Ford Otosan A.Ş.

Ford Otosan Full Year 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 Full Year 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 G: Thank you very much, Gelly. Hello all, good afternoon and welcome to our investor webcast call for the full financial results of 2024. So as usual, we will be giving you our presentation together with our entire team.

I will be kicking off with giving some key highlights, key evaluation for the year. Then for the details of the physicals and financials, Bahar and Ünal will support me. At the end, as Gelly mentioned, we will give you the update for our guidance, how we see 2025, open it up for questions and that is the agenda for today.

So let's start. And while we are starting, I would like to also mention that over the course of the year, we paid attention to your requests on several key changes in terms of data providing to you, both the data points and the style of the presentation. We tried to do that to make it easier for you to follow and maybe to make better analysis on your work.

So I hope you also found that useful. Having said this, let's start with the 2024 highlights. I will start with our domestic market performance. We have concluded our market position in the third ranking in Turkey domestic markets with an overall market share of 8.9%.

And as our key strength is the commercial vehicles, we maintained our number one position in the total commercial vehicle market with a market share of 28.7%. When we deep dive into the financial section, you will see that in fact, our overall domestic volumes contracted by 2%. And due to the competitive pressures, we have seen in the markets and its effect on the pricing, the overall revenues on the domestic end came down by 13%.

As a quick look into the export performance, we have maintained all time high export sales of 546,000 units. The export volumes have been up by 11% and revenues up by 5% respectively. Overall, the profitability of the combined business gave us 7.2% EBITDA margin and EBITDA per vehicle equals 1,760 almost.

And like we advised you in the earlier talks, in fact, we have seen this normalization in profitability like we had projected in the heavy investment period while we are conducting our both growth operation and the electrification of our portfolio. As a result of this, on the very right column, now we would like to update you with the final capacity levels we have reached. As of 2024 and overall, Turkey and Craiova total production capacity reached 934,500 units.

Out of this, Yeniköy, we have two plants in Kocaeli, Yeniköy and Gölcük. Yeniköy has 405K and Gölcük has 207K. Craiova capacity has also been upgraded to 300K levels and Eskisehir is at 22.5K. Overall, the capacity utilization within our plants this year combined level reached 81%, out of which Turkey is 77% and Romania is 90%.

As of this year, we have also distributed our dividends. The sustainable dividend payment since 2004 continued and overall dividend payouts have reached $6.1 billion. Let's continue to the following page.

At this level, I will leave the floor to Bahar. Afterwards, I will again join you. Please, floor is yours, Bahar.

AGAR B: Thank you, Gül Hanım. Hello, everyone. Thank you all for joining us today. Gül Hanım has shared some points about the Turkish market performance. I will also explain the Full Year outlook in more detail. This year's ongoing tight monetary policies, economic uncertainties and difficulties in reaching auto financing had an impact on the domestic market, which normalized throughout the year.

As a result, after historical high sales of last year, in 2024, automotive market has a new record of almost 1.3 million units, which was a year-over-year flat performance. When we look at the segment breakdown, passenger car sales had a slight increase of 1% and it was accounted for 77% of the total sales, whereas medium commercial vehicle sales also showed an increase of 10% with the better availability in the market.

But on the other hand, light commercial vehicle and heavy truck sales experienced declines of 12% and 13% respectively. Let me also explain the main drivers of the overall performance. First one is the impact of general safety regulation, which is the GSR, and it triggered the price and competition in the market, especially arising from the Chinese brands. We have seen incremental growth in their sales performance.

The second one is the increased special consumption tax exemption upper price limit for the disabled citizens. I should say that this also has a remarkable impact on the PC demand, as the share of disabled sales in the segment was over 20%. This figure is also similar for our domestic PC sales as well.

The other one is the robust demand prior to the local elections. And the last point seems to be the lower availability in light commercial vehicle segments as a result of the new Courier's extended ramp-up period and the end-of-life cycle of our peers' products, some products actually. Next slide, please.

So in this competitive environment, we had a flat year-over-year sales of 114,000 units, while we were preserving our third position in the total industry with almost a 9% market share. In this period, our profitability over market share focus on passenger car segments has continued, and our market share remains steady at 3% level, since we are a relatively small player in this segment.

On the other hand, we sustained our profitable growth strategy in commercial vehicle segments, and we continued our undisputed leadership with nearly 29% share.

Thanks to the rising demand for the renewed Custom, and we have a better availability in transit, our market share reached to 39% in medium commercial vehicles, where we gained more than six points from the peers year-over-year.

However, we secured a second place in light commercial and heavy truck segments with a year-over-year contracted share, as we were not able to quickly respond to the market demand in the first half, due to the longer-than-expected renewal period for New Courier, and a continuous pricing focus, pricing discipline in Ford trucks, against a rising pricing force, actually, in that period. Next slide, please.

Let me continue with the export outlook. When we look at the overall European market performance, despite the strong basis of last year, which was around 15% year-over-year growth, the total market was slightly increased by 1.6% in 2024. In fact, the growth was higher in the first half of the year, which was largely supported by the general safety regulation impact.

Then the regulation came into execution, and the impact was faded away, actually. However, with the rising economic concerns and lower pent-up demand, the market was weakening starting from third quarter, and this led to a normalization July onwards. As a result, while there was a moderate growth in the passenger car market, the van segment, which is our largest export market, rose by 7.2%, and it was fueled by the aged vehicle park, accelerated fleet renewals, and e-commerce trends.

But in contrast, the heavy truck market declined by 6%, mainly due to increasing freight prices and the adults' regulation, which was the advanced safety systems. In this market condition, Ford Pro in Europe was able to reach to a record market share of 15.4% by the year-end, while being a number one CV brand in Europe for a decade, thanks to accelerated shipments of our renewed flagship products. And I should say, the continued success of Ford Pro's customer-centric approach also played a crucial role in this performance.

Furthermore, we continue to support Ford's performance in the PC segment with the production responsibility of the best-selling Puma product, which currently we produce in our Romania plant. Consequently, in this period, Ford Otosan played a key role in Ford's success by producing three-quarters of Ford's CV sales and more than one-third of the PC sales in Europe. This is all from my side.

Thank you for listening. Now I hand over to Gul Ertug to share the main developments since we last met. Thank you.

ERTUG G: Thank you, Bahar. So I was saying, I just told the show on this page from Bahar, because there was a page where we told our key story to you, what we are trying to achieve in our growth story and also in our electrification journey. This slide now finally concludes that what, in fact, we have now delivered, what we have promised to do.

So with the actions, now our production capacity has reached 934.5K. Within that, we can produce 430K engines, 112K rear axles, 18.5K transmissions, with a capacity utilization of 81%. And in Turkey plus Romania, we have reached a total of 26,000 employees. In the capacity breakdown, the Kocaeli plant, now in the one-ton production area, we are producing both our custom vehicles and the Volkswagen transporter units have achieved its launch phase since December.

So the total one-ton commercial vehicle capacity in Yeniköy reached 405 and the two-ton capacity in the Gölcük plant is 207K. In Craiova, we have upgraded our Craiova to 300 and its breakdown is 200K for Puma, 100K for Courier. Over there, we also have our EcoBoost engine production of 350K capacity.

Since 2021 to 2014, in fact, we have concluded, we have now completed 2.4 billion investment, EUR2.4 billion worth of investment, mostly conducted in Turkey. And the fruition of these projects supported us to create 3,000 additional employment in Turkey. In Eskişehir plant, we have our F-Max and F-Line production with 22.5K capacity of vehicle and 80K units of engine.

So with all of these efforts, we are showing that we are a very significant, very important strategic partner of Ford in the commercial vehicle area. We are very happy to conclude that.

And on the next page, we would like to show the new babies coming up.

The production of new Puma Gen E and E-Courier, they all started at Craiova plant. So with this action, in fact, we are converting our entire product line-up, its powertrain into all necessary versions, including the electric versions being available to the market. So having said this, I think next up will be the financial results, the details of them.

I will leave the floor to Ünal. Please, Ünal.

ARSLAN U: Okay. Hello and welcome all. Looking at our 2024 financials, I'll start with the highlights and I'll start with the revenue. We have a similar value parallel to, you know, the previous year compared to previous year's level, despite 8% volume increase. And of course, previous years, as we all know, this is because of the inflation accounting, our index to 2024 year and purchasing power and having an increase in the total volume and parallel level of revenue with the index numbers, ISU metrics question.

So I would like to explain the reasons behind that. And the main reasons can be counted as first, the mix of sales, mainly having lower truck sales and two-ton sales, which are more expensive vehicles compared to other vehicle line-ups. But more important than that, in fact, much more important than that, much lower Turkish lira depreciation against euro, which is 13% in 2024 full year compared to inflation increase, which is 44.4%.

As you know, our revenue was TRY412 billion by the end of last year with 2023 year and purchasing power. And this is indexed by inflation amount of that 44.4%. However, almost 80% of our revenue is based on euro terms, which, as I said, increased only 13% throughout the year.

If we look at the EBITDA, our EBITDA also decreased from TRY73.2 billion to TRY42.7 billion and EBITDA excluding other items decreased from TRY62.6 billion to TRY42.9 billion. Main reasons behind these decreases are slightly lower domestic sales and lower pricing capability because of increased competition. Increase in export share in our overall business, 2024 export share is 77%, whereas 2023 was 73%.

Continuation of strong Turkish lira versus euro, I'll explain this in a more detailed way in the coming sections and lower for 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 54% to TRY29 billion. 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 last year.

As I explained a couple of minutes ago again, last year euro rate appreciated by throughout the year all year in 2023 63%, whereas this appreciation was around 13% this year. Because significant part of our business is export, as I said around 80%, 77% this year, euro appreciation helps us in terms of export profits and profitability, which did last year but not much this year.

Looking in more detail, we see that last year we had around TRY11.7 billion of net FX income due to trade receivables and payables, whereas this year we have only TRY2.9 billion, that's pure exchange movement impact. And when we come to the PBT and PAT, decreases versus last year are lower compared to operating profit by 46% and 45% respectively.

We continue to have monetary gain in PBT because of our, as you know, high monetary liability position as we discussed in our previous course in the balance sheet, almost same level as we had last year.

And in terms of PAT, we continue our investments subject to incentives, which derives a good level of deferred tax income. And this year we also don't have earthquake tax impact, which was a one-off item last year. If we move to next page, looking at our margins, both full-year and versus same quarter of last year, we see decreasing margins other than EBITDA excluding other items, which is better than fourth quarter of last year.

Our full-year EBITDA margin is 7.2%, down by 5.1% versus last year. Operating margin is 4.9%, down by 5.8% versus last year. And PBT margin is 6.2%, which is down by 5.3% compared to last year. In our third quarter call, we mentioned about normalization of our margins and we discussed about stabilization of margins around quarter three levels.

However, although we had a good quarter for this year in terms of sales volume, as we already talked about, macroeconomic environment, especially exchange movement were significantly against us. And as I mentioned a couple of minutes ago, again, full-year 2024, Turkish Lira depreciation against Euro was only 30%. However, looking at quarter four, TL appreciated by 3.4% in this year.

On top of that, within this good operational performance and high sales volume, we managed to clear our most aged inventory and end the year with a very low finished goods inventory, which is very good for us in terms of balance sheet. However, because of high aged sales, that hurt our profitability because of the inflation indexation costs that are, you know, within those aged vehicles costs. So these are cleared in quarter four of this year.

Forward looking, this would be a positive impact in our financials. And our EBITDA per vehicle became to be EUR1,758, which was EUR2,554 last year. And quarter four EBITDA per vehicle, on the other hand, is very similar to the same quarter of last year by EUR1,199. Last year was EUR1,213.

If we move to next page, this slide is new for our investor presentation, but I already talked about almost all of the line items here. Very shortly, I can mention here that our cost of goods sold is increasing year-over-year, whereas our revenue is staying parallel to previous year.

Because all these numbers are indexed with inflation, our revenue is not increasing as much as inflation rate this year. As I explained, most of our revenue base is in euro terms and Euro-TL increases much lower than inflation.

On top of that, domestic market profitability is significantly lower than last year, as we discussed in almost all of our meetings this year. 2023 was a very exceptional year in terms of Turkish domestic market profitability in a positive way, and it has been normalized throughout this year.

In the next page, we see that our production volume is 7% higher than last year and higher in quarter four of this year by 20% versus same quarter of last year. Cost of production in terms of raw materials is a little lower, almost same as previous year in real terms.

In the previous slides, I mentioned about Euro-TL movement. We can see here as well in the below, left-hand side below section, 13% TL depreciation in this year, whereas that was 63% last year. And compared to inflation, it's really very important in terms of our profitability.

And this has a big deterioration impact, of course, for us. Looking at interest rates, on the other hand, that shows the cost of acquisition and cost of holding a vehicle increased significantly compared to last year. Next slide, we already talked about sales volumes and market shares, so I'll skip that one.

Slide 21, that's the balance sheet. It's healthy as it was always, so parallel to the EBITDA generation. And because of the same reasons, mainly our net cash from operating activities is lower than previous year, however, better than first half of this year and improving, which is a good recovery for us.

And we end 2024 with a cash and cash equivalent level of TRY22.3 billion. Next slide, regarding our financial indicators, our total financial debt increased by 13% year-over-year since we continue our investments. As Gül already mentioned, we are investing in our new models.

And in parallel, net debt over EBITDA ratio is realized to be 2.38 times by the end of 2024. Our covenant is, we always tell that our covenant is 3.5 times, so we are still well below our covenant level. Looking at net working capital cycle, we have 28 days of net working capital days this year, which is 13 days higher than 2023.

However, as we mentioned in our quarter three earnings call, we improved our networking capital in quarter four compared to quarter three and early quarters of this year. And that is one of the most important focus areas for us in 2025 as well.

And last data I will touch is the short position we have by the end of 2024, which is around TRY3 billion after cash flow hedge and natural hedge, which is much lower compared to last year and at a manageable level.

So I will leave the word, Gül, again for 2025 guidance.

ERTUG G: Thank you very much, Ünal. Thanks a lot. Over here, looking into 2025, we have included several other line points, data points into our guidance. And if I start with the domestic volume, in fact, for 2025, we are expecting a reduction in the overall market, a slight reduction, the general GDP expectation, the general slowdown in the market. We have an expectation for that. That's why the industry in 2024 was almost 1.3K.

For 2025, we expect it to be around 950 to 1050,000 units. And within that -- out of that, the derivation for our performance in the retail domestic sales, we expect it to be in the range of 90K to 100K levels. For the export side, the export sales, wholesale volume and the overall production, thanks to our completion in the overall capacity and product launches, the involvement of the partners into our production scheme, in fact, you are seeing an increase over there.

But as I explained in several earlier talks, we will not be giving out those values in separate form. We will be referring to our 1 ton production going forward. I'd like to make this as a disclaimer. So for the export volume out of Turkey, we are expecting to reach 410K to 440K levels.

Out of Romania, our expectation is something between 200K to 220K. And with the wholesale volume, also including the import vehicles that we sell in our operations, we target to reach a range in between 700K to 760K units. Total production volume will be around 700 to 750. And the capex investment period is, I would say it is continuing.

In fact, with regards to the overall launches, the most difficult and the most breakthrough launches, I would say they are complete. But because of some of the waves and the actions regarding our vehicles, there will be some investments going on.

For that reason, the overall fixed asset capex investment we expect to be in the range of 750 to 850. For the revenue growth, in fact, we expect a high single-digit increase in our revenue makeup. And we expect the EBITDA margin to be in between 7% to 8%.

So this is how we view the upcoming year. The 2024 has been a challenging one regarding the macroeconomic environment. In fact, you must have heard this from most of the exporters.

For an exporter life, it wasn't easy. When it comes to Ford Otosan, especially for the physical launches, the timely delivery of the vehicles, that was also a big challenge for us. But we believe we managed to get out of them in a successful manner.

Some of the macroeconomic difficulties we expect to continue in 2025. Maybe the significance of it might be slightly less than 2024. The differences between the exchange movement and inflation movement that Ünal has explained, we expect that to be slightly better.

However, we are also expecting some level of demand to come into these views. And thanks to our fulfillment of the overall 1 ton project investment, we will not be seeing that. In fact, we will be seeing a step function increase in our production and wholesales.

However, with a word of caution, I would like to state that still 2025 is a year that most of the exporters will need to be careful and act cautiously. So, having said this, I think we reached the end of our presentation.

Let's open it up for your questions and comments, please.

OPERATOR: The first question is from the line of Kılıçkıran, Hanzade with JPMorgan. Please go ahead.

KILIÇKIRAN H: Thank you very much. Thank you, Gül, Ünal, Bahar. I have a few questions for your guidance. I mean, it looks like that you are forecasting a big boost in profitability when compared to the fourth quarter even with growth still coming from exports.

So, I'm trying to understand what is really different in 2025 that will continue to support this outlook. Can you please explain it? I can understand that you don't expect a much change on a year-on-year perspective, but Q4 was quite low. So, I'm trying to understand what is driving this pickup.

The second one is that, can you please provide a bit more detail on your capex guidance? I mean, what is included in product-related investments this year? I think you have already completed the capacity expansion. So, I'm trying to understand what is next year.

And the third is about your cash flow. So, do you plan to take your working capital days, I mean, case cycle back to around 15 days from the current 28 days? Thank you.

ERTUG G: Thank you very much, Hanzade. Let me start, and then for maybe further details, I will let also Unal, Bahar also comment on that one. So, in fact, Unal mentioned about it a little bit.

At the end of the year, with the completion of these important launches, while we were waiting for the okay to buy, okay to sell of those actions, in fact, we had accumulated some stock in our inventory. However, we were able to manage them, clear them in a good way. So, we attained a positive movement trend.

We are expecting that to continue. And likewise, while all of these actions were going on, of course, the macroeconomic factors didn't support us. However, we have placed in an important workforce together with our Ford colleagues.

There is going to be enhanced activity regarding the cost attack. So, in our projection, more innovative actions and better cost management is going to be in place. Plus, with the launch of the vehicles, the investment recovery element of the new sections will also be coming into play.

So, those will be supporting us. With regards to the volume, of course, the volume shift will be towards more exports. All of these actions are making us a full export company.

In the year 2025, the ramp-up period of several other waves, the derivatives we had seen in 2024, I would say slightly easier, simpler versions of those waves will continue because both our own commercial vehicles, the one-ton vehicles are very complex, high derivative vehicles.

Likewise, the partner related volumes are as such. In order to maintain their healthy delivery, healthy launch with good quality, with no issue on the end of Ford side, we are dividing them into abundance and waves.

So, those actions will be continuing. And maybe you might remember on an earlier talk, we had said that some of the changes in the calendarization of the spending, because of either the deferrals or some real actual saving, the initial guidance we had provided for 2024, in fact, it happened less than originally reflected. Now, some of that action is going into 2025, plus the remaining waves of the already identified, already notified projects will continue in 2025.

The general investments regarding the overall maintenance projects and also some building infrastructure related setup is inclusive in 2025 view. I would say the key event, key change would be investment recovery element of those actions launched in the year will be coming into the game with some enhanced cost reduction. However, having said this, we are also cautious in the exchange environment.

You know, very clearly explained that this export side of the business is going to be affected very much from the exchange movements. And in the domestic area, the inflation, anticipated inflation will be much smaller than year 2024, but still some sizable inflation. Maybe it will be around 27%, 28%.

We have heard from Mr. Fatih Karahan, he updated his view once the January inflation was announced as 5%. So, over there, there is going to be still some inflation. The gap between the inflation change and the Euro TL movement, we are expecting that gap to be a little bit smaller than what we had seen in year 2024.

So, those would be the key things that I would like to mention. If I left anything out, Unal, Bahar, you can comment also.

ARSLAN U: Perfect. You explained very clearly, Gul. You already mentioned, but what was outlined in quarter for Hanzade compared to other quarters of this year was that 3.4% almost appreciation rather than depreciation. So, for the forward looking, our plans are, you know, there will be, as Gul Hanım mentioned, not maybe as much as inflation, but a parallel movement of Euro TL rate. So, that will be important for next year 2025.

KILIÇKIRAN H: Thank you, Unal and Gul. I just want to make a follow-up about this investment recovery item. Is this the one that you had previously talked about in Romania? So, with the completion of investments in Romania, the export contracts are normalized to Otosan levels now?

ERTUG G: The Romania investments, what we do for the Courier, what we do for Puma, yes, they are coming into play. But also, likewise, the 1-ton projects, the 1-ton projects that we conduct in Turkey, their recovery period with the inclusion of the new partner vehicles, that will also come into play. So, that is going to be an important difference, I would say.

Not just the volume, of course, the volume is acting as a step function, but it's investment recovery also. All right.

KILIÇKIRAN H: Okay, thank you very much. And what about the working capital question on the cash cycle?

ERTUG G: For the working capital, now that the big chunk of that inventory problem has been resolved, in fact, we are expecting to have a better view over there. And because of these macroeconomic pressures that we are having as an exporter, in fact, there has been internal targets to improve the days for both the receivables, payables, and inventory. Out of that, we are expecting to reach a better, enhanced level of working capital.

KILIÇKIRAN H: Thank you very much.

ARSLAN U: Maybe about what I can add also is, Hanzade, Gül, if you allow me. The question was whether we will be able to, improve to 15 days, I mean, like we had in 2023. We don't have guidance on that.

We have plans to improve, but it's good to have in mind that we will be producing more BEV vehicles, which has more, inventory days. So, it will improve, but not as much as 2023 levels.

KILIÇKIRAN H: Thank you, Unal.

OPERATOR: The next question is from the line of Bystrova Evgeniya with Barclays. Please go ahead.

BYSTROVA E: Yes, hello. Thank you very much for the presentation. I just have one quick question. What are your plans in terms of maybe debt management? Do you plan to take any actions this year? I mean, it seems that your capex will stay elevated this year. So, I was just wondering if you have any plans to issue another bond or to take any other actions. Thank you.

ERTUG G: Thank you very much. Yes, you are right. In fact, we are still in the heavy capex period, so we are, in fact, utilizing all sources of funds raising for a diversified portfolio with making use of all options at the best possible cost level.

That's why our portfolio over there is wide, and we are looking into our options. Depending on the needs, like as I explained, we could come back to the market. Over here, I'm not giving an essential date or full guidance for that one, but we are looking and we are thinking quite seriously and positively about the bond market also.

Over there, with the existence, with now tapping into the fixed income levels, we have also understood the structure over there, and having issued a very successful euro bond in April of this year, we have benefited from that in the cost structure of our debt portfolio. That's why we could come back. And while we are doing our actions, the cash management, we are paying, I would say, a careful view, paying attention to our net debt over EBITDA values.

You now mentioned about the covenants being capped at 3.5x. That's the hard cap, but in our view, we are also paying attention not to exceed 2.5x levels. There could be times that we could be going beyond that level, but we will not be staying over there for long. Depending on the needs, yes, we could tap into the bond market once again.

BYSTROVA E: Thank you.

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

CAMPOS G: Hello, can you hear me?

ERTUG G: Yes.

CAMPOS G: All right. Thank you very much for the presentation. Yes, I just had a few questions from my side. If you could please first like elaborate. I am making some simple calculations here on your guidance and considering your capital structure at the moment. It seems like you will likely be free cash flow negative for 2025.

Is there an expectation for this to improve in 2026 with perhaps reduction in capex and how do you see your net leverage here towards the end of the year? That would be my first question? Thank you.

ERTUG G: Yes. In fact, by the end of 2025 and 2026, we will be pretty much complete with our heavy capex period. Over the course of this time, we started our electrification, we started our capacity enhancement projects. You will remember we had acquired the Craiova plant from Ford Motor Company and we have made the payment installments for those actions.

So pretty much by 2026, this view, this graph will taper down. Of course, in an automotive environment, the auto business is a cyclic business. Your commercial vehicles have a longer life cycle than passenger vehicles, but still from 8 to 10 years of cycle life, you should expect a facelift. It could be a major, it could be a totally new generation vehicle.

But thinking that looking back what we have done, we have acquired a new plant and we have gone into the next generation build of many vehicles together with the strategic partnership of Ford Motor Company, because Ford also wanted to renew its product portfolio in the commercial vehicle space and make a very big involvement, a very big success in the Ford Pro area.

So having conducted that, it is not likely to go into a cycle of this size of investment very quickly. However, there will be some cyclic actions that we will be pursuing together with our partner Ford's cycle plan needs and plans. So because of the economic factors we tried to explain, the macroeconomic conditions and the suppression of the euro, the Turkish Lira being kind of maybe the ministry doesn't agree with this comment, but we think Turkish Lira is a little bit overvalued over here. So those are putting a strain on our top line potential.

In the past, in fact, our operating cash flow was mostly enough to cover our capexes. In this environment, because the top line has been a little bit suppressed and the capex period being real huge, this is significant investment, significant transformation. For this time period, the operating cash flow hasn't been enough to cover that.

However, going forward with all these important launches coming in, their investment recovery is coming in and with the synergies, the economies of scale, the efficiencies and innovation we put into these actions, we expect it to come to healthier levels. What I can say, maybe 2023 is extraordinary. We will not be seeing that.

As an overall business decision, we chose to be a mass volume exporter. We are the partner of Ford in that regard. That's why maybe earlier comparative data will not be that appropriate to check. However, this will certainly come back to the healthy levels. In fact, this is the reason why we are doing the investment. So by 2026, we should be seeing that capex come down and the financial view on the leverage and cash-related ratios to be much, much healthier. I hope this answers your question.

CAMPOS G: Yes, thank you. It broadly does. So capex is expected to decrease especially after 2026 and not during 2026 as you are okay. And your net leverage is around 2.4 now. Where do you see it trending into 2025? Do you expect a peak in 2025 or given the hefty capex, it could continue to increase?

ERTUG G: I think the most appropriate answer will be we will be dynamically monitoring it. And for the covenant level, I provided the internal anchors we are using in how we manage our cash situation and borrowing. We will keep on following that. The 2.5x will mostly be protected. We are not envisaging a view that we will be staying above that level for long.

CAMPOS G: That's very clear. Thank you very much. I was also wondering like thinking about your 2025 guidance and I look at this upside in export volumes coming out of Turkey. How do you see that first I would like to understand, are these volumes already contracted or is there a potential risk that Ford may pull back on some of these volumes? I'm just trying to understand how much visibility you have on this guided range at the moment?

ERTUG G: So maybe I should start by saying the export business logic. Our export business agreements with Ford, yes, they are tied to contracts and they are maintained. Especially, the investment recoveries are guaranteed with those contracts. The contract makes us a cost markup manufacturer and investment guarantees are in place. What we need to pay attention is and for the ones who have followed us closely in year 2024.

in fact, you have witnessed that. When you are in a launch year, launch period and when those launch actions are divided into different bundles and different ways, there could be some Calendarization from month-to-month, from quarter-to-quarter and when we are providing our guidance, we are really paying attention to that.

CAMPOS G: Okay, yes, thank you. I was just trying to understand like...

ERTUG G: The ramp up series. In Fact, the capacities are in place.

MANAGEMENT: Something again went wrong.

AGAR B: Now, we can hear you better Gul.

ERTUG G: Can you hear me?

AGAR B: Yes, better right now.

ERTUG G: Okay, sorry. I hope you were able to hear what I said so far.

MANAGEMENT: Hi, sorry, if you could just repeat perhaps the last 20 seconds as you were wrapping up. I think for me, at least, you might have glitched a bit. Thank you.

ERTUG G: Okay, so I was saying that - can you hear me okay right now?

MANAGEMENT: Yes, now I can. Thank you.

ERTUG G: Okay. I hope it doesn't break again. So, I was saying that the investment recoveries are guaranteed. There are contracts, but within the vehicles, each vehicle has a ramp-up plan and over those ramp-up plans, of course, we are not giving you the details of how many waves we are working on.

However, there is a very important scrutinized process in between us and Ford and now since in our life, there is another partner, we are not facing that partner. Always, the entity we are facing is Ford, but with the inclusion of that partner, we are even more careful. That's why there could be some shifts in that ramp-up period.

We are paying attention to that because we have seen that this could be a possibility in 2024. That's why when we provided our guidance. We reflected that impact over there.

If you read some media press release, maybe you will be reading, you will be hearing some other things. However, we are over here, we are not at a point to declare them. We as the management, as the Ford Otosan management, we believe we have given the most balanced view of our upcoming year.

As the launches get complete, as all the ramp-ups, all quality actions, supplier readiness, everything is in place, we will be in a less volatile environment, and over there, seeing the demand, seeing the delivery, seeing the quality level, there could be some upside potential, but there could be some deferral also.

For that reason, we came to this balanced view, and we thought this will be the best guidance that we can support you with. I hope this answers your question.

CAMPOS G: Yes, it does. Thank you very much.

ERTUG G: Thank you.

OPERATOR: The next question is from the line of the Demirtas Cemal with Ata Invest. Please go ahead.

DEMIRTAS C: Thank you for the presentation. My first question is regarding the inflation accounting side. When I get into details, I see that inflation accounting had around TRY23.1 billion positive impact to your bottom line from the footnotes, the numbers I derived?

I would like to understand, how do you see the picture for the first half of your full year based on your inflation expectations? Other items are fine, but especially the inflation, if the inflation is coming down, what should be the direction of that figure, if you have any color on that?

The second one is about the profitability, your guidance. This year, based on your numbers, you have 7.2%, and for next year, you say 7% to 8%. But I see a change in revenue mix in favor of exports. I don't know if you mentioned during the meeting, if I'm repeating the same thing. Sorry for that in advance.

But I would like to understand the costs. If domestic market is declining, how are you going to maintain the same profitability or even increase their profitability? Could you further elaborate that? The parity and the currency side, could you give any assumption that will direct you to the EBITDA margin of 7% to 8% this year? Thank you.

ERTUG G: Yes, thank you. Thanks very much for the question. Let me start and I will try to answer your question. In fact, combining both of the comments, I will give the high level color and maybe if further detail is required, I will also give the word to Unal.

First, let's start with this inflation impact. In fact, as inflation comes down, the anticipated projected inflation comes down, the revaluation percentages and the impact of the change in your walk to cost of goods sold and from the balance sheet, the good news you receive from the monetary gain.

In fact, those would be expected to come down because of the inflation coming down. The revaluation percentage will be less impactful. And when we look into our EBITDA, in fact, the cost of goods sold calculations, when inflation is high, we are seeing a bad news impact on the cost of goods sold.

The good news in walking to the profit net income, the good news is coming from the monetary gain out of the balance sheet. As inflation comes down, in fact, the effect of the cost of goods sold, the bad news effect of it, we are expecting it to be slightly lower. So, from a mathematical perspective, that would help your EBITDA margin.

But not just this -- this is mathematical meaning where the effect of it goes. Other than that, with the increased volume, of course, your cost structure will have benefits out of it. The cost management will see good news on that one.

The delta between inflation and euro movement, that gap closing down is also affecting us in a positive way. So, plus, of course, with the launch of the vehicles, with the high quality of the vehicles, enhanced quality actions, we are expecting to see some improvement also in our domestic margins. But we didn't make this calculation just based on the domestic area.

Like you said, in fact, the business is very much skewed towards the exports. In fact, all of these, the investment recovery is out of the newly launched programs. Plus, the cost enhancements are going to deliver us this good news.

Unal, would you like to say something more on balance sheet, monetary gain, or any of those? If you would like to say, I will give the word to you.

ARSLAN U: Very shortly, Gulen, you very well explained, in fact. But what I can add is, there are the non-monetary items in the balance sheet are contributing to that monetary gain loss item. So, we are in a non-monetary asset position, Cemal Bey, as you know, that's why we are writing monetary gain, both in 2023 and 2024.

Looking at 2024 fight next year, of course, inflation assumptions coming down, if that happens, that will most probably reduce the monetary gain level that we are writing in the income statement. However, as Gulen very rightly explained, that the part of that, other than, the fixed assets portion, the inventories portion, that's kind of a binning between cost of goods sold and monetary gain item.

So, having a lower inflation accounting or inflation indexation impact on the inventories, that will help us improve our, EBITDA margin and operating margin improve in 2025. But all in all, lower inflation will mean lower monetary gain in the income statements.

DEMIRTAS C: Thank you. And one last question. Again, sorry if I'm, letting you to repeat the answers, but about the export side, I see 20% increase in the export potential. Was it related to new product launches or new market entries, because it's a big number, or is it going to be related to market growth? Again, sorry if I'm repeating the same question. Thank you.

ERTUG G: No, no worries. In fact, it is due to the 1-ton launch of our partner's product, mostly, I would say.

DEMIRTAS C: Okay. Thank you, Gul Hanım.

ERTUG G: You're welcome.

OPERATOR: Ladies and gentlemen, there are no further audio questions at this time. I will now take the webcast written questions. The first written question is from Gazioglu Lutfuwith HSBC.

Thank you. Regarding your EBITDA margins guidance, considering orthodox policies continue and your Turkish layer remain flat, do we assume year-on-year flat margins in 2025, or new product line help you improve your margins to your guidance upper end?

And regarding your export volume guidance, do you think this guidance contains some cautiousness, or does it have upside or downside risk considering you have downgraded your export volume guidance a couple times in the last years? Thank you.

ERTUG G: So, thanks very much for the question today. I think maybe in the earlier part of the talk, the webcast, maybe we answered that, especially the EBITDA margin. I believe we gave detailed answer to that one. And also, the export volume guidance, it could have upside potential. It could have downside potential. That's why I was trying to say this is the most balanced view we put over there.

If there would be some issue, which is not expected, because we believe we have completed the most difficult part of the launches in 2024. That's why what I say is a low probability, but still a probability. If something goes wrong on the launch of some of the waves, we could have a downward revision.

But with the quick delivery of the ramp-up, quick delivery of OK2B, there could be an upward potential also. Please consider this as a balanced view. That will be my answer.

OPERATOR: Thank you. And the next webcast participant question is from Emin Tay with Garanti BBVA Securities.

Hi. Firstly, thank you for the presentation, and I have only one question. There have been some rumors in the Turkish media that relationship between your main partner, FMC, and Ford Otosan has been painful. Is it possible for you to say something reassuring about this issue?

ERTUG G: Well, what I can say is our relationship with our partner, I would say it has been there since 1928, starting with the dealership in [Vehbi Koc Times], then moving into, in 1997, a joint venture establishment. And since then, that was an export-oriented program. Since then, it moved in such a successful way that it was a win-win for both of the parties.

That's why when Ford Motor Company divided itself into three segments as Model E, Blue, and Pro, especially for Europe, we could say that Ford Otosan is representing at least three-fourths of Ford Pro. In that regard, I would say, no, this is not something right. We are in a very good relationship. Our joint venture is a very healthy relationship. We are looking into opportunities how to grow our business together. That will be my comment.

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 in us. And like I said, I hope the way we present our data is now going to be even more helpful for you to follow and understand our business. Like always, if there are other things that maybe you wanted to ask but didn't have the chance to do so in this call, we are here to answer your questions.

Just drop a note to us at the end of the presentation. You also see the contact details of our team. We will be happy to help. And thanks very much for the time. Until next time, please take care and have a great rest of the day. Thanks very much.