the share of aluminum in your cost?

And the final is that what is the current production lead time? I think you are struggling from production perspective but there is also high demand, so the lead time expanded to like more than a month or still like two weeks' time? Thank you.

EROLDU C: So for the lead time, so I should also confess one think that I am working in this industry since... 30 years and now we are also trying to manage weekly the production. So, this is a real mess now.

Because... so for this reason, when you are talking about the lead time... so it's a good question. So, on weekly basis, we are

deciding what to produce for this season. I said also at the beginning that mix is also coming from little bit from the availability of the parts. So, until now, I think we did a good job, also this is... we are seeing also from our numbers on the local market. So, we have the customers on the issue to find the right parts at the right time, so, we have a big flexibility compared to others, because we have the very flexible plant, so we can adjust ourselves in a very quick way. But unfortunately, we are planning the production on weekly basis, okay?

When I see also... when we give also guidance for this year, this some... small deduction on the total year guidance is not due to the markets, it is only due to the parts availability because unfortunately monthly basis we are losing some capacities and this is also a fact that I should underline.

So, regarding the R&D, you asked what can be the contribution. So, until now, Tofaş was the R&D center mainly serving for the cars produced in Tofaş and also in the Turkey automotive industry. So, most of... or the limited number of R&D centers are working for the local production, but this time, we would like to manage the development program for other brands and for the cars that we will be producing in other part of the world.

So, we have this competency and this capacity. So, you can see very luxury or premium brands, where all the development done by Tofaş are in the center. So, this is a... this will increase the importance of Tofaş inside the Stellantis Group, and it will be also the certain profit center.

But the main issue is not to have a huge profit center is more increased our role, our importance and our contribution from intellectual point of view to the group. And expect the R&D of course, because in Turkey we have the good quality of engineers, and, of course, the competitive cost compared to Western Europe countries.

KILICKIRAN H: Cengiz Bey may I ask something related to this, if you are going to contribute to the R&D efforts in the luxury or premium segments. Would it mean that in the future Tofaş will be also able to produce these type of models?

EROLDU C: Yes, because we can produce all kind of models theoretically is important to find the best compromise between the local market, export market and all the other combinations not because... of course, we can produce all kind of cars.

So, theoretically, of course, this is not the issue because there is no big differences between the produce a luxury car or premium car or the mass car. But as you know, for us also, the key success is to find the right products where give us the... improve our position in the local market, and also export to not only EMEA but also MENA and EMEA. So, all the regions that we are serving. So, this is the key success factor for us. Thank you

KILICKIRAN H: And the last question about the supply shortage on magnesium?

EROLDU C: Yes magnesium, sorry the... actually the usage of magnesium inside the aluminum parts is very very limited. So, for this reason, we are not so alarmed. So, we are not seeing important problems, because as I said the mix inside the aluminum parts

is very limited of magnesium. So, we are not using directly magnesium in our production.

KILICKIRAN H: Yes, but that's the main material for hardening the aluminum?

EROLDU C: Yes, but when you see the very low quantity of magnesium can do this, that job. So, it's not let's say, that when you are seeing an aluminum wheel. The magnesium part is very, very, very small.

KILICKIRAN H: Okay, so you don't expect this to be another issue for the global auto industry?

EROLDU C: Yes, with the information that I have now. Yes.

KILICKIRAN H: Alright. Thank you very much.

EROLDU C: Thank you.

OPERATOR: The next question is a follow up question from line of Ignebekcili, Murat with HSBC. Please proceed.

IGNEBEKCILI M: Hi, Cengiz. Just a follow-up on Hanzade's question, I mean can you elaborate more on this R&D efforts and luxury cars efforts? Do you have solid examples within the Stellantis system that first doing R&D on some models in a different geography and then starting the production altogether of that models? Have... and is this something frequent in auto industries? I don't know about this very much, but do you have that flexibility not in the short-term, in the medium-term a high likelihood of something

like this happening or I mean I trying to assess the contribution of this over the long-term?

EROLDU C: No, but actually this is... there is some examples of this kind of activities, where I am talking about the premium brands or as you know, inside the Stellantis group there is 14 brands, and you know, most of them are the premium. So, for this season, so we are not stuck only with the Fiat brand, so that was the message that I want to give. So...

IGNEBEKCILI M: Okay.

EROLDU C: ... We are also looking to all 14 brands for us is the game area, so there is some examples where the product development activities not in one country and the production to other country, not so much. But, for the Turkish automotive industry, it will be first time. Also...

IGNEBEKCILI M: I see.

EROLDU C: ... for us.

IGNEBEKCILI M: Once you start the intellectual activity then it makes sense to produce the car altogether in the long-term obviously, otherwise, they wouldn't give you the R&D activity to begin with, right, in the natural course of business? Okay, then...

EROLDU C: Thank you.

IGNEBEKCILI M: ... The second thing Cengiz, that at the beginning of the call, Mr. Renzi, if I am not wrong, said that Stellantis should make its

plans clear within upcoming months. Is it fair to assume, a more tangible plan for strengthening specifically for Tofaş before the end of the year?

RENZI F: Based on our information, by the yearend or at the... at the latest, at the beginning of the New Year, the CEO should be ready to disclose the first strategic plan of Stellantis. So, first the Strategy Plan mean that taking into consideration the full integration of former FCA and former PSA, so this is what we know.

From our part, we are working as I mentioned at the beginning on different scenarios with different brands. So, we hope that in the next 2, 3 months we can discuss more tangible, for the moment the tangible effect of the fact that we are part of a huge organization is there in the development, and there in the expansion, that has been commented by Cengiz.

That imply that we can be involved in the development of different brands, not necessarily produced in Turkey, but it means that we are involved in a lot of different projecting Stellantis, this is a matter of fact, because we have well defined the plan of expansion of our R&D center, starting from the... next weeks.

So, this is something more tangible, the expansion of R&D center. For the product allocation of Stellantis, we need to wait a bit more, so I believe that in 2, 3 months we can have a good visibility on the next generation of vehicles in Tofaş. Thank you.

IGNEBEKCILI M: Thank you Mr. Renzi, thank you Cengiz Bey for your answers.

OPERATOR: Ladies and gentlemen, there are no more 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 all the participants for the interest to our company and to the rest of the third quarter. I wish you a good day.