Ford Otosan A.Ş.

Ford Otosan Nine Month 2024 Financial Results
Conference Call

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OPERATOR: Ladies and Gentlemen, thank you for standing by. I am Gelly 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 Nine Month 2024 Financial Results.

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

Ms. Ertuğ, you may now proceed.

ERTUG GUL: Thank you very much. Hello all dear Investor Community, thanks for your time, thanks for attending our 2024 Q3 Financial Results and Earning Announcement Call. So like just as we usually do, I will try to give the opening remarks, pointing out the key highlights, then I will also give the word to Bahar, our Investor Relations Lead for the market specific updates and the key important changes since we last met and also Unal for the details of the financials, then we will provide you with an update on our guidance and we will open up the floor for your questions and answers. So let's begin Duygu.

So overall I can say that in fact Q3, it has been a successful quarter for us. You might remember in our Q2 discussions we were questioning about the several launches we were doing within our plans this year and some ramp-up issues. Due to that we had some stockpile-up issues but thanks to the good run rate and good management of the operations over here, in fact we have reached a steady state on our run rate.

So overall in fact the results we have seen are in line with our expectations and if you look into a little bit detail, like looking into how we did in the domestic market, we maintained our third position with 8.5% market share. In total the commercial market, you know it's where our key strength is, we are keeping our number one position with a 27% market share. On the light commercial vehicles and heavy commercial vehicles in the market for Nine Months, in fact if we compare that with the same amounts for 2023, we see a reduction.

But for the LCV I can say that impact is coming from the Q1 results that we had already communicated to you. In fact within the course of the essentially the Q3, the run rate has reached to strong levels. So going forward usually in the automotive sector Q4 is a stronger period.

Over there we do not expect an issue but we should also be mindful that in allocating our units to domestic and export markets, our LCV units, the next-gen courier being quite a successful market, there is significant export demand on that one. That's why when we have the allocation to support the export markets, some of the reduction in domestic volume was due to that. For the heavy commercial vehicles, I have to state that we are seeing a decrease in the demand.

The demand is softening both in domestic market and export. So the story on the heavy commercials is different. On the LCV we do not see an issue but for HCV there is export and domestic volume reduction.

When we come to the guidance section, you will see also our updates in regards to how we see the export markets over there. We see some level of softening. Overall for domestic, the volumes contracted by 16% and out of that the revenues came down by 21%.

Over here I have to state that the cost pressures in fact we are seeing due to inflationary environment, even though there is the inflation combating measures. I'm sure most of the companies dealing with the export operations you listen to, you are hearing similar remarks. Unfortunately, over there in the cost of goods sold we are seeing some bad news.

Plus there has been more availability in the markets. That puts a strain on the pricing ability. That's why the revenues came down by 21%. On the export story we are keeping track with our volume. The accelerated shipment, like I said at the start of my speech, the ramp up and launch issues were resolved. Overall, we see a good trend.

The volumes increased for Nine Months total by 8% and the revenues increased by 5%. Overall, the capacity utilization of our combined, the entire consolidated plant view we realized as 82%. In Turkey this was 78%.

Some of the low utilization is in fact due to the heavy commercial vehicles. Other than that we are at our intended levels and for Romania we have reached 88%.

In this period we have seen the dilution in the profitability as expected. We were speaking to you on our earlier talks that it should be expected to have some level of normalization and over here we are seeing the effect of it. Our EBITDA margin came to 8%, pretty much due to the overall domestic volumes being lower and within the entire mix of our operation the weight of the export units are increasing.

With the cost pressures, availability and pricing pressures the EBITDA level achieved as EUR1,700. Overall still even though like when we compare it to the last year's same results, maybe on the EBITDA generation and PBT we see some bad news impact. But going forward we do not take this as an issue because this has been the year for our important vehicle launches.

They are coming home and looking into some of the assessments before coming to the audio I detected that maybe some of you have a worry is this going to affect your further rounds. But for Q4 I have to tell you that the launch related especially on the custom, the final piece of our launch is on track. We will be introducing our partner in Q4 and there is no issue around that one.

But looking into 2025 we expect to see some level of softening in demand. We will talk about it in the later parts of our presentation. Now for the special section level details I'm leaving the floor to Bahar. Bahar please.

AGAR B: Thank you, Gul Hanim. Hello everyone. Thank you all for being with us today. Gul Hanim has already shared main highlights about the domestic market outlook. But let me also elaborate Nine Months in detail. In this period Turkish automotive market demonstrates the flat performance which is reversing the growth trend in the First Half and the sales volume reached to a level of almost 900,000.

In this market passenger car sales accounted for 77% of total sales were surpassing last year's share. If you look at the segment breakdown, we can say that passenger cars and medium commercial vehicle sales saw an increase of 1% and 14% respectively. On the contrary light commercial vehicle and heavy truck sales experienced declines of 11% and 21%.

These obviously indicate that the growth drivers from the first half were notably normalized in the Third Quarter actually along with the effects of tighter monetary policy and the stabilized demand. So, if we look at cumulative basis the key drivers of this performance can be accepted as the increased special consumption tax exemption limit for the disabled citizens. The second one is the robust local demand prior to the election and the other one is the impact of the General Safety Regulation the GSR especially in the First Half which triggered the competitive pricing strategies mainly from the Chinese brands.

Also, as a last point, I should say that the LCV sales was impacted with the new courier's extended ramp-up period and the end-of-life cycle of our other players products. And in this competitive market conditions as for Ford Otosan we were able to maintain our third position in the total industry with 8.5% market share. Our market share in the PC segment where our strategic focus is on profitability rather than market share, remains steady at around 3% level.

However, in our core market I mean the commercial vehicle segment we continued our leadership with 27% market share. So, we preserved our undisputed number one position in medium commercial vehicles with a growing market share of 37% thanks to our renewed custom and stronger availability in transit. On the other hand, we secured second place in LCV and HCV segments as we could not successfully respond to the market demand especially in First Quarter and partially in Second Quarter.

As a result when we look at the Full Year we consider that the demand will beat our expectations so once again we made upward revision in both the industry and our retail sales guidance. Now let me continue with the export performance. I can start by saying that in this period a similar trend with domestic markets was seen in our main export markets.

Although the passenger car and commercial vehicle markets grew by 1% and 5% respectively Q3 results revealed multiple declines across all segments. In other words with the end of GSR effects on European sales the market weakened significantly in the Third Quarter with a 6% drop in PC and 8% decline in CV. So going forward relatively weak demand is expected for the rest of the year.

In this market Ford Motor Company showed an outstanding performance and maintained its leadership in the CV segment and with the support of our flagship and renewed products by the end of September Ford's market share rose to a record level of 15.3% from 14.2% 2023 year-end. This is also evident in our accelerated export sales in the Third Quarter. As a result, we contributed this success by producing three quarters of Ford Pro's commercial vehicle sales and more than one third of the passenger vehicle sales in Europe.

On the other hand, we had a weaker year-over-year truck performance also in international markets since we were not responding sufficiently pricing wars and impacting from the contracting market conditions. However, unfortunately from October we started to see the sign of slowdown in our order banks for the remainder of the year which led us to adopt more cautious approach in our export guidance.

As we were discussing the potential risk to our export guidance in our previous meetings together with the results coming from European ACEA we recognized that the previous export guidance is not achievable anymore but of course at the end of the presentation Gul Hanım, will provide an overview of our updated guidance. This is all from my side. Thank you for listening. Now I leave the floor to Ünal Bey to explain our financial performance in the Nine Month period.

ARSLAN U: Thank you Bahar. Hello everyone. I'll continue with financials very briefly. This quarter is what I can say in a very short summary is very stable compared to First Half of this year. Our revenues in total decreased by only 2% to TRY 405 billion versus same period of previous year whereas our total volume increased by 3% that Gül Hanım and Bahar already explained. Main driver of total revenue reduction is as we discussed at the beginning of the presentation domestic sales performance plus mix of the vehicles that has been sold and we have lower sales in trucks for trucks in heavy commercial vehicles I mean in both domestic and international markets which has very high per vehicle revenue compared to other vehicles.

And also, in the export business although we have higher sales volume and 2-ton transit sales in export business this is the expensive vehicle line in the export section that's lower as well. So that's the main driver of the different directions in wholesale volume increase versus revenue decrease. Our EBITDA also decreased from TRY60.7 billion to TRY32.3 and excluding other items decreased from TRY52.4 billion to TRY31.2 billion.

Main reasons behind these decreases are lower domestic sales where we have the highest profitability in fact we had last year that's partially because of the extended ramp-up period of new models especially at the beginning of this year that we discussed in our previous call as well and partially increased competitive environment increasing export sharing our overall business and also continuation of strong Turkish Lira versus Euro throughout the first Nine Months of this year, that I will also emphasize in the coming slides as well and lower Ford truck sales in domestic and international markets which had a very significant profit margin last year. In parallel to EBITDA operating profit also decreased year over year by 57% to TRY22.9 billion.

A reason of higher decrease in operating profit is basically this year we couldn't enjoy as much good news coming from exchange movement as we had seen first three quarters of last year. During first Nine Months of last year average Euro rate appreciated by 46% whereas this appreciation was around 17% this year and 8% of that is in Third Quarter of 2024 and because significant part of our business is export Euro appreciation helps us in terms of export profits and profitability which did last year but not as much this year.

When we come to the PBT and PATs decreases versus same period of last year are lower, competitively lower. We continue to have monetary gain in PBT because of our high monetary liability position in the balance sheet and in terms of PAT we continue our investment subject to incentives which derives a good level of deferred tax income and also if you remember that last year, we also had an earthquake tax impact this year we don't have that one that was a one-off item last year.

In the next page looking at our margins and normalization of the margins which was our expectation last year and, we discussed in our previous call of First Half financials was realized and our Third Quarter margins kind of stabilized around First Half levels current levels. Just a reminder I mean that expectation was mainly over an expectation of increased availability in the market and hence an increased competition in domestic market along with continuation of new model launches and exchange movements impacted that as well.

Our Nine Months EBITDA margin is 8% operating margin is 5.7% and PBT margin is 6.7% all are very close to this year's First Half margins even PBT margin is a little bit higher so this shows us that in the Third Quarter we are kind of stabilized in terms of profitability and our EBITDA per vehicle became to be EUR1,744 per vehicle which was EUR2,648 last year.

In the next page, we see that our production volume is 3% higher than the first Nine Months of last year and higher by 7% quarter-over-quarter which is good for us and cost of production in terms of raw materials is a little bit higher than last year.

In the previous slides, I mentioned about Euro-TL movement which we see here that 46% last year increased in the first Nine Months and 17% this year. Unfortunately, that has a big deterioration impact on our export profitability when we look at year-over-year financials. Interest rates on the other hand continue to be higher and that shows that cost of acquisition and cost of holding a vehicle increased significantly versus previous year.

These pages are detailed and already discussed pages, but we already talked about those. I will not go deep into those slides. I can very shortly say that in terms of profitability, domestic market sales where we have higher profitability are lower by 16%.

And in this slide in terms of our debt profile, our net financial debt increased to TRY99.2 billion from TRY82.2 billion compared to 2020 year end by the way. We continue our investments for our new models and this is basically the main reason of increasing that. And net financial debt over EBITDA ratio is 2.45x. This is kind of well below our official threshold of 3.5x, which was last year at 1.19x.

And our financial ratios in the midsection, including our current ratio, liquidity ratio, current assets over total assets and so on the other ratios, they are very similar to the previous year and First Half of this year and we can say healthy. Only the one that we discussed, the leverage ratio net debt over EBITDA and that's under our focus.

So now I give word to our CFO, Gul Ertug, again, to give more information about our guidance for the rest of the year. Thank you.

ERTUG G: Thank you very much, Unal. So looking into the Turkish automotive markets performance, in fact we moved one notch up, I would say, for the overall expectation of the industry 1.1k to 1.2k and within that looking into our performance, especially the rates we have reached in Q3 and like I said at the start usually Q4 is a very successful period in the auto industry. We expect our retail sales volume in Turkey to go up to 105k to 115k.

On the export trend though, we made a downward adjustment. The earlier guidance was in between the range of 560k to 610k. We moved it to 530k to 580k. The reasons being the ones that Bahar explained when she was speaking to the export markets.

Looking to the indications we receive through ASEA and also looking into the order banks and the stock levels of our partner Ford in the environment, we see some softening in the demand. And like we had advised you at the times of the starting from the chip crisis, we have been very carefully planning our production scheme, master production schedule together with Ford. We are optimizing for ourselves as well as optimizing for them.

So seeing the result over there, it signals that the 530k to 580k region will be more reasonable and this is -- mostly the changes are mostly coming from the Turkey operations, the commercial vehicle piece. As we introduce our partner in the 1 ton region, I can once more reiterate that the plans are on track and the launch will happen this year.

On the earlier discussions I had given this as a word of caution. I had made this explanation since we had seen in our other launches some okay-to-buy delays or some ramp-up issues. I had said that if we -- other than that, we don't see an issue. That was the guidance or explanation that I had provided in the earlier talks.

Over here for the partner-related data, I'm reaffirming what I had said but in the general scheme we are seeing some softening in the demand. For this round, we are not just providing the 2025 guidance yet but this demand softening impact on the export we see that that will also come our way in 2025.

However since the arrangements for the partner is in place even though on the normal setting we will see some softening versus this year, since we will have a step function of the partner introduction next year. Overall, when we go into that guidance, we will not look that. In fact, we will be showing the effect of all this capacity and vehicle investment you will be seeing on our guidance.

For the CapEX on the fixed assets, we have made a downward revision in our overall spending from EUR900 million to EUR 1 billion. That was the bandwidth. Now we see that value being in between the range for 700 million to 800 million. In fact, this shouldn't be interpreted as some of the things are not being done.

In fact, there are two pieces going into this. When several of the launches within the year, they deferred or the okay-to-buy was not given in time, similar to that pattern some of the payments of the invoices were coming in a little bit late. So some part of this change is calendarization impact. You can expect that whatever was not done over here it will have a flow over effect into the following year. And some of it in fact given in this heavy cost pressure environment, some of it is in fact real savings like we did.

We carried out action but especially seeing these cost pressures and due to our business model in fact out of these cost pressures, our partner Ford got affected more severely than us because we have a cost plus markup mechanism in our export prices. That's why some of it is real savings and some of it is calendarization impact flowing into 2025. But the plans what we have declared in terms of both electrification and product launches plus capacity, they are progressing. They are on track.

That would be pretty much the information I would like to share on this page. I think this concludes our presentation. We can open the floor for your questions now.

OPERATOR: The first question is from the line of Parisi, Lorenzo with JP Morgan. Please go ahead.

PARISI L: Hello, hi and thanks for the presentation. I just have one question regarding leverage and the trajectory. So given increasing leverage over the course of the year, are you able to comment on when do you expect that leverage to peak whether it is Fourth Quarter or sometime in 2025, and roughly at what level do you expect that to peak? Thank you.

ERTUG G: Look, I should answer that question as we are -- in fact we are very dynamically keeping track of our actions in paying attention to our metrics over here. You can expect that 2025 will also continue to be a heavy CapEX because of the electrification journey and the capacities we are doing. So 2025 overall spending, CapEX spending will be somewhat similar to what we have seen for this year.

In fact, we do not manage ourselves in looking into an overall value, a face value at that level. This is the peak time. We do not do that because everything is dynamic over here. Our EBITDA generation capacity, the payment turns for the actual CapEX actions, you might even question what are you doing with your dividends?

So looking into all of these actions, in fact we are keeping a careful eye on our net debt over EBITDA ratios. We are carefully tracking that. And in doing so, of course, we also execute the official dividend policy that we have declared to you. This means there is -- at a minimum, we always try to distribute the 50% of the distributable section.

However, at times of heavy CapEX and at times of unfavorable economic conditions, I wouldn't say that this is an area like a crisis, like a turmoil period. But we all know the facts that currently the export operators are having some disadvantage operating in Turkey given the inflation curves and the exchange curves that Unal has explained. That's why we are all taking these things into account in our decision making and dynamically managing it.

At times, wherever possible, if there is a way to defer the CapEX spending or it's like invoice collection, we are also looking into that. In that regard, I wouldn't give you an overall debt ceiling figure. I wouldn't do that. But I would say that we are very carefully tracking the net debt over EBITDA ratios and honoring our covenant needs. That's our strategy.

PARISI L: Thank you very much. Sorry, just one follow-up. I think you have a target of keeping that leverage at or below 3.5x. And given the market dynamics that you allied and especially on the export markets, do you expect over the next couple of quarters or three quarters to gradually approach this level or more or less to remain at current level of 2x, 2.5x on that leverage?

ERTUG G: We are targeting to remain at these levels. Like in certain instances and you would imagine there are some factors affecting this even from quarter-to-quarter, this number could change. So, there could be areas where we could be exceeding this.

And you rightly put it, Unal also mentioned it, in fact in our hard constraints, let's say, this value is 3.5x. However, since now we are also, we have diversified our portfolio of funds. We also have access to the debt capital markets, pay attention to the needs of that area you could assume, we do not have an intention to stay around those levels if we exceed that. So, like the hard constraint levels we are, we are targeting to keep away from them maybe that will be a shorter answer

PARISI L: Thank you very much.

ERTUG G: You're welcome.

OPERATOR: The next question is from the line of Campos Gustavo with Jeffries. Please go ahead.

GUSTAVO C: Hi. Yes, thank you for taking my questions. Just two on my side. On your heavy CapEX in 2025. How are you planning to fund this CapEX, what kind of more specifically what kind of avenues of debt funding are you considering at the moment? That's my first question. Thank you.

ERTUG G: Thank you very much. Like I advised since we diversified our portfolio with several syndication lines from the supranationals, we have the Eurobond. And this diversified portfolio brought us a better cost advantage and enhanced borrowing capability, we will be continuing over them.

At this point in time, I'm not in a position to tell what timing, what to do but since now we are in these forums we will be continuing to utilize them. But if you ask are you going to tap into the Eurobond market once again? The answer would be yes. But from a standpoint what would the timing be, that will be coming from our, especially once we do the 2025 budgets,

the overall needs and the timing is subject to a further like planning on our end. But the current portfolio we have, we are happy with this. And we want to continue to tap into those resources.

GUSTAVO C: Yes, great. Thank you very much. My second question would be on, and apologies if you covered this before, I might have missed it. The medium commercial vehicle, I see like, it has materially outperformed in terms of like sales units both domestically and in exports. Material outperformance of medium commercial vehicles relative to light commercial vehicles and passenger cars. So, if you could please elaborate on, like, what's driving this outperformance. That would be great. Thank you.

ERTUG G: Yes, let me try to take the first part and , Bahar if you would like to add anything more just please jump in. In fact, the medium commercial vehicle area is our key breadwinners. That's a very successful vehicle, it has been so, for like as legacy. And the 1 Ton Custom together with this Ford Motor Company alliance with Volkswagen we will be introducing the partner units.

It's a, both from a hardware perspective and software perspective. The operations in Europe through Ford Pro. It's a success story, that's what we are proud of. For the LCV I wouldn't discount our next generation Courier that is also a very successful vehicle. The time it took to complete the ramp up period gave us a trouble.

Currently, it came a little bit late. And when it came, I will probably say that there was a little bit of a fight over who gets what. And the European markets also liked it. We liked it, it's a successful vehicle. So, at the First Quarter some of the allocations and the distribution of the units out of the Craiova plant,

they reached the export markets earlier. And later on the overall allocation perspective when we when we shared the units between us and Ford. Turkey markets versus export markets. Over there a little bit more of it, than maybe originally intended let's say or we wanted a little bit more of it went to the export area.

That's why you are seeing the reflection in the numbers in that manner but overall, the reaction we get from the markets also for the Courier, it's quite a successful vehicle. And currently I'm not in a position to give the numbers just yet. But when we concluded our plant shutdown period in our Craiova plants,

we also did several enhancements to our operations, not just for Courier and Puma. Overall going forward in Q4 hopefully we will be seeing a larger run rate. So, I hope they will reflect itself into Q4 but as a guidance or as a as a full commitment, I'm finding it a little bit early to say it just now.

You will see that when we come up for the 2025. In general Ford Pro for the medium commercial vehicles, it is successful because now Ford has a strategy in the key profitable units of Ford are also coming from the commercial vehicles. And in Europe, Bahar provided details, it's quite successful.

It's not just coming from the vehicle itself but also the idea behind providing the service to the professionals using the vehicle. This uptime logic keeping the vehicle always up and running. If there is an issue, if there is a problem solving it, making it connected.

And providing some value-added services through the vehicle over a really healthy network is differentiating it from the others. And I usually receive a question regarding how do you combat the Chinese, Chinese are everywhere. We saw on the listing in Turkish domestic market especially on the passenger.

There are a lot of Chinese units, once they showed up there were some tariff walls. Now they are being kept away both in Europe and like after some time also in Turkey they were kept away but they can do something else to combat it. When it comes, how do you defend yourself is the question.

And the key answer, the key strength let me put it that way, the key strength Ford Pro is betting on is this, the vehicle itself is of high quality. If we check the quality versus some other Ford plants and some other Ford name plates. Our vehicles both in the LCV, the Courier and MCV, they are the transit custom.

They are much more quality vehicles so the cost of warranty in those things are better when compared to others. And if there is a problem with all this Ford Pro network, they are really providing good experience to the customers, that's why the loyalty level is much enhanced. And it is creating the stickiness that we want in the value proposition.

So, we are we are like I would say, we are proud to say this. And we will try to keep our units in this way.

GUSTAVO C: Okay. Thank you, very much. Just very quick last question here. You covered in the call like 8% EBITDA margin might be a more of a like a normalized run rate level given the current market environment. And the -- and also like if I would branch out here like, previously we've seen like 70% to 30% domestic to export split in your revenues.

And now it's maybe trending closer to 80 to 20 because of again the softer environment domestically. Would that be closer to a run rate here in terms of revenue split and EBITDA margin? That's it for me. Thank you.

ERTUG G: Yes. I would say yes, yes this is the normalization we are expecting because like you said, the export mix is increasing in our portfolio as we, as we create even more capacity as the partner volumes come into the picture. The business will be more and more skewed to the export. And within our business in this talk, we didn't speak too much about the Puma but we are also doing important actions on Puma.

Its electrification is also progressing. So, Puma being the passenger vehicle, in general the passenger vehicle profitability is less than the commercial vehicle profitability. So that piece is also having an impact. And within the electrification we see a little bit of a delay in the demand for electric units. But we are lucky we have a mitigation plan. If the demand for BEV doesn't come, we can exchange it for ICE and in fact that is what we are doing to keep our utilization ratios high. In that regard we are not disclosing them separately but an ICE you could assume at least at the start of their life cycle an ICE version is somewhat more profitable than the BEV.

All in all when you combine all of these actions we are expecting a steady state EBITDA margin of around like 7.5% to 8.5%, 9% levels, that's our expectation and that is the reason why I said these results are in line with our expectations. If we compare everything to what we had last year, in fact we see deterioration everywhere, but we also say that last year was an extraordinary year.

So, we are not taking it as the norm, these values you could you could take it as the norm Yes that would be my answer.

GUSTAVO C: Great. Thanks again appreciate it.

ERTUG G: You are welcome.

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

ANALYST: Thank you very much for the presentation. I have two questions one of them is regarding the currency risk and can you please confirm whether your cost class export contracts also cover the Euro dollar risk?

ERTUG G: Yes, because like our contracts are cost plus markup and within those costs the impact of the exchange is also flowing into our cost base like whenever we have the structure if the inflation, Euro all of those things are giving us a bad edge and somewhere in the presentation, in fact, I already mentioned about this. Unfortunately, this year because of the trajectory our products became expensive in hard currency terms, but because of our business model and because of our contracts we have been able to pass that on to Ford.

So, in that regard we are protected. Of course, this still gives us a headache. We are not very much happy with this situation because from a business perspective yes, we are protected, but we do not want this to adverse neither us nor our partner in a negative way we don't want to get affected in a negative way and for the entrepreneurial part of business where we sell in Turkey.

And in the Ford Trucks markets we have also seen the impact of this cost, that's why we are increasing our cost reduction target even more usually historically that has been a strong muscle of us, but seeing this environment and anticipating that this environment will still continue for some more time. The inflation is coming down we have started to see some real positive interest rates, but still the inflation is high and for a continued period we expect to see strong Turkish Lira.

These two effects are in fact they are going to make us a little bit more expensive, maybe for 1.5 years, 2 years this trend will continue that's why even though we can pass this cost to our partner we don't have an issue over there, but for longer periods strategic relationship we are doing what we can in our hands to combat that cost, but short answer, yes Euro related actions the effect of the cost increase due to exchange. Yes, we can pass it in our transfer price.

KILICKIRAN H: Okay great to hear. And I also want to pick up your opinion about the outcome of the US election results on Ford Motors' positioning in Europe. I mean, could the European market be a more competitive market next year and could that be more demand pressure?

ERTUG G: Maybe that's a little bit, like, early to judge on that one and like I shouldn't since this question is more related with the Ford part of it maybe I shouldn't be giving a binding answer, but I can at least share my perspective how I see this. In general, for the product portfolio the

Ford Pro and it's enhanced vehicles with electrification, that goal is over there.

So, with respect to product plans what we do I do not anticipate a change. How the market dynamics affects through US like there were some talks about the attitude change possibly towards electrification. Internally, we are not expecting that and we are not expecting this to have any change on our original plans. However, since we are in a position we already placed ourselves on a risk mitigation view, we always said once we have the product portfolio it could be electric, it could be ICE, whatever it is.

If the demand shifts in other direction we can very quickly answer that change because we do not have dedicated lines. We have interchangeable lines, the products are being produced on the same area and in general sustainability related goals are over there, that's why I do not anticipate a change on our operations, that that's my take.

Overall, what happens in like there are talks maybe there will be further wars trade wars with China, if some products being produced in not in North America, but elsewhere in America, how it will get affected we will see that. I shouldn't make comments on some tariff play, some trade play. I am more approaching to this from our position, since the growth strategy of Ford Otosan from both capacity volume level and product level.

It wasn't driven from any political view, that's why I don't think this will have an immediate effect, impact on us, but let's see let's see how it unfolds and later when we speak about the Q4. If we detect that there will be some change over there maybe we mention about it then, but currently I wouldn't anticipate something changing our direction

KILICKIRAN H: Okay. Thank you very much.

OPERATOR: There are no further audio questions at this time. We will now proceed with the webcast participants and their written questions. The first question is from Yağız Mehmet Kızıltekin and I apologize if I'm not pronouncing that correctly from QNB Portfoy. Thanks for the presentation on your recent analyst meeting. You seemed more confident about delivering the export guidance numbers in Full Year 24.

However, after a Third Quarter results there was a downward revision in export guidance. You mentioned that it is mostly because weakened demand and export markets and weaker order book, do you expect this week demand trend to continue going through 2025 and onwards. Also, on what frequency does Ford Motor company changes orders book monthly, weekly etcetera? Thanks.

ERTUG G: Thank you. Yes, in fact, I tried to answer that question while I was speaking this demand softening, we expect that to impact 2025 and at the time when we were making the analyst meeting in fact the signals were not fully there that that was the reason, I wasn't expecting that to happen because there is also some time lag. We distribute our vehicles, the Ford motor company updates product programs, in fact, monthly the official run rate is monthly, but at times of serious action currently luckily we are not going through such a thing, but some of you might remember at the time of the semiconductor chip crisis, we were doing things more often and we were in fact prioritizing Ford Otosan units because they are commercial vehicles and they are also profitable units for Ford, just like Ford Otosan.

Currently, the planning period is monthly and of course even though we are strategic partners. At the end of the day, we are different companies and within the Ford's national sales companies we do not have direct access to see their stocks or their dealer stocks, that's why as some of the information comes with a lag within the NPS planning period as we see this data. The moment we see the data the moment, that's the moment where we take an action towards it. At the time this was not applicable but now it is applicable, that's why we are reacting to that.

We are expecting this impact in 2025. Luckily, we will, as Ford Otosan we will not be showing bad news regarding volume next year because we will have our partner volumes. And whatever I said for the partner volumes are still valid. So, even though demand softens from a overall production and overall wholesale perspective. In fact, we will be seeing a step function increase for next year.

OPERATOR: The next question is from the line of Dominic Leoni with Consilium Investment Management. And I quote, could you please go over the competitive environment in both domestic and export market? Thank you.

ERTUG G: Like, I think it's a broad question for the domestic and export markets. The key question we had received earlier was regarding the Chinese. So, for that one, I mean I don't want to repeat myself but I think it is something to mention. In Turkey, especially in the passenger vehicles we have seen the impact of it, Bahar I think on her list she showed the performance of Cherry.

So that is like that is an important action because these vehicles are high quality vehicles at quite competitive prices. For the short term, with the impact of the tariffs. There could be some level of protection in the markets. However, like I tried to explain in detail in the value proposition for Ford Pro, we are not betting on that.

We are betting on the quality of our vehicle answers as a total as a total package together with the network effect. Because we believe we will have constituted that network much earlier than any Chinese brands coming in. And making a partnership maybe a JV development with someone either in Europe or Turkey.

Our bet is that our network establishment will happen much earlier than that. Thanks to Ford Pro value proposition. And it will be hard for them to break it, that's the sickness that we create. Within turkey you must have heard like maybe also the question things about it. There has been a notification about BYD investments.

And there are rumors most probably in the in the near future we will hear that Cherry is going to also make an investment over here. This mentions that there will be an increased competition. This is true. And we are not necessarily seeing this as a negative development. In fact on the contrary, we are seeing this as a positive development.

Because looking into the cost schedules and the inflation exchange movements. Everybody was talking about the loss of competitiveness in Turkey. However, these signs show that okay, maybe mostly they are trying to come to Turkey to avoid the tariff walls. But still, they are coming, they are to make FDI which says, hey Turkey is the right place to be in.

And I think this keeps everybody up and alert. For the case of commercial vehicles, we do not see them as a big risk, but this doesn't mean that we are complacent. We are taking them seriously and that's why we are investing in our own quality, the customer experience and also cost, so we don't just sit on our model saying that we are we are protected whatever cost we have just sell, it's not our logic.

And since it is not our logic that's why we have been together with Ford Motor company for so long, and we have done these significant important investments together with them, if we consider the overall global fourth volumes of production like around maybe 2.2 million units out of them, 15% of that volume is coming from our operation, that's why we are we are taking it seriously, we are also taking the Chinese competition seriously. But we have we have plans to combat it. I hope this has been an explanatory enough answer for your question, if you have any other special competitor other than this maybe, we can elaborate more later if you if this hasn't answered it well.

OPERATOR: Thank you. The next question is from Ogeday Gürbüz with Garanti Portfoy and I quote do you see risks relating to Volkswagen deal considering Volkswagen recent production cuts in German plants?

ERTUG G: No, I don't, like this has been a part of a strategy for the 1 Ton, it is with Ford Motor Company Volkswagen alliance especially on the commercial units there are of course it's not, just with us there are some other parts to it. I would say, we are very eager to deliver our partner units and for the ones who had the chance to see the units in Hanover fair, they are also looking forward to the launch and we are currently giving our utmost attention and care to make it happen on time.

OPERATOR: Thank you. 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.

ERTUG G: Thank you very much. Thanks for your interest and time, I hope this has been also satisfactory for you, if you feel like some question or some detailed information that you wanted to have wasn't answered you can just feel free to reach to us through our Investor Relations Group, are I'm sure everybody knows our mail address. So, thanks again and take care until next time. Thank you very much.