

TOFAŞ TÜRK OTOMOBİL F

TOFAŞ Türk Otomobil Fabrikası A.Ş. 2Q21 Financial Results Conference Call and Live Webcast

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Conductors:

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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, congratulations for the very strong numbers. Actually, I have a couple of questions. First, definitely will be on margins, like always, do you think that this margin improvement maybe not to the extent that we saw in the second quarter, are sustainable, because a year ago when we discussed high margins...especially EBITDA margin, it was thought that it was affected by one offs, but how much of this margin improvements you can sustain?

And the second question will be maybe more strategic on the Tipo model, when we look at sales volumes for domestic and export volumes, domestic volumes are now bigger than export volume. So the question is basically, what is the problem, if it's shipped to wrong markets, is it priced too high at those markets, I mean export markets. And maybe like we saw some increase of the MENA region in your sales, maybe there could be a strategic shift in sales to new markets, which would help improve sales of the model? Thank you.

RENZI F: Good afternoon, Vladimir, Fabrizio speaking. Thank you for your questions. And let me start from the first one, that I would say that we expected this question. The marginality of the second quarter is so high that we have to tell something more on this. Okay, first of all, 11.9%

in the second quarter or if you want 10.8% of the first semester, is not something that we can consider sustainable on the long period. We have 2 components in these outstanding results. One component that, from now on, we can consider permanent, and another component that is...let me say seasonal, okay. So we can replicate these or not.

Let me start from the first one. The first component, that from now on, we can consider now a matter of fact, it's the better or good profitability of the local market. So not only the performance of the Tipo family is very good, but also a great contribution comes from the new model, so the cross version has been really a success. So also in terms of profitability for us now these are really important cars. Of course this profitability is also the effect of our cost management, so with...starting from this year with the pandemic, we start really a strict control of the expenses, and this is also the result of this good marginality.

So, from now on...so we used to guide you in term of PBT, and for around 2, 3 years, we passed the message that sustainable PBT is 7%. I would say that from now on, we can consider that a sustainable level on the long period could be from 8% to 8.5%. In this quarter, we had also other component that's contributed to the result. First of all, in the mix, we prioritize the retail market, and of course this improved our marginality. Another mix, important for us is the mix between export and local, so if you have a look to the result of the first quarter, and as

you mentioned also, in the first semester the cars commercialize on the local markets is above 50% so I believe that historically is one...is an unusual situation for Tofaş because now the local market is above the export, also this in term of mix is favorable for us. But of course, these 2 components are not permanent components, so maybe we can find again similar condition in the upcoming quarter or not. But the good news is that from now on, 8.5% could be considered as right...a sustainable level of profitability before tax.

About Tipo, the second question, as you mentioned, in this moment it is very successful in the local market, but in exports, the level of the performance is not the same. We are working on this, because as I mentioned in my introduction speech, the investments and the LCA program is not terminated. So it's our intention to enrich our offer by the year end with additional solution in term of our trend and transmission.

So in this moment, you have to consider that in the European market, one out of 3 cars is electrified car or full electrical hybrid. So if we are not able to enter in these markets, it will be difficult to see the Tipo to have a good performance in the European market. For the...your last part of the second question, so the good performance on the EMEA region. In this moment, there is any strategy behind, so if you refer to the merger with PSA and Stellantis, this is not the result of this, because as you know, we merged recently, but really the car is performing well in this market. So maybe this is a good

message also for the future. So we are very happy to see the car performing very well in these markets. That's all from my side.

BESPALOV V: Thank you very much. Can I just clarify one more thing? When you're saying that you're working on improving the model for the European market to make it more popular, maybe could you unveil a little bit what kind of changes you're going to introduce to make it a better fit for the European markets, including in terms of maybe electrification, I'm not sure that it's going to happen at this stage, but still?

RENZI F: I would prefer not to be more precise. But when I mentioned that now 1 out of 3 cars in Europe is electrified means that we are working on this direction.

BESPALOV V: Alright, thank you very much.

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

KILIÇKIRAN H: Hi, thanks for the presentation. Actually, Vladimir asked the majority of my questions, but I just want to extend this discussion on the electrification. I know that you can't say much but Stellantis said that they are expanding to EV Capital Market Day in the beginning of July and they provided that they're planning to roll-out for all commercial vehicles to be electrified over the next 3 years. So does it mean that Doblò should be electrified including Egea and I really wonder I mean how do you

think Tofaş role in this I mean investment cycle until the end of 2025 and also the impact on your CAPEX?

EROLDU C: Okay. Hi, Hanzade. This is Cengiz, I can answer to your questions. So of course, now being a part of the Stellantis organization, we will follow their application and their policies because as you know we are also...we are not giving only for the Turkish market, but we are heavily exported...exporting to the Western European market. Now, of course, we are talking about the future product plans of Tofaş with Stellantis, but of course, in the next cycle cars produced in Tofaş will have also new generation power trains and the other applications of the Stellantis. So we don't see any issue on that. But of course, not in the short-term, but in the new cycle, we will see that also, Tofaş as a production and R&D hub will follow the Stellantis policies.

KILIÇKIRAN H: And Cengiz, if I may...I just want to clarify this because I understand from their data., I mean, Capital Markets Data that all models should have electrified EV version. So this means like that...I mean, is it true to think that all of your production that you are selling to the Europe should also have EV version like Egea, Doblò, and do compete with any other production plants in Europe, who can get this EV or you have an outstanding technology here. I mean, there is no threat on you?

EROLDU C: No, no, because what you're saying is correct. So all the next generation Tofaş products will contain this new generation applications, so including Tipo or now I know.

So as you know, now with Stellantis we have more brands where we can contribute to the R&D and the production hub. So in the future, you should not think Tofaş only and the producer of Fiat brand cars; we can use the booster facility for all the...all brands of the Group. So also that's another big opportunity for us in the future.

KILIÇKIRAN H: Okay, thank you very much. So, we may hear more about this, when do you think you may be able to announce your CAPEX plan including this Doblò to towards the end of this year? I mean Q4; it's good to hear all these details?

EROLDU C: I hope so, but of course, now we have the new management and the new contacts. So now, it will be little bit...it can be little bit longer to know each other and make the new settlements. But of course, so we are now the...our also priority is to define the future range of the company, of the plant that they are also for us is the most important issue.

KILIÇKIRAN H: Alright. Thank you very much. And I have one question to Fabrizio, if I may on financials. It's about working capital. That was, I mean, you Managers explained that there is one-off increase this year, because of the high inventory in the second quarter, which is going to be eliminated. So is it reasonable to assume that your working capital over sales ratio will be very similar to last year by the end of the year?

RENZI F: Yes. So yearend is completely different from the end of June. So our target is by the year end to stay at the same level, of course, we need to double check which would be the calendar at the year end. So if you can close before the year end, if we need to work till the last days, but of course the target is to minimize at the year end. What we have seen in June, as Mehmet remarked is due to the fact that the stock at the end of June was necessary to support the sales of the...July sales due to the fact that we anticipated our closure. So but, of course, our target is to minimize and this will remain our target for the year end.

KILIÇKIRAN H: Okay. Thank you very much.

OPERATOR: The next question comes from the line of Demirtaş Cemal with ATA Invest. Please go ahead.

DEMİRTAŞ C: Thank you for the presentation and congratulations for very good results. My first question is about the strategic perspective within Stellantis. How competitive do you think within the need production network, including PSA and FCA, both together. Now, it's a bigger animal and we know that you are competitive against the other big peers, the Fiat peers. But during this period you might have some idea about how the Peugeot sited. And I know that they are cost conscious part also as you are. So, you know, how do you see the corporative advantages? And do you think we could see some strategic perspective from Stellantis until the year ends? I know it's very hard to tell, but maybe you know, if you elaborate, you

mentioned some points, but it will be helpful if you go further, if you can give any details?

And the second question is about the effective taxes, your effective tax is very low, there are some deferred tax expense and other effects. And in Turkey second quarter corporate tax was raised to 25, and we would expect higher maybe rates. Now, your effective tax is lower. What could we think for the future quarters about the effective tax? I know you are looking on the profits before taxes, but any guess for the effective tax rate for the remainder of the year?

And the last question is about the domestic market trends, you raised your growth targets...the market targets. I'm wondering in your calculations, how do you see the seasonality this year? Normally fourth quarter is the highest season and first quarter was normally the vehicles. But now things are not that way. And how do you see the sentiment in the consumer sites in July and maybe for the following several quarters than we see very high interest rate? Thank you. Thank you very much.

RENZI F:

Okay. Thank you, Cemal for your question. You made a lot of questions. But I will start with the easy ones, so from the tax point of view. We will continue to have a lower tax rate also in the second part of the year, you know, because in the meantime, we are continuing to generate tax advantages not only on the CAPEX side but also on the R&D side. So the Tofaş effective tax rates will continue to remain low also in the coming period.

Regarding competitiveness, we were one of the best let's say plants inside the FCA Group. What we are seeing also at the PSA side. Of course, the PSA, as you said, most...more cost oriented than FCA. But still we are saying that we are one of the most competitive ones inside the PSA group also. Of course, we need to work further to improve the situation.

The other advantage for us that it is fact that, now the Stellantis will be focused on mostly to do low cost countries. This is not only for the manufacturing issues, but also for the R&D issues. So also we are very competitive from the R&D side, there is also another asset and also opportunity for the future. So what I see, we are...we will be...we are, okay and we will be better also inside the PSA group. So this is an important asset not only Tofaş, but also as a country. And then also Turkey, we are competitive still inside the automotive network. So those are the goods.

Domestic market, so, what we see the seasonality will continue. But I see also after long years of experience in automotive industry, now we succeed to isolate ourselves from the competition, so this is also the success of those years, because now, with our affordable product range in Turkey, and also suitable for Turkish customers, little bit we are out of the market trends. So our performance will continue to be high also second part of the year, and we are waiting also higher demand on the last quarter as we had always in the Turkish market. So the demand to our

products are continuing. So we are not seeing any slow down, also... although the interest rates now in Turkey is little bit high, but with financing campaigns and so on we are able to manage, also that part. So what I think, our performance also will continue in the second half, I don't see any reason for not show the same kind of result. Thank you.

DEMİRTAŞ C: Thank you. Cengiz as a follow-up, it's a very, very general question, but you have good history with the company. What do you think the replacement cost of Tofaş, just I'm wondering now you know, as a plant, I don't know if you have any guess just you know, if you have an answer. Thank you.

EROLDU C: But the plant is not only machinery and the dice, or the buildings. No, there is people...

DEMİRTAŞ C: Exactly.

EROLDU C: ...the value of Tofaş are the people, so you cannot judge only the let's say the fixed asset value, but if you want to build a brand new plant with this 400,000, 500,000 of capacity. It's around €700 million.

DEMİRTAŞ C: Okay. Thank you.

EROLDU C: Let me be clear; I am talking about the building infrastructures, machinery and other stuff.

DEMİRTAŞ C: Thank you.

EROLDU C: You're welcome.

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

SASHANK L: Yes. Thank you for the presentation and the opportunity to ask questions. I have 2 questions. The first one is pertaining to the domestic market I think on the previous earnings call you did kind of guide us towards the normalization of domestic one and clearly that hasn't happened. So what do you think is really driving this? Is this the macro environment in the given relatively low interest rate environment or on to some of the crossover products that you have introduced and something that could be sustained over the coming quarters? That's the first part of the question...it is the first question.

And the second question is more related to the shortage of the raw materials semiconductors, I think you did tell us that you are supported from Stellantis in terms of supply, but given that the global shortage here, why are you of the view that this is not going to impact you in the coming quarters? Thank you.

AGYUZ M: Hi, Turkish market has been...year-to-date surprising on the upside, despite all the factors you mentioned as on the macro side; higher financing rates, lower affordability, higher sticker prices. However demand remains very resilient and this is partly due to consumers given the tight financing conditions using their savings, there's a

record level of FX deposits as you may know. So we see less financing portion, more equity and this actually plays well to our hands, because when consumers use more equity, they prefer to spend less and they tend to trade down. So this fits our product portfolio quite well actually.

Also the second factor is that in Turkey, it's been the case for the last couple of years is that vehicles are used as an investment vehicle, which is contrary to other markets given the constant depreciation of Turkish Lira and the value of the car prices have been increasing, consumers tend to view vehicles as an investment tool also.

And the third factor is the COVID; of course, its impact is much lower compared to last year. With the boost on the e-commerce site on LCV demand, as well as, less willingness to use public transportation. This still remain in place but, of course, compared to last year, it's at a much slower pace.

So all-in-all, when you consider all these negative factors, demand has been quite robust, so there does not seem to be any imminent reason for demand to slowdown. Demographics of the market suggests it should be somewhere close to 1 million units per year it can accommodate. We are still in a recovery phase, when you get the first 6 months figures. It is pointing to above 800,000 units seasonally adjusted basis, and especially aside from market demand, our positioning in the market has been improving. Our market share has been

improving. So we are quite confident to raise our guidance despite the other challenges in the market.

Regarding your second question on chip shortage, as you are also aware that this issue has been around for almost 7-8 months. Compared to competition, Tofaş has been managing the situation relatively well, we only stopped for 10 days in March, April period compared to 7-8 weeks of stoppage at some other peers.

Of course, this is a challenging environment for all automotive players, we have tried to manage this in various ways as we have a very agile and adaptive organization. I have to mention because of strong demand for our products, actually we can shift demand in different versions of our product. For example, chip shortage is not broad based. You sometimes have a shortage in certain engine type or you sometimes have shortage in some other component.

So essentially whatever you have in hand you can divert the customer to that and we have been managing this. The visibility remains not so high. However, we have been managing this and compared to the other plants of Stellantis, Bursa plant has been performing quite well in that area.

We are following this situation quite closely, it's a supply chain challenge, but so far we have managed to do so and in an environment like this, we are able to raise our

production guidance. I think it is a good testament about how we we view our position during this crisis.

SASHANK L: Thank you, that's very clear.

OPERATOR: The next question comes from the line of Kurbay Berna with BGC Partners. Please go ahead.

KURBAY B: Good afternoon and thank you for taking questions. My first question is about again Stellantis' EV roadmap that was unveiled earlier this month. There has been mention of 4 battery electric vehicle platforms that the company will use across all grants, as far as I understand. So...and I think one of those is mainly for commercial vehicles and the other 3 are for different power ranges for passenger cars. So would it be fair to assume that Tofaş, going forward will be involved with two of these platforms. That's my first question.

My second question is again perhaps related to the same issues. You have mentioned in your discussion several times the competency of the R&D efforts at Tofaş as well as the manufacturing process. In mentioning or underlying this R&D part, are you referring to specific projects also within this electrification plan? That's my second question.

And finally, just a clarification on Cemal's question, replacement cost. If you've mentioned the dollar figure, I missed that, so I was wondering if you could kindly repeat it. Thank you.

RENZI F: Hello Berna, it is Fabrizio I can answer. So about the future projects I can say that we are working on multiple scenarios and we are fully involved in the future allocation plan of Stellantis. As Cengiz, mentioned before, now, we are part of larger OEM, a larger perimeter. So if you remember, that now we are a company that manage 14 different brands. So of course, we are working for the future allocation, but in terms of timing, as you maybe know, apart from the electrification date, Stellantis and the CEO of Stellantis is going to officialize the new...the first Strategic Plan of the Stellantis by the year end.

So in this moment, in the electrification day, they mentioned...he mentioned only some targets. So 70% of sales in Europe, 40% of electrified vehicles sold in United States, €50 billion to be invested. But in terms of allocation and in terms of also allocation of the 4 platforms you mentioned we need to wait till the end of the year. Of course, we are very competitive. So, what we realized that they are really interested in the country and company like Tofaş as Cengiz mentioned, we are discovering that we are not only competitive in the former FCE perimeter but we are also competitive in the new perimeter. So for sure we are part of this plan and we are working on multiple scenario.

One of the good news is that, also they are very interested in our R&D centre. So most probably one of the first result of this merger for Tofaş will be a development of our R&D center that it is not only

competitive in term of cost but also in term of steel, so this is...are good news for us. This is my answer to your question. This was the first 2 questions, there was another question, I didn't catch maybe your final one.

KURBAY B: On the replacement cost of the Bursa plant?

RENZI F: Okay, Cengiz, maybe you can go on this?

EROLDU C: What is question about replacement of...?

KURBAY B: I think earlier Cemal asked you about replacement value of the Bursa Plant, and if you've provided a color, answer I am very sorry, I missed that, so I was wondering if you could repeat it.

EROLDU C: I said, €700 million, but this is no sense, you know, because it depends also your technology level and so on. So how many robots you are putting there. If you want to build a 400,000 capacity plant according the technology that you are using you can go between 700 and €1 billion, but it is no sense to talk about those numbers, because you should define what you want to do. How many press lines the others stuff, so because each automotive plant is different than the other, from the technological level, the content level, number of the lines, number of 2 products, so all...so for this is not...is not correct to say an average or overall number. So, you should be more specific on the subject.

KURBAY B: Understood. And also, I guess, it would make a difference if it's an internal combustion engine plant versus electric...or a plant building electric vehicles?

EROLDU C: Right.

EROLDU C: Okay. Thank you very much.

EROLDU C: You're welcome.

OPERATOR: We have a webcast...a question from our webcast participant Evren Gezer with TEB Yatırım. The question is and I quote. Hi, and thanks for the presentation, I have a question regarding the production plans beyond Doblò and Tipo, which model [indiscernible] produced in Bursa, will Doblò contract be extended again. Will there be any CAPEX component related to switched towards electric vehicles? Thank you.

RENZI F: It is Renzi speaking. I believe we have just answered a similar question. So we are working with Stellantis on multiple scenarios. So of course, we are not in condition in this moment to be more precise which platform will be in Tofaş, which model, but, so given the interest of Stellantis to use these production plant and this engineering hub and given that 70% of the sale in the future will be electrified, it's more than hopeful, for us to have some electrified model in the upcoming period. But in this moment, we cannot say more than this. Thank you.

OPERATOR: We have another question from our webcast participant, Esra Sirinel with IS InvestThe question is and I quote, in light of the Stellantis EBITDA on July 8, is it now possible for you to share more visibility regarding the Tofaş EV projects? Thank you.

AGYUZ M: Thank you for the question Esra, I think, we answered most of these questions at this stage, because...for us to be able to give more clarity we need to wait for the Stellantis Capital Markets Day, I think we give a broad sense of the direction of the company. 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. And thank you all for the participation and for the interest on Tofaş again. So I wish you a good day and good summer break.