



Ford Otosan A.Ş.

Ford Otosan Third Quarter 2023 Financial Results Conference Call

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Conductors:

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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 Konstantinos your Chorus Call operator. Welcome and thank you for joining the Ford Otosan A.Ş. Conference Call and Live Webcast to present and discuss the Third Quarter 2023 Financial Results.

At this time, I would like to turn the conference over to: Ms. Gül Ertuğ, Chief Financial Officer & Ms. Bahar Efeoğlu Açar, Head of Investor Relations.

Ms. Ertuğ, you may now proceed.

ERTUĞ G: Thank you, thanks very much and welcome everyone to our financial results declarations for Nine Months actuals on year 2023. You can see the agenda we will follow on the first screen. I will start with the highlights that we would like to share with you and then my team will continue with the details.

At the end, we will be providing you with our updated guidance and the floor will be open for your questions and comments. So, I very happily announce that we have completed 9 months of year 2023, in a quite a successful mode. Regarding the Turkish domestic markets, we are currently ranking in number three position. Our total market share is 9.7%.

And for the commercial vehicles, where our key strength lies, we are keeping our number one ranking position and overall market share has been finalized as 29.7%. The domestic performance in terms of profitability has also been quite successful. Since you

might remember on our earlier calls this year, we had the elections in Turkey and prior to the elections, we were targeting the domestic market more; whereas towards the end of the year, shifting a little bit more attention into the export area. We have managed to do that in domestic markets. The volumes have increased by 58% and the revenues increased by 104%. In fact, currently, we are still seeing a vibrant and quite strong demand in the market.

For the export, we also continued our growth. Now that we have the Craiova plant together with us, that also supported the increase in the volumes. However, you would see the increase in the volumes for the export by 35%, slightly less than domestic and revenues up by 86%. Maybe I can highlight that, if we compare last year's Q3, there was the EcoSport production in Craiova plants. But within this year, currently, Craiova is only producing Puma units, so that is constituting a difference.

As you might recall from our earlier talks, this year is quite an important year for us for the new vehicles that we are launching. Both on the light commercial vehicle segment, Next Generation Courier and for the MCV, , our Next Generation Custom are in the launch phases and in Q4 of this year they will be materialized. We are keeping a very careful eye on quality in the delivery of those units. That's why in the continuation phase, there has been some missing links, that's why the volume increase in this quarter has been slightly less than that of the domestic markets.

As we check our capacity utilization, we see that we have high-capacity utilization across all of our production plants, very strong performance over there. In terms of the profitability, in fact, we have delivered very good results. EBITDA per vehicle exceeded EUR2,400, and PBT per vehicle is also around EUR2,150.

With these successful results and successful cash flow, we will be able to make our maximum payout dividends also possible. In fact, the first installment had been paid in Q1, and the second installment of TRY10.4 billion will be paid at the end of the month. Today, we have helped our extraordinary general assembly to kick-off that process also. So, it has been quite a successful period for us.

Let me give the word to Bahar at this point to take us through the further details, and then we will touch base again towards the end of the presentation. Bahar, the floor is yours.

AĞAR B:

Thank you so much Gül Hanım. Hi, everyone. Thank you all for being with us today. So let me proceed with the domestic market performance in the nine-month period. Throughout the year, we have seen a continuous strong demand in the market as also Gül Hanım mentioned earlier and especially, this trend has been seen in the pre-election period.

The main drivers behind strong year-on-year growth can be explained as the high demand for the vehicles in the inflationary environment, which were seen as an investment instrument. Also, we should say that there was better availability in the market with the easiness in the supply and logistic constraints. As a result, the domestic market increased by 63% and almost reached 900,000 levels by the end of September.

And when we look at the performance in each segment, we can say that the biggest growth happened in passenger cars and light commercial vehicle segments, with the rise of 67% and 62%, respectively. And as a result, the share of passenger vehicle sales reached to 75% levels in this period, whereas light commercial vehicle sales share remained at 13% levels.

Let me move to Ford Otosan's performance in the domestic market. In this period, we were benefiting from the robust domestic demand, and we mainly prioritized domestic market in allocation to take advantage of the ongoing momentum in the market in close collaboration with Ford Motor Company.

We did our best to meet high customer demand during this period. When we look at our performance for the 9 Months, our domestic sales increased 58% in total, which is slightly lower than the market realization.

But we preserved third place in the market by attaining 9.7% market share in total and we were able to gain

market share in passenger car segments as well, thanks to the better availability in our models like Puma, Focus, and Kuga.

On the other hand, we maintained our undisputed commercial vehicle leadership with almost 30% market share, even though we were struggling with some supply chain challenges, especially in the beginning of the year, and the launch timing of new Custom and new Courier shifted to achieve best quality and efficiency metrics in our new products,.

However, happy to share that this week we launched New Courier in our Romania plant, and our New Custom will also be available in the market in this quarter, according to our production plans and investment plans, of course. Also, in this period, the strong demand for our products in the market gave us pricing power and we continued to focus on our pricing discipline as part of our profitability over market share strategy in passenger vehicle segments and profitable growth strategy in the commercial vehicle segments, which we are the undisputed leader on that side.

So, let's look at the dynamics in our main export markets. Unfortunately, European van market data for September year-to-date has not announced yet by ACEA, and only the figures for UK are available on our hands right now. So, according to the SMMT, the UK van market grew by 21%, which is our biggest export market compared to others and Ford maintains its leadership in the UK with our flagship products, which

are Custom and Transit, as you can see our position in the market, in September and in the year-to-date figures.

And when we look at the statements from the SMMT, low base impact continues to be effective in this period, and going forward, there is a big potential for the fleet renewals which we see as a promising item for the future of van demand, and the van market is business critical for UK as well.

On the other hand, in the first half, European van market grew by 13% and in this period, Ford was able to sustain their number one position in the commercial vehicle market, with the support of our lucrative and flagship products. Just as a reminder, I would like to share that, we are the largest commercial vehicle manufacturing hub of Ford in Europe, and the three quarters of Ford's CV sales are produced by us, which shows our critical role in Ford's continuous strong performance in this market.

In addition, as of September year to date, European PC market went up 17%, and in this segment, we contributed to Ford's performance with our successful Puma model, which is the Ford's best-selling car in Europe in both 2021 and 2022.

Let's move to our heavy truck performance in international markets. In the first 9 Months, our international sales remained almost flat, which is below the market performance. The main reason behind this

performance was the volume allocation to the domestic market to meet the urgent logistic needs of ten cities, which were impacted from the devastating earthquake in February this year. As a result, the share of exports in our total truck sales decreased from 51% to 40% level in the first nine-month period.

On the other hand, our expansion plans are on track, and we are planning to be also in Netherlands and Switzerland in the upcoming period, and the contribution of Western European sales continues to increase, which brings us higher profitability compared to other regions.

Let me move to recent developments. Since we last met, we continued our new project investments as planned, and as a recent development this week, I'm happy to share that we launched Ford Otosan engineered and produced ICE version of our precious Courier product, which we will produce in our Romania plant.

With its extended load capacity, maximum uptime, and assertive look, we believe that it will contribute to our competitiveness in the market, both in the domestic and in the European markets. Also, its all- electric version will be available in 2024, which will support our electrification journey.

Now, let me continue with our financial highlights of the first 9Months. In this period, we continued to achieve successful financial results and also solid profitability, which is higher than the market expectations. When we look at the highlights, our total

revenues increased by 104% year-on-year and reached to TRY226 billion as a result of 40% volume growth, and ongoing pricing discipline focus also has an impact on this result.

In this respect, our export figures were mainly supported by the Romania plant volumes, as we had a nine-month contribution from Romania this year, but it was three months last year in the same period.

On the other hand, our exports from Turkey increased slightly in this period, due to the longer-than-expected transition period of Custom and Courier products, whereas in the domestic market, we continue to benefit from the buoyant demand in the inflationary environment. Also, improvements in supply chain constraints throughout the year supported our performance. On the EBITDA side, we were able to increase our EBITDA by 146%, and reached around TRY31 billion levels.

Of course, there are some dynamics behind our performance that I would like to share. One of them is the robust domestic sales and rising share of domestic sales in total sales, because it was 17% in the same period of last year. However, it increased to 20% levels in this period.

Secondly, considering our export-oriented business model, sharp Turkish Lira depreciation that we experienced in June led us to obtain strong results, particularly in July, because you may also recall that the EUR TRY rate increased from TRY21 levels to almost TRY29 levels in a month of June. We have seen

the impact in July. As a result, we recorded TRY25 billion net income, which is quite higher than our PBT resulting from the TRY2 billion deferred tax assets in this period whereas we reflected TRY224 million last year in the same period.

Let me continue with our margin evolution. In this period, we recorded high EBITDA margin levels both in 9 months and 3rd Quarter, which was mainly driven by the exchange impact on our export business and increasing share of domestic sales, and also our pricing power as a local producer.

As a result, our margins reached almost 14% in 9 months and 14.5% in the 3rd Quarter. It's quite higher compared to last year's same period. You should also note that these levels are not sustainable levels for the upcoming period, considering that we are in a transition period. As a consequence, also Gül Hanım mentioned about this point earlier, we were also able to achieve solid profitability per vehicle, and our EBITDA per vehicle reached to 2,400, and PBT per vehicle went up to more than 2,000 EUR levels in this period.

These slides are shared for your information. These are the actual figures for our sales and financial statements, so we can move. Right now, I'll stop here, and Gül Hanım will continue with our financial ratios and our updated guidance.

Then we will be happy to take your questions. Thank you so much.

ERTUĞ G: Thank you, Bahar. In this overall summary sheet, in fact, we are seeing that we have improved our cash position quite significantly. The financial ratios, liquidity ratios, and leverage ratios are quite healthy.

What we are carefully keeping an eye on over here is Net Debt over EBITDA ratio. Over there, you see that our performance improved versus last quarter, last year. The margins, due to the reasons that Bahar has already explained, and since in this period we have seen TL depreciation also, with the combined effect of the stock impact into the vehicle sales, maybe that would be my only add to what she has said.

We are seeing improvements in all margin-related metrics, so this is quite a solid performance. If we go to the next page, I would like to touch upon how we see the rest of the year for year 2023. In fact, as we have mentioned about the domestic market and the performance, the viable case of the domestic market, we improved our guidance for that area.

We are expecting the market to be around up to 1.2 million units. Over there, for our retail sales volume, we haven't updated our domestic values because we will be focusing more on the export side of the business towards the end of the year, and the launches of next-generation Courier, next-generation Custom and their ramp-ups will be completed. We didn't change our view for domestic.

However, for the export volumes, we have brought down our assumption a little bit. The reason over here is not necessarily an expectation of the recession. We

see some signals that there could be some changes in the markets, but when it comes to the export areas, we have just spoken about the UK markets, and in general, the UK is a very strong market for Ford-branded units.

The rest of the European case can be a mixed bag. I'm not saying that the demand is coming down, but internally, we are seeing a bridging effect between our old vehicles and the new vehicles in the launch period, and since we do not want to compromise any part of the quality, we will be quite with high scrutiny over there. That's why we are taking down our volume for the Turkey bits.

For the Romania operations, in fact, we are keeping our guidance constant, and overall, with this impact, the wholesale volume is coming down by 20K for the last guidance of the year. As for our investments, in fact, the overall investment is full throttle. It's going on. However, there has been some calendarization impact. That's why some of the capital spending we are expecting to defer into year 2024. For that reason, we have reduced our guidance over there. Instead of 1.05 billion EUR, we are now calling it 900 million to 950 million EUR levels, and out of them, our product-related investments will still be constituting a huge amount, but the remainder part of them will be followed on in 2024.

So I believe this concludes the section we would like to highlight, we would like to give info on, and we can now open up the floor for your questions and comments, please.

OPERATOR: The first question comes from Kilickiran Hanzade JP Morgan. Please go ahead.

KILICKIRAN H: Gül and Bahar, thank you very much for the presentation. I have a question mostly about your product launches. How should we think about the Custom launch going forward? What would be the impact of Custom on the volume in Q4 and also in 2024? Because you also increased the capacity here.

And second, I know you highlighted that you are comfortable about the demand outlook in Europe, but you take down your exports slightly. I just wonder, do you see an extension of weakness or slower recovery in exports in 2024? And are you going to guide us on EV sales as well going forward? Because you don't mention about the quantity here, about the Transit EV versions, and I really wonder about what is the amount that you have already sold so far on nine-months? Thank you.

ERTUĞ G: Thank you very much, Hanzade Hanım. Thanks very much for the question. In fact, as we declared on the guidance section, the numbers will be what we have declared over there. And to be frank, this is not being driven through any demand-related actions we have witnessed. So, the order banks-related information, we are still witnessing it in the same manner. I tried to explain that different markets in Europe show different attitudes.

For the case of Turkey, since now the macroeconomic methodologies, let's say the orthodox methodologies are being taken, and there is a certain interest rate

increase in Turkey, we are expecting for the follow-on period for the economy to slow down a little bit. However, since we are the pioneers of the commercial vehicle, and the commercial vehicle-related demand is still strong over there, and even though interest rates came up a bit, when compared to the inflation rate, we still witnessed that there is negative interest rate zone is still applicable. That's why the demand on the vehicle is not going away.

We are just approaching it at a more cautious level. So maybe that will be the best guidance for that one. For the launches regarding the Customs and Courier launches, I would say the takedown of the volume is more related with our internal reasons, not outside reasons. And they were about the readiness of the facility, the checkpoints regarding the engineering sign-off process, and supplier ramp-up.

And all of this is being done because I'm sure you are following, also Ford Motor Company has now placed more importance on quality launches. Instead of doing a lot of things quickly in the market, and instead of making a huge, steep ramp-up, we are very, very careful on the quality level of the units, such that it enters slowly, but in a steady and quite certain way.

In the past, Ford Motor Company had several issues regarding the recalls of the units, or after the units were out in the market, there could be some customer satisfaction-related problems. That's why we are very careful on that one. And in the past months, we had several issues for the overall sign-off of the vehicles. That's why we have brought down our volume, as I

said, due to the internal reasons. This being said, it has nothing to do with the capacity, and it has nothing to do with our intentions going into year 2024. You can assume that whatever we have declared, we are still saying the same thing.

We are not disclosing our electric units expectations for the future, but I can in general say is, based on both from our markets, what we witness, and also, I believe the other OEMs are seeing, the electrification curve take-up, the acceptance within the markets, demand, and the charging networks being ready for the units, we expect that the curve will be slower than originally declared. That's why the overall volume of electric units might be less than what we originally planned. However, this is not creating an issue for our end, because the lines we have deployed, the production facilities, are able to accommodate for ICE and BEV units, the Internal Combustion Engines and Battery Electric Vehicles.

If there is a shift in the demand, we can accommodate by taking in more ICE units. That's why over there, we do not see an issue. As we look into market-related reports, we are seeing that the electrification curve is coming up a little bit slower than originally expected. Has this answered your question, or did I leave out anything unanswered?

KILICKIRAN H:

Thank you very much, Gul, that's perfect. But I just want to make a follow-up on Custom, because previously we have been discussing that some part of the capacity could be allocated to Volkswagen, but there was no announcement since then. So, is it still

reasonable to assume some extra volume take-up in 2024 by third parties, or are you now on track to sell only to Ford Motor?

ERTUĞ G: For Custom one-ton units, in fact, the earlier declared...

KILICKIRAN H: I'm not talking about having a similar version of the Custom, let's say, like...

ERTUĞ G: Transit, are you speaking about the Transit two-ton units?

KILICKIRAN H: No, less than one ton. You know, Ford Motor announced previously an alignment with Volkswagen to produce the smaller vehicles under Ford Motor, and this is a Custom type of model, which is only producing...

ERTUĞ G: Yes, for the one ton, there is an alliance agreement between Ford and Volkswagen, and that is going to hold, that's going to be on. However, any official declaration for that one cannot be coming through us. We are not in a position to make that declaration. Our earlier investment notification, the investment release that we had declared to you that is fully applicable. So, you can assume that whatever we have declared earlier, we are just progressing towards that. There is no change to that.

But anything regarding their operation, it must be followed through Ford Motor Company and Volkswagen, because even though we are the party as the manufacturing producing facility for that alliance, let's say, still, in terms of our operations, we are in competition with them. That's why –“I wouldn't say

that we are authorized to say anything regarding that one. You can assume that our earlier press releases and our earlier notifications to the public regarding our investment is going ahead as declared.

KILICKIRAN H: Okay, thank you very much, Gul.

ERTUĞ G: You're welcome.

OPERATOR: There are no further audio questions at this time. We will now move to our webcast questions. The first webcast question comes from Cemal Demirtas with ATA Invest, and I quote.

DEMIRTAS C: What do you think about inflation accounting implementation next year? Could you elaborate the impact of inflation accounting on your financials? Thank you.

ERTUĞ G: Thank you very much for the question. Yes, this has been in fact around for some time. And in fact, the first action we took was to make ourselves prepared for inflation accounting again, because I believe after 20 years or so, we will be again dealing with that. And the system implementation, we prepared ourselves to be ready for the end of this year. To be honest with you, I don't know the exact timing where it will kick in. That's why let me leave the word to Ünal for further details. Ünal, can you provide some information regarding this one, please?

ARSLAN Ü: Yes, of course, Gül Hanım. Can you hear me?

DEMIRTAS C: Yes.

ARSLAN Ü: Hi, Cemal Bey. As Gül Hanım mentioned, for almost 20 years, since 2004, we have not applied inflation accounting. And this year, public oversight, I think authority is still working on the methodological norms, how we will apply. But looking at it simply, of course, being not applied for 20 years or in terms of balance sheet, the assets and liabilities will be adjusted according to the inflation and will increase. We will have a high asset and liability base.

And looking at our P&L, for P&L, we can say that in our early assessments, we don't see any adverse impact in terms of both profits and profitability as well. So, our expectation is we will not have a major impact in our financials. If anything, our expectation for now is to be positive in terms of profits and profitability. And that will help us to reflect our financials, better and adjusted to inflation, a real more real profitability levels.

OPERATOR: The next webcast question comes from Alper Özdemir with AK Portfolio. And I quote,

OZDEMIR A: Thank you for the presentation. To meet your 2023 guidance, I am penciling strong export sales volume from both Turkey and Romania in Q4. Which factors will drive this performance in Q4? And do you expect them to be sustainable in the next few quarters? Thank you.

ERTUĞ G: Thank you for the question. In fact, Q4, that will be our like biggest sprint quarter for this year. For the Romania case, maybe it will be good to highlight over here that after we completed acquisition last year, we

have started transfer of information, not necessarily the personnel, but transfer of information both on the manufacturing engineering and our cost performance, our innovation methodologies. All this know-how, whatever we had in application for the, to from Turkey locations has been transferred to Craiova.

In fact, we have already started seeing the good impacts of these actions even before the launch of the Courier vehicle has fully materialized. Until that time, after the discontinuation of the EcoSport, the vehicle line over there operational was Puma, the best-selling passenger vehicle. And without making huge investments over there, just by utilizing the knowledge at this end, we have been able to increase the per unit volumes in that end.

And looking into the environment for profitability, in fact, we have been quite nimble in looking into the plans and to decide where to allocate the vehicles. This has been in good coordination with Ford Motor Company. And wherever we could make use of it, we have directed them to Turkey market, which helps our profitability.

I think now in the current environment where we stand, we are now also showing the Ford Motor Company environment that we have this proven ability. And in that regard, once the ramp up is finalized, I'm not seeing an issue regarding the capacity and the capacity fulfillment.

Over that, what we are currently very carefully tracking is some of the supply base for both Custom and Courier. Because given the end time, given the timing of the launch and some delays we had for the ending period, we have come up with a little bit of a steep curve. And over there, facility is able to manage that capacity. We are looking into suppliers if there will be any issue with them.

And if the quantity comes all right, but if we will be facing any quality related issues, we do not want that to happen. That's why we are looking into our curve very carefully and we might pull down a little bit on that one. In fact, this was the reason why we brought down our guidance.

But this will just, once everything is finished at the end of November timeframe, within December, we will reach where we are targeting. So, in that ramp up period, we might be having some loss. But after that, once the units are there, I'm not expecting an issue regarding the capacity.

Because this was like how we went in for the overall program, how we arranged our investments. All that capital investment we have been sharing with you takes into account the necessities of both the vendors and the facility to make it happen at the given run at rate volume and at the given quality.

I'm not expecting an issue once everything is like reaching at the steady state. But for the ramp ups, we might be seeing some reduction in our volume. Has

this answered your question? I hope, yes. Maybe it was written. We are not hearing any sound.

OPERATOR: This was the webcast question. So, we may move now to our next webcast question, which comes from Pinar Uguroglu with TEB Yatirim and I quote.

UGUROGLU P: Thank you very much for the presentation. Can you please give an update on Ford Motor Company's battery plant in Ankara? Thank you.

ERTUĞ G: I think, I'm not entitled to give an update on that one. The reason being Ford Otosan is not a party to the battery plant being conducted by different structures. Over there, the parties going into the investment are Ford Motor Company, Koc Holdings, and the battery for the battery piece LG.

Since we are not a part to that investment, I think, we should defer that question. And later today, I believe there will be Koc Holding's webcast. Maybe you can bring this question up over there in a follow-up session.

OPERATOR: Thank you. And we will now move to our next webcast question, which comes from Cemal Demirtas with Ata Invest. This is a follow-up question. So and I quote.

DEMIRTAS C: How are the domestic prices to export prices revenue to unit sales were at 1.61x in Third Quarter '23, were as it was 1.32x to 1.41x during 2021-2022 period. Could we assume that, reflecting the cost increase to prices was easier in domestic market versus international markets? Thank you.

ERTUĞ G: I think for this question, the pricing stability in the domestic market, it was regarding two dynamics playing at the same time on the earlier time frame. You know, we have been talking about the chip issues, chip supply issues, and not just us, but several other OEMs had that problem. Due to this problem, the availability in the market was low.

That's why it turned the market into the supplier's market. Plus, for the case of Turkey, because of the high inflation, owning a vehicle meant, in fact, preservation of value. So, with this, there was like whatever we were able to have as we had the availability, we were able to sell it.

There were queues for just at the door of the dealers, and the pricing was quite lucrative. So, as we go along into the new area, I can say that the chip-related problems are now we are seeing that they are going away. It's not that problematic. And this is also being seen not just with us, but with the overall OEMs.

That's why the availability in the market is at much better levels right now, which would signal that it is now the demand catching supply situation shows that the pricing will not be as easy as then. So that is something that, in fact, all of the OEMs will be facing.

And the second dynamic I referred to was like preservation of value against inflation. Now we are seeing that some precautions are being taken towards that. That's why and as the interest rates are going up in the markets, these would reflect itself into credit rates also.

So, the cost of owning the vehicle could be going up. All of these factors could mean that, there could be some slowdown in the overall markets. However, we are taking our actions accordingly. So, the year 2022 and all of this chip availability, where the market was a supplier's market, in fact, it was an advantage to us.

We have taken, we have made good use of that advantage. And now as the economy and as the environment turns into a more normal case, there will be some dilution over there.

But since we have good muscles on our operations, on our cost focus and quality focus, we will combat these changing environments in a different style. When the pricing ability was there, we made good use of it. And now as things change, we will put into place our other efficiency muscles to keep our margins. We are quite confident on doing this.

However, for the piece regarding the pricing as availability will be increasing, we are careful. We are expecting that, there will be some dilution because at the end of the day, this is not just a profitability game. Of course, we want to run at profitable rates, but also we have volume and market share targets. That's why we settle on the correct positioning where it is going to maximize our performance. But from a pricing perspective, since your question is more regarding the pricing. Yes, I believe the pricing abilities, we will be seeing that, it will be coming down a little bit.

OPERATOR: Ladies and gentlemen, there are no further questions at this time. I will now turn the conference over to Ms. Ertug for any closing comments. Thank you.

ERTUĞ G: Thank you very much and thanks to all of you for your attendance. We will be together with you again as we have our year-end closing. Until that time, I wish all of you a healthy and hopefully peaceful environment to us all. Thanks very much.