

TOFAŞ TÜRK OTOMOBİL FABRİKASI A.Ş.

**TOFAŞ Türk Otomobil Fabrikası A.Ş. First Quarter 2016  
Financial Results Conference Call & Live Webcast**

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**Conductors:**

***Mr. Stefano Reganzani, CFO & Mr. Emre Ertürk, IR Manager***

Conference Call Conducted by Chorus Call Hellas



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Q&A SESSION

OPERATOR: The first question is from Isaac Schwartz from Robotti. Please go ahead.

SCHWARTZ I: Hi.

COMPANY REP: Hi.

SCHWARTZ I: Hey Emre, I just had two quick questions for you. I noticed that jeep unit sales were down a lot, and I know that Fiat globally is doing a big overhauling on that plan, so I was wondering, is that related to global Fiat plans, or was there something in the local market. And I also just wanted to ask about your...if you can give us a little bit more detail on your expectations for the local passenger market. The guidance that changed, is that based on passenger cars being stronger and on the light commercial segment, you must still being reflective of your previous guidance?

ERTÜRK E. : Of course, let's answer this together with Reganzani for the jeep part, go ahead please.

REGANZANI S.: Well, Isaac, let me tell you that for the jeep of course, we are constrained on many vehicles due to the fact that we import vehicles from the US mainly. The only availability we have for the first months of the year was the Renegade that is manufactured in Italy. But we have several constraints on Grand Cherokees, Cherokees and Wranglers and unfortunately we could not meet the demand worldwide. So the agreement with Chrysler of course is that first comes the

domestic market, the US market, then export markets and among the export markets they are doing so well in APAC region and in the Middle East that actually for Turkey there is not much left.

You know what the issues are for these vehicles, mainly the displacement of engines is triggering a lot of taxes in Turkey, so we will never be able to deliver the margins that FCA is achieving in other regions. So that's the main reason why we decreased in terms of jeep sales, even though the jeep is doing so well in the rest of the world. As soon as they will increase capacity and we will be able to get more vehicles of course for the Turkish market as well and this will solve some of the issues we are currently having on the Jeep brand.

Regarding the expectation on the market, yes, the first quarter has been extremely strong, much stronger than what we expected when we tried to put together the figures for our budget after a record year 2015 where the markets closed at 968,000. We were not really expecting a very strong first quarter, and especially the scenario, the geo-political scenario is so uncertain, we thought that we had to be prudent. And actually some manufacturers didn't have this kind of prudence and they were really betting on much higher volumes. We decided to be prudent but after the first quarter and understanding that the current scenario might continue, so we decided to increase our guidance for Turkish market volumes to this 450...950, sorry... that's it...I don't know if.....

We see that the LCVs has been quite weak in the first quarter, but we don't have to forget that last year was quite

particular year with a lot of fleet especially, other competitors in the market, I don't want to mention them, they really ran for fleets in the first quarter, so that's why the market looks a little bit weaker. But actually I think we can by the year end recover the level we had in the past.

We also contributed to this to take us...in the MCV segment there is a lack of Ducato for us which is another problem of constrained capacity in Italy. We mainly sell in Turkey long wheelbase vehicles for mini buses and other conversions. Unfortunately, the higher demand in Europe and the constrained capacity on long wheelbased that most likely will be solved in June only. Of course, there is lack of sales on our side too, so we were extremely bad in MCV, but we know the reason why and it's just because there is a lack of these long wheelbased vehicles.

So as soon as this will be solved, I think we can step back to our market share because the Ducato in any case is really an appreciated vehicle in the market. So we didn't see any major issues being back to the market share which we figured out in our budget.

SCHWARTZ I: Thank you.

ERTÜRK E: Welcome.

OPERATOR: The next question is from Muneeba Kayani from Morgan Stanley. Please go ahead. Ms. Kayani, your line is open.

KAYANI M: Hi, thanks for having the webcast. Can you hear me?

ERTÜRK E: Yes Muneeba, go ahead, please. Thank you.

KAYANI M: A few questions. One on margins, can you give some guidance on how to think about margins for the rest of the year, given the lower pay contributions? And then secondly, on the production, what are the bottlenecks, could you talk a little bit more about that and could there be risks to the production guidance if those are not resolved? And then lastly, what is your target market share. Where do you think that market share on the passenger car segment in the domestic market could reach once all the models of the say, they are launched?

ERTÜRK E: Sure. Let me start and share this stage with Mr. Reganzani in our comments. About the margins, let's start with that part, now the important fact that we need to note this year is that you saw the production guidance that we gave and you also followed the exports improvements in volumes in real terms. For analyst that cover us for a long time and for the investors who have been meeting with us for a long time, this is not a surprise that when we replace actual shipments and actual exports to take or pay invoices, the revenue growth is very substantial. And also in our income statement, now you can see this yourself, by more than 27% growth in revenues and the result. In this kind of situation although there is growth in absolute terms of profits including EBITDA, operating growth or profits you see some sort of a decline in the margins that is totally artificial....

REGANZANI S: In percentage

ERTÜRK E: As percentage, yes, but this is why actually we always recommend our investors to follow absolute profits rather than margins. Taking this into consideration, what might be the outcome in terms of margins for the Company, I believe that 10.2% EBITDA margin under this kind of revenue structure, and the revenue that grew by close to 30%, is a real success. And we would be very glad to keep this kind of performance in the following quarters. But depending on foreign exchange rate and how that will fluctuate throughout the year and depending on the performance of exports in rest of the year, this might move down or up slightly, that's what I can share with you on the margin side, but we would be really glad to keep this 10 percentage margin as well.

REGANZANI S.: I do believe personally that 10% EBITDA is actually more than what investors expected because we always told them that 9% would be our satisfaction. But I think now that after the first quarter we can really achieve a 10% the way it's been built I mean it is absolutely in line with our expectation and I think we can keep it for the following quarters, this can be one.

Regarding the market share, we want to achieve in the Turkish market, well, let me tell you one thing, we are in kind of lucky position. We don't have to run for market share in the Turkish market not this year may be not even in the following year. What I mean is that we are capacity constrained till now and we have a very strong demand from export markets which are very profitable for the Company by the way. So running for market share in Turkey let's say

compromising the profitability and spoiling the reputation of the new cars that we are launching now is not in our target.

So, we would like to be first in the Turkish market. This is one of our strategic pillar so being at 15% I think is a reasonable market share for us as soon as we complete the launch of the new cars and the new powertrains. Because you don't have to forget that in the first quarter, we didn't have any automatic transmission on Egea, which were launched for the petrol engines just in March. And so, the first impact we can see it in April as Emre was mentioning. We are very happy of the market share in April, but what really can be a turnaround is the 1.6 Diesel powertrain with automatic transmission that is going to be launched in September. So, that's the time we would really have a very clear view about the market share that we can achieve in the Turkish market. But again, we are not rushing for the market share this year. We are not keen on getting the split deals that deliver volumes, and market share but no profits. So we are protecting the profitability of the Company. This is our guideline for the year. And I think we are doing very well, in the first months of the year we managed to and I think also the market is reacting in the right way.

Our retail sales are around 70%, 65% let me say now, which is really an unexpected level compared to what we had in the past with Linea, so we are just delivering few Lineas to taxi, fleet and corporate fleet, but that's it. Mainly the Egea goes to retail and we are very happy there. And there is another question...

ERTÜRK E: About production and bottlenecks, I guess.

REGANZANI S.: The real bottleneck again, as I said before, is the Paintshop, so we are working on the Paintshop. We are starting new technology to speed up the process, which is not easy of course, because Paintshop from an industrial standpoint has several constraints. We are using; we are thinking about using new materials and new technologies. It's a chemical process and so it's a...it's not an easy task, but thanks to our technician engineers working on that, we know for sure that we have the room to increase our capacity and meet those production figures we mentioned before, so 390,000 units will be an achievable target this year.

And for the coming year again, as I told you, I think we need to invest a little bit in order to improve our installed capacity in plants. Actually it's something that we have to do to meet the demand coming from Europe, otherwise, the target for next year can be very close to 0.5 million, and so, we need to really to start from day one, from January 1 till the end of the year, no vacation, no Biruns, and the staff in Turkey unfortunately for the plant they have a lot of pressure, but everyday thank God, the success of this program, Egea program is witnesses by the type that every day we will achieve increased demand from FCA for many countries. So even today, I was reading my mails and they want to pull ahead the launch of Station Wagon. So it's really exciting being here in this moment as long as the situation is this one.

KAYANI M: Okay.



REGANZANI S.: I hope I answered properly your questions.

KAYANI M: Yes

ERTÜRK E: And my comments on the market share would be that...we had to this year collaborate this information with other information of the Company as well because at first when we were working with let's say 65% to 70% production capacity utilization rate, any additional percentage of market share that we could get was extremely important. So it was crucial to attack all the segments of the market. But we showed that we were above a 100% production capacity utilization rate anyway. So when you are working in this kind of situation, now a second important fact comes about how you market and how you make that sale, because then comes the cherry picking situation because you would to start to select the more profitable sales rather than trying to attack everywhere. This is why what Mr. Reganzani was saying in Egea side especially because compared to Linea; the retail sides of Egea sales are much higher. Hence, when you compare the local profitability of this Company to last year as apples-to-apples, there is a substantial improvement. So this is also one of the reasons why we disclosed our profits above the consensus of expectations because analysts tend to use average sales and average profitabilities of the past with current year's volumes.

But now we had a much better segment list of our sales. Good news is that also we can tie this with the second part of your question. In the upcoming months, we will have higher production capacity due to full ramp up to three shifts of

production. So I guess the market share improvement will also follow just like what you saw in April compared to March happened as well.

KAYANI M: Thank you.

ERTÜRK E: You are welcome. Thank you.

OPERATOR: The next question is from Vladimir Bespalov from VTB Capital. Please go ahead.

BESPALOV V: Hello, I have just one question, would you like best see utilization with demand on export markets, domestic market? Are you considering any expansion of capacity going forward, maybe in one, two years? Thank you.

REGANZANI S.: Yes. As I mentioned before, we are taking in to serious consideration expanding our capacity. Just because of visibility we have now on volumes for the coming years is, of course exceeding our current installed capacity. So we are planning to do that. , By the way we will most likely fund this investment with some savings we are getting on the current program. You know, we always announced that we were going to spend more or less €800 million for this program. And as you can see from the investment development we are achieving some saving and most likely we can cope with this additional capacity using this savings we have in investment. So we will not generate any of additional burden for the Company. But there is more really working on the process, trying to optimize the process in the plant that will allow us to

achieve higher volumes next year on three shift basis from the beginning of the year.

So we are considering that. Few days ago, in a Turkish paper also there was a kind of news regarding a possible second plant that Tofaş was willing to have. But, this of course, is...I don't think it's the case not in Turkey, maybe what we can try to do as a project it is so good, it is working together with FCA, try to export the program to other countries. I personally believe, for having previously experience is that this car will be perfect for some countries in Asia, let me tell you and not only, but let's see what happens. I mean, we are working together very closely together with the FCA to understand what is the real potential of this program, even out of the boundaries of EMEA.

BESPALOV V: Okay. Thank you.

ERTÜRK E: Thank you and welcome.

OPERATOR: There are no more questions at this time.

ERTÜRK E: So thank you for participating in our webcast for the first quarter results. As Tofaş Management, we wanted to arrange these webcasts for the upcoming quarters not only for the full year's results as well from this point on, so that you have a chance to reach our international investors as well as analysts who cover us from abroad as well. We consider this as an important organization because as, you know, close to 90% of our free float is owned by foreign institutional funds. So,

we give very high importance to corporate governance and also transparency and reached all of our shareholders.

So thank you once again for participating in this webcast, and please keep in touch for any follow-up questions through emails or phone calls with our IR department continuously.

REGANZANI S: Thank you very much for being part of this webcast from me too. And I would like to extend over to you the same kind of invitation, that with all the investors we recently met in various conferences around the world. So please, if you have the chance to come over to Turkey, come and visit us. Now our plant is opened to visits. For quite a long time, we had to shut it down because of the new investments that were going on. But we really like to welcome at our Bursa Plant as soon as possible, because at the end of the day, it is always nice to see how the money of investors is going and the activities in the plant. So thank you again for being in the conference today, and see you soon.