Ford Otosan A.Ş.

Ford Otosan 2023 Full Year 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 2023 Full Year 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.

ERTUĞ G: Thank you very much. Dear Investor community, greetings to all of you. I would like to welcome you all to our 2023 Full-Year Earnings presentation.

So, I hope you are able to hear me all right. Let's move to the next page, please, Duygu. I would like to give a heads up regarding our presentation.

First, maybe on the disclaimer, a few seconds, I want to pass on that one. This year, due to the communique, the directive we have received from the Capital Market boards, we are supposed to make our declarations in line with the standards of IAS 29, inflationary accounting provisions. In fact, that is the reason why we are holding this meeting on the 6th of March.

Normally, you would expect the results to be announced much earlier, but this year we are taking on this action. Maybe some of us in the room would be old enough to remember the old days, but in this period, in fact, with our young team, it has been an interesting experience for all of us to make this in this professional manner. We have concluded it and today we will be sharing the results with you in line with these rules.

I know that for some of you, this might have been a little bit maybe difficult to follow because you have the willingness to compare them against the earlier years, but we are proceeding with this in line with the regulatory rules and to the extent possible within our presentation, the analysis presentation, for the non-inflationary accounting portion, we have provided you with some data. So, let's proceed to the flow of the day, what we are intending to do within our investor call. I will start with the highlights of the year 2023, just touch on some physicals and we will be going into our performance.

Then I will leave the word to Bahar for the flow, and she will give some updates since we last met. We will be proceeding to the financial results and our guidance and afterwards, we will open up the floor for your questions. We will have a question-and-answer session.

So, I would say let's give it a start. So, we are happy to announce that we have completed quite a successful year in terms of our performance beating our budget targets and if we touch on the highlights what we achieved this year, we have kept number one position in commercial vehicles in the domestic market with a market share of overall 27%. For the overall industry ranking, we are in number three position.

You know our, the LCV light commercial vehicle segment turned out to be 23%, medium commercial vehicles 32.5% and for Ford trucks 29.7%. The performance in the domestic market was quite robust. We see a 38% rise in volumes in terms of the units and a 54% increase in our domestic revenues. It was a, quite a successful year and successful results achieved in the domestic markets.

Also, with the full integration of our Craiova plant added onto our export performance, we have a good result. Volumes raised volumes up by 26% and our overall export revenues were up by 20%. Over here, most of you, I believe you have had the chance to follow us in last year when we made our quarterly updates, especially for the Q4 of last year.

We were supposed to be launching several of our key products, custom one-tone vehicles and courier for the successful and quality launch. In fact, I had informed several of you in the declaration that we were paying a significant importance on the successful rollouts in terms of quality and market acceptance. That's why in Q4, the launch of these vehicles, we have seen a deferral.

That is the reason why even if we have an increase in the overall volumes, the export revenues over here coming from Craiova plant didn't support as much. Plus, we have had a one-time tax-related issue coming from the earlier pre-acquisition level of the Craiova plant that is reflected in our financial results. For the overall capacity utilization across all of our plants, we see successful results.

Gölcük achieving 88%, Yeniköy 93%, Eskişehir 98% and Craiova plant 75%. Thanks to our performance and both the cost performance and also the effect of the very good pricing and cost control, opex control in the market, we have achieved a successful EBITDA level on average EUR2,183. For the PBT per unit, we achieved EUR2,388.

While we were doing all of these things in quite a heavy Capex period, launching our vehicles and the capacity increases, we were also able to distribute our dividends. The dividend payment occurred in two installments in a total value of 15.4 billion TL in nominal terms. This highlights quite a successful result for the year.

For some further details, now I will leave the floor to Bahar so that she can delve into the, a little bit more details on the issue. Bahar, will you take on please?

EFEOĞLU AĞAR B: Thank you so much, Gül Hanim. Hello everyone. Thank you all for joining us today.

Now let me continue with our significant contribution to both Turkish and Romanian automotive industry and also for the Europe in this period. In 2023, as you can also see from this slide, Ford Otosan produces 40% of total auto production in Turkey, whereas 37% in Romania, which makes us number one producer in Turkey and number second in Romania. On the other hand, we continue to support Ford's performance in the European markets with our flagship products and also proud to share that currently Ford Otosan produces 70% of Ford's commercial vehicle sales and one third of passenger car sales in Europe.

And we believe that our contribution to Ford will rise in the upcoming period with our renewed product portfolio, which Gül Hanim mentioned earlier, and also it will have zero emission options in the market in the upcoming period as well. Let me proceed with the domestic market performance. This year, domestic market reached historical high levels and tested almost 1.3 million units with an increase of 56%. So, when we look at the performance in each segment, there was significant year-on-year growth in the passenger cars and also medium commercial vehicle segments with increases of 63% and 50% respectively.

So as a result, the share of passenger car sales in total increased by four points and reaching around a 76% level in this period. Actually, the main reasons behind the strong year-on-year growth can be explained as the high demand for the vehicles in the inflationary environment, since they are seen as an investment instrument.

Additionally, a remarkable improvement in the vehicle availability with the easiness in supply chain and logistic constraints. We can say that also supports this performance. And let's see how Ford Otosan performed in the strong market environment.

This year, we were partially benefiting from the robust domestic demand because we mainly prioritized domestic market in allocation with the support of Ford Motor Company and we were focusing on meeting high customer demand. However, we experienced limited positive impact on our sales, mainly due to the end of courier production in July and delays in the launch of new generation Courier and Custom models, actually in order to achieve best quality and efficiency metrics in the launch period.

As a result, our domestic sales increased by 32% in total and we maintained third position by attaining 8.9% market share, which is a bit below the previous year figures. On the passenger car segment, although we are a relatively small player, our sales almost tripled thanks to the better availability in our models. On the other hand, we sustained our leadership in commercial vehicles with around 27% market share, despite facing with supply chain related challenges, especially in the beginning of the year, and also deferrals in the launch timings as we mentioned earlier.

So, we were able to keep number two position in both light CV and heavy truck segments, that is maintaining undisputed leadership in medium commercial vehicles with around 33% market share.

I would also like to highlight that we continue to focus on our pricing discipline as part of our profitability over market share strategy in passenger segments and profitable growth strategy in commercial vehicles. Let me also give some update on our main export markets. According to the Full Year figures by ASEA, European van market rose by 16%, which is our largest export market, so improved availability, low base year impact and acceleration in fleet renewals can be accepted as effective in this performance.

And considering the increasing average age of vehicles in Europe, which is actually 14 years in commercial vehicles, and 12 years in passenger cars, it's expected to create higher placement demand in the near future. And in this environment, Ford was able to preserve its number one position in the commercial vehicle market with the support of our best-selling products. And we continue to play a critical role in their performance as 70% of Ford CV sales are produced by Ford Otosan.

Besides, when we look at the European passenger car market performance, we saw similar trends. So, it is 15% year on year growth. And in this segment, we contributed to Ford's performance with our best-selling Puma models by producing one third of Ford's PC sales in Europe.

And with the gradual launch of our CV and PC models, with ICE and BEV options in the upcoming period, we expect to further strengthen our contribution to Ford, especially in the European and UK region.

Let's move to Ford Truck's performance. As a recent development, in the last quarter, we increased our truck production capacity to around 23,000 levels in order to meet the rising demand of the markets we operate in.

Now we can look at the sales performance in the international markets. So, in 2023, our sales reached to around 7,400 units, actually, which was slightly lower than 23 figures and below the market performance. In fact, the main reason behind this performance was the volume allocation to domestic markets, rather than exports in order to actually meet the urgent logistics needs of impacted cities from the earthquake, which we experienced in February, and reconstruction of the regions, the impacted regions.

As a result, the share of exports in our total truck sales decreased from 58% to 48% levels in this period. However, in total, Ford Trucks achieved all-time high production and sales units of more than 19,000 units. It's a very important indicator for us to follow the, actually, rising performance, rising success for truck business.

On the other hand, our international expansion plans are also on track, and we are targeting to be in 50 countries by 2024. Currently, we are in around 49 countries. Let me also give some updates on the ongoing plant and product-related investments.

In November, with a vision to lead the sustainable and technological transformation of the automotive industry, we integrated our Yeniköy plant, actually, which we call it the plant of the future, and we expanded our capacity in that plant to 245k units. Therefore, as part of our investments for Turkey announced in 2021, we redesigned our plant with cutting-edge solutions, smart factory practices, and sustainability. Besides, this is also a very critical point to, actually, evaluate the performance of the new plant.

We have flexible production capability in Yeniköy plant, which gives us an opportunity to produce all ICE, BEV, and plug-in hybrid models from the same platform. Our Yeniköy plant started to manufacture all new Ford Customs, which we have Transit and Tourneo options on it, in the Fourth

Quarter. With that fresh model, we were able to win the International One of the Year award with our flagship product.

Also, the plug-in hybrid and all-electric versions of Customs will be available in the market this year, in 2024, which we expect to support our electrification journey. In addition to that, as part of the Ford-Volkswagen strategic alliance, Ford Otosan will also manufacture Volkswagen's next-generation one-ton commercial vehicle in the upcoming period. With the completion of investments, we expect to expand the plant's capacity to more than 400k levels by 2025.

Now, I stop here and Gül Hanim will continue with our financial performance and guidance for 2024. Then, we will be happy to answer your questions. Thank you so much.

ERTUĞ G: Thank you very much, Bahar. So, let's start with our financial highlights on the revenues. After the inflation accounting adjustments, all of these numbers are reflected.

So, we have been able to achieve almost TRY412 billion, and the export portion of it is almost TRY302 billion, and domestic revenues 110. Over here, we see the overall revenues up by 28%, export revenues 20%, and I had explained the explanation at the start of my speech. Domestic revenues 54%.

Out of that, on the EBITDA, since we are seeing that the application of the inflationary accounting on our basis, due to the total asset valuation, we are seeing a monetary gain, and out of this, in fact, it is supporting our EBITDA levels. On the appendix page, you can compare the results, but we see over here a result equaling TRY50.7 billion, 46% up versus a revalued level for 2022, and excluding the other items, it would be TRY43.3 billion. Operating profit strong, TRY44 billion, and the Net Other Income increased 197% year-over-year due to the net FX gain from operating activities.

Profit before tax, we see TRY47.4 billion, 86% up, mainly supported by the monetary gain due to the high monetary liability position, and the Net Income level, here we see the effect of the impact of the deferred tax asset on the Net Income, partially offset by the additional tax-related action due to the earthquake of last year, reaching to TRY49 billion.

If you follow on, if you take a look at the margins, this year you are seeing that, in fact, we are keeping our performance on the low double-digit margins still achieved, thanks to our strong performance, enhanced vehicles we produce and give to the markets, strong domestic volume, pricing discipline, the ongoing cost reduction measures and Opex control, the impact of the exchange on our export business, these all helped us.

Last year, I should say, it was a strong year with regards to, even though we have suffered from the earthquake issue, as Bahar explained, overall it was quite strong, but going forward, maybe I will touch more on the guidance page, a word of caution will be important here, because in 2024, the availability of the vehicles in market and possible tightening, we expect the pricing ability on the domestic units to be slightly less, so you should be expecting some type of a normalization.

And as you see our investments going on and the volumes, new products coming up, the export volume will be going up, as we introduce more of our battery electric vehicles, they will be coming into the picture with increased volumes through Puma as the passenger vehicle, it will be, I think, mindful to expect some level of normalization on the margins, but it is very healthy, thanks to the strong performance.

If we continue with the following page, in fact, this year we had some significant cost headwinds, you are all aware of the inflation, CPI actions, there has been Euro TL, if we look at that, there has been the depreciation of Turkish Lira at 48%, however, its pace was less than the CPI, maybe a little bit larger than the PPI, so over there, in fact, we are seeing important cost pressures, I believe all of the exporters are subject to that, but with an innovative approach, heavy cost reduction work, and also the engineering support on the quality.

We have been able to manage our work in this area, and due to our business model with the export operations, even though we had these headwinds, it didn't hurt us badly, but of course, we are mindful that it is very important going forward, because it is, at the end of the day, it is affecting overall competitiveness, that's why going forward, we are placing more and more attention and focus on this area.

Let's continue. I will not go into the details of the buy model increase, but we can follow on with the balance sheet and Cash Flow statements.

Over here, you see that we have a strong balance sheet, overall assets going up by 24%. The Cash Flow, especially out of the operating activities, it is very strong, 48% up versus last year. We are going through a significant investment period, that's why you are seeing the impact over there, and also, we are having some important financing activities, we are having some long-term loans coming into the picture, you are seeing the results of them.

On the following page, you are seeing the overall result of our financial ratios, and I can say that, in fact, on all of them, with respect to last year, we are performing much, much better. The Net Debt over EBITDA values, we are keen on in this heavy investment period, we are at 1.19 level, and our return on equity is 67.2%.

If we check through the margins, like I tried to explain, in fact, we are doing quite well on all of them, versus last year, there is a significant improvement, but let's also keep in mind that there will be some level of normalization around there. On the next page, what do we have?

Here comes our guidance. So, year 2023, in terms of the local market, it was an extraordinary year. At the start of the year, when we were doing our budget, we weren't expecting to have an industry of 1.3 million units, but we achieved that. Since that became a reality, in fact, most of the pent-up demand has been, we believe, it has been fulfilled in year

2023. That's why, with the effect of that high base, we are expecting to see some level of contraction in 2024. You might argue the first two months of the year came in quite strong.

However, we believe that is mostly due to this handicapped certificate, which has supported the volumes over there, and we all that we will be having a local election this year on the 31st of March. Afterwards, we are expecting some level of normalization versus last year. As for our export operations, in fact, in our export markets, we are expecting to see a somewhat similar level of industry, maybe a little bit higher in some of the markets, but now, since we are in the catch-up mode, we have reached our ramp-up level for the newly introduced vehicles.

Due to that reason, even if the overall market in Turkey and Europe in net, it should show maybe a reduction, we are not reflecting that into our sales and production volumes, thanks to the product launches. Our overall wholesale volume across the board, we are expecting it to be in between 660K to 720K. There will certainly be the launches that Bahar has mentioned, they will be continuing within this year.

We will be having BEV versions of our vehicles coming in. However, again, likewise, keeping a careful eye on the quality and market readiness of the vehicles to be fully intact, because not just us, but also Ford Motor Company places a lot of importance on quality launch. That is also, in fact, reflecting itself in the reduction of our warranty costs, which also in turn supports our EBITDA margins.

That's why we might have some deferal action in those, or the intended volume might not be fully realized. That's why we have placed a somewhat conservative approach over there. In this period, we will be continuing the long-term investment plan that we had shared with all of you earlier in earlier announcements.

Out of that Capex investment, the fixed investment covering both Craiova Turkey products and general investments, we are targeting to have an investment of EUR900 million to EUR1 billion of investments. I think that concludes my section and we can open it up for your questions.

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

KILICKIRAN H: Gül Hanim, thank you very much for the presentation and congratulations on the successful results. Actually, you explained some part of my question during your presentation, but I am trying to understand it a little bit better. I understand that you are looking for some normalization in your profitability in 2024 because of increasing share of exports, but is it possible to provide a soft guidance?

What level of normalization we should be forecasting in our model? I mean, is it going to be a normalization to like 8%, 8.5% EBITDA margin or a bit better? And as you already progress on the EV side, I think EV is also going to dilute your margins going forward.

So, is there a target of sustainable EBITDA margin in your business model? I mean, I'm sure there is, but is it possible to share it with us? And you highlighted that you are looking for mostly flat demand environment in Europe, right?

I'm not really sure. So, I wonder how do you see the demand environment in Europe across markets, particularly in the UK market? And I'm trying to understand whether this 14% plus export volume growth is largely because of the new generation model launches or some sort of better demand in Europe is also feeding this guidance.

ERTUĞ G: Thank you very much, Hanzade Hanım. Let me take your questions in order. I will try to be clear as I can be. Maybe in terms of full numbers, full figures, I might not be able to give the numbers, but I will try to be as clear as possible. In fact, when I said there will be some level of normalization, I was also like maybe at the start, I was thinking of the Turkey market firstly. In this year, in fact, we are seeing that the availability of the vehicles in the market, it is higher.

Like most of the brands, they have the availability over there. And due to the with the involvement of Mehmet Şimşek and his team, there are certain macroeconomic actions taken in order to take the inflation under control. There has been some interest related updates.

We have on Turkish Lira, we have reached 45% levels. And like this is in an effort to combat inflation. Due to that and due to the availability of the vehicles in Turkey, there is a possibility that some of the demands which was originally taken as like a way of preserving value was buying a vehicle that might now go into several other investment options, even though maybe in real terms, still there is a room for such asset ownership.

I think we think it is still there, but there will be some other options. And since there is greater availability in the market, the pricing ability versus 2023 might be a little bit tighter. So, this kind of explains the domestic view. For the export view, you are right. Within our business model, the export markets with Ford Motor Company, we have certain particular supply contracts for each vehicle line we produce and we export to Ford. Over there on the exports, it is since the risks and rewards mechanism is different.

We are the entrepreneurial entity in Turkey, but we are not the interpreter in the other markets. That's why you can take that the margins on the exports are less.

With respect to a commercial vehicle versus passenger vehicle, commercial vehicles are more profitable. And as the battery electric units comes up, not necessarily, the nature of the business and the nature of our agreements are not necessarily different. But at the start of these vehicles, if you look into their cost structure, the bill of material and the overall makeup of the transfer price, the battery units are a little bit more expensive. That's why when you compare the overall remaining margin to the overall transfer price, these margins turn out to be smaller.

And as they tend to increase in numbers, from a mathematical perspective, the weighted average of all that combined action will be coming to a little bit of a lower level. So, this was what I was trying to say, but Bahar can help me out here. As far as I recall, we do not give out the breakdown of these units. We are providing the overall result as an average. That's why I'm not entitled to say more than this. I hope with overall inference, this is going to be helpful for you in your model so that you can put it clearly.

And like you were asking about in your question, I think, how the European markets are going to act. In fact, based on our data sources and our interaction with Ford Motor Company, we are seeing somewhat of a level market. At the earlier times, there were talks around, could there be a recession? Could the demand come down? But we are not seeing the signals of that. Still, market by market, you know that our units are sold in a large variety of markets.

So, within Europe, maybe there can be mixed stories. In UK, it might be stronger. And in Germany, it might turn out to be a little bit lower. But as an overall average, we are expecting to have a level market, maybe a slight positive end. But because of the pent-up demand over there, we projected the overall numbers in a little bit conservative side while we were converting them into our own wholesale numbers. Since now the launches are in place, we believe thanks to our newly introduced vehicles, we will be capturing the market intact.

And can you remind me of your last question? I think I missed that.

OPERATOR: Apologies, the line has been dropped of the questioner. Actually, she just joined the Q&A session. I'll just pass the floor to Ms. Kilickiran Hanzade. Please go ahead.

ERTUĞ G: Thank you. Sorry, Hanzade Hanim. I forgot the last one.

KILICKIRAN H: No, you answered my questions. But unfortunately, I was cut off in the first part. So I missed the comments around the margin. But that's fine. I can ask later. I don't want you to repeat that part. But the export question has been answered.

ERTUĞ G: Okay.

KILICKIRAN H: Thank you very much.

ERTUĞ G: Thank you. Thanks for your interest and consideration. Thank you.

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

DEMIRTAŞ C: Thank you very much for the presentation and congratulations for good results. My first question is about the sentiments in domestic markets. So far in the first two months, we had significant growth in the extraordinary two months.

Do you receive any signals? You are cautious and most of the sector participants are cautious. When do you think, we are going to get more signal about the possible slowdown? Or do you already see some initial signal? That's my first question.

And the second one is the inflation accounting side. Again, I repeat for many companies, and most of the companies didn't give anything. You had limited disclosure, like many, you know, the Koç G,roup companies that only one company gives much more details about the inflation accounts related to their balance sheet and there's only one. I wish it has been more disclosure.

I talked to many companies before, but as you mentioned at the beginning, regulators only mentioned one thing, but I would expect for, like, global companies to be, you know, more than the regulation requires. So, I just want to -- I was disappointed for all, it's not specific to Ford, but I would like to reiterate that again. Then I will go to my question.

In order to make forecasts, at least, for the following quarters, we are going to be dealing with the inflation accounting for the following two, three years, at least because of the inflation, even if being seen. So, it's very important. And we have a comparison to some extent for 2023.

But could you further elaborate from your perspective as you gave the numbers, we see that you're positively impacted. I can see that. But about the mechanism, especially you have monetary provisions, monetary gains, I say, what was the driver behind that?

And going forward, when we make calculations, because from now on, we are going to be making all calculations to put into our model, you know, the models, the nominal and the interest, the inflation accounting. So, could you give us more hints about this side, how really you were affected and what was the driver behind that positive impact on your financials? Thank you.

ERTUĞ G: Thank you very much. So let me start with your query regarding the domestic markets. I'll try to explain it, but let's let me try to give a little bit further detail. The first two months turned out to be strong in Turkey market, but I'm sure you're also aware of the situation. Everybody is really careful on how the overall economics view the macroeconomic changes will adjust. And since we are coming from a 1.3 million industry in the early rounds, I believe there is, a, somewhat of a consensus in the expectation for the industry for this year.

I believe maybe our initial going in position can be a little bit conservative, but we since ,especially after the election time period, even though there are certain guidelines that we are all collectively working towards, there could be some changes in the demand structure. We wanted to go back with a little bit of a conservative view.

Having said this, I think I should also make the highlight that since the weekly launches and the ramp ups regarding them, the overall production in the quality manner that has come to a place, which in fact, which the units that we had lost in the Q4 of last year, now we have the potential to recover and now the overall levers are in our hands.

If there is a possibility to see some larger demands, I think we are well equipped to react to that. But overall, we are more mindful, and we are seeing this more prudent to act in this manner. That's why this is the guidance we have provided. And like I said, I believe there is pretty much consensus on the industry expectation.

Regarding your disappointment for the inflation accounting, I understand where you are coming from, but maybe this explanation I have to make. Overall, whatever we explain, whatever we disclose to the public, it has to be independently audited.

And now with this legislative change, let's say, we have adjusted our valuation towards the IAS 29 principles and our independent auditors audited these results. Whatever they audited, we are to disclose this value. If we disclose something unaudited, that would be against the rules. We cannot act in that manner.

So, I cannot speak on behalf of the other companies. Maybe some other multinationals, I don't know, maybe they had the chance to have independent audit in place. But since this was not the case for our particular issues, this is what we had to go with.

And in fact, in this interim, in order to give some support to you, we tried to provide some additional information. If the inflation accounting was not in place, what would the numbers be? That is on the appendix page, Page 24 of our investor presentation. And I'm really hoping that this is going to help you in your analysis.

But not just for this audio call or investor call, but for the later on period, we will not be entitled to share more than this, since our audited numbers are with the inflation accounting. And I hope, going forward, as we keep on issuing our results in the quarterly calls, and as data builds up, I hope this is not going to adversely affect your calculations too much.

So, I understand the frustration, but I think we did our utmost potential for this disclosure. And I understand that you are willing to understand a little bit more details, how this turned out. We have monetary gains.

For this one, Ünal, in order to give the best explanation, I will give the word to you so that to the extent possible, we shed some light to our investors so that they can follow it better and make their projections in a healthy way. The floor is yours, Ünal.

ARSLAN Ü: Sure. Thank you, Gül. Hi, Cemal bey. Gül Hanim has already explained very clearly about why we couldn't share. In fact, that's not our choice. I just want to rephrase that again. That's not our choice, but by regulation, we cannot disclose any more information. Of course, we want to help you. However, that's what we can do.

So, regarding your question about our monetary gain, we are a very heavily asset-high company. And looking at the other way, we are a monetary liability. We are holding a high monetary liability position in our balance sheet.

And for the IAS 29 implications, what we did is, from 2004, the last inflation accounting period, that was 2004 for IFRS, we adjusted all our balance sheet to the end of 2023. So, holding a high monetary liability position, this gives us a monetary gain in our financials because we are adjusting all our assets with high inflation rates. And we don't have a high non-monetary position in our liability section, even including our capital structure.

Because as you all know very well, our capital, we are, Ford Otosan is distributing almost all of its profits to the shareholders. So, we don't have a high capital position in our balance sheet as well. So that's the main driver that you asked under our monetary gain position in 2023.

DEMIRTAŞ C: Thank you. Thank you very much.

OPERATOR: The next question is from the line of Ferruh, Erim with Ata Portföy . Please go ahead.

ERIM F: Hello. Congratulations for the strong results. And I would like to ask about the intense competition created by Chinese brands in the automotive industry. We know that they challenge global players with their low-cost production, especially in automobiles. How is the situation in Fort Otosan light and the heavy commercial vehicles that you produce? Thank you.

ERTUĞ G: Thank you very much. I'm going to take the question for MCV. We don't, we are not ,in terms of mass production, we are not selling electric vehicles in the HCV yet. But we have e-transits. And in fact, within year 2023, we have had around 15,000 units of sales under Ford Pro across Europe. And it has been a successful vehicle.

In fact, in your comments, you are right. There is going to be significant competition in the EV world. And in fact, if we compare our finalization, the latest demand uptake and the latest electrification curves versus the earlier ones, we are seeing some slowdown in the take-up of the electrification.

And when the Chinese brands come in, there could be a potential that there will be some tough competition over there. For our plants, what I can say is both for the one-ton units, custom units, and our two-ton vehicles, we have carried out the structure of our Yeniköy and Gölcük plants in such a way that, and also for the Craiova case in Courier, we have constructed the plants in such a way that there is the utmost flexibility to turn into ice versus bed. Like, if the electrification demand over there falls, we can make up for it with the ice versions.

Of course, there are certain things that we have to follow on because it's not just the plant capacity and the vendors, the suppliers are also important on this one. But we made our plans accordingly because we are all mindful, like both Ford Otosan and Ford Motor Company, we are mindful that we are just going through this electrification journey, electrification revolution, maybe I should say, all together in these years. And for that reason, in fact, all OEMs are paying utmost attention to put the right capacity, right technology at the right point.

Of course, we have the sustainability targets, the Net Carbon Zero neutrality plans, and we have commitments on those fronts and we are doing our investments in line with our commitments. But while doing so, we also placed big importance on this flexibility issue because we are seeing from the market some signals and also hearing from some other OEMs that there could be some changes. Maybe the initial projected speed of electrification might not be in that way.

And if that turns out to be the case, like even though there are some Chinese entrants into the markets, we believe the ice versions of the production, we are protected and we are flexible. This doesn't mean that like, okay, we are giving up on electrification. No, we are not. But we are best utilizing the time to adjust into the new technology with the best vehicle view in the market. And for Ford Pro, maybe I should also give some information. It is not just the vehicle itself and, like, how it is electrified, but also in the professional world, Ford Pro stands for professional.

Our commercial vehicles are the best partners for the locations across Europe. For the one time, we are the sole producer for the world. And the Ford Pro value proposition comes together with certain service actions, some connectivity, certain uptime proposals, the propositions. And in fact, thanks to all of these actions, we are seeing some high traction in the markets. And we believe with the support of all this network, we have a competitive advantage towards the Chinese brands.

Some of them, yes, you are right, they might be competing with lower prices, but we believe the overall product proposition with our vehicles, they are competitive. I hope this answers your question.

ERIM F: Yes, yes. Thank you so much.

GÜL ERTUĞ: Thank you.

OPERATOR: We will now move to our webcast question. Actually, we do have a follow-up question from our audio participant, Kilickiran Hanzade with JPMorgan. Please go ahead.

KILICKIRAN H: Gül Hanim, I have one more question about your Capex. You are also targeting a similar capex this year. And when I look at your past three years' Capex, it's already reached EUR2.6 billion. So, your kind of target announced a couple of years ago for the next five years. So how should we think about 2025 in terms of Capex side? Is it a low capex year or you will continue to do some sort of model capex in 2025?

ERTUĞ G: Bahar, I think we don't have that slide in this presentation, but can you help me out, please, with the overall journey that we are having both on our overall vehicle investments, the product investments, plus the capacity run taking us to 900k units overall. Over there, maybe we can give some level of information for the investments falling into year 2025.

EFEOĞLU AĞAR B: Sure, Gül Hanim. Our production capacity was around 455k by 2019. Then by Romania plant and by launching new products on Custom and Courier side, our production capacity reached to around 746k level by the end of last year. And we expect to exceed it to 900k levels by 2025. So far, when we look at the previous Capex investment levels in the last three years' period, we had EUR300 million investment in 2021, which we started to have our investment, heavy investment period. Then it increased to EUR800 million level in 2022.

And '23, according to the '23 it's around EUR900 million, and we expect to have a similar level of Capex spending for this year. And that's why Hanzade is asking, what's our expectation for 2025? So, we may share a general outlook for the upcoming two years, actually, for 2024 and 2025, to make their models in a better way.

KILICKIRAN H: Thank you.

OPERATOR: We will now move to our webcast questions.

EFEOĞLU AĞAR B: Sorry. Hanzade so, you may expect some level of high capex levels for 2025 as well, because considering the ongoing projects for EV options of our models and ongoing investments for our long-term commercial vehicle projects. But after 2025, you may assume some normalization, some level of normalization.

HANZADE K: Okay, thank you very much.

OPERATOR: We will now move to our webcast questions. The first webcast question comes from Dominic Leoni with Consilium Investment Management, and I quote.

LEONI D: Thank you for having us and congratulations on a great year. Could you please give us further detail on market share changes from 2022 to 2023 for your PC and CV pages eight and nine of your presentation? Thank you.

EFEOĞLU AĞAR B: Let me try to give more details about that information. So, thanks for your question, Dominic. Actually, you may access further information on the domestic market share performance with segment breakdown on page 53 of our investor presentation. Let me give some summary info on that. For instance, our total market share was around 10.5% as of the end of 2022 in total, but we achieved around 8.9% market share this year. And the main reasons behind this performance, we explained earlier.

In PC segment, we increased around 1.2 points our market share, and we increased it from 1.9% to more than 3% levels with the support of better availability, especially in passenger car segment. On the other hand, on the LCV, MCV, and truck side, which we are also local producer, local manufacturer in this segment, our total market share in commercial vehicles was around 34% by the end of 2022. However, it decreased to 27% levels this year.

And the main reasons behind this performance was the launch deferrals in some of our flagship models like Custom and Courier, and some of the supply chain related challenges which we faced with ,especially in the beginning of this year. I hope this answers your question.

OPERATOR: We will now move to our next webcast question, which comes from Oliwer Prandecki. Apologies. And I quote. Can a visible reduction in inflation reduce your profitability, for example, due to lower protecting value demand, but not only? Thank you.

ERTUĞ G: Can you read it again? Maybe I couldn't hear it well. Can you repeat it, please?

OPERATOR: Yes, of course. Can a visible reduction in inflation reduce your profitability, for example, due to lower protecting value demand, but not only?

ERTUĞ G: It's like ,in fact, over here in all of these measures, we are seeing inflation as an issue acting against us. So, if inflation comes to normal terms, I wouldn't see that as a negative result. The entire macroeconomic pattern is targeting to take inflation under control. And I hope that turns out to be a reality. Because we are not just issuing, we are not taking advantage as if people are just afraid of inflation. That's why they are buying the vehicles. No, that's not the case. They are buying it for their business. And our vehicles are competent, very competitive.

That's why it should go back to the normal terms. And if we think of the export side of our business, the successful, the high-performance vehicles are doing quite well in their markets. And thanks to our business model with Ford, we have the chance of utilizing cost plus markup methodology on the overall setting. Whatever the cost is, we are able to recover. Ford is not giving us profit guarantees.

It's not giving us, essentially, volume guarantees. But when we have our investments, there is a guarantee for the investment recovery. The combined pieces of the domestic and export business model is a healthy one. And I don't think that, that would hurt us. Just, on the contrary, if things come back to normal, with the enhanced feature of our vehicles, it should be giving us a positive edge. Maybe what I said earlier might have confused you.

I was trying to say that in year 2023, because of the inflation and the interest rates, at first, the interest rates were very low, but inflation was very high. And in that kind of a little bit, how should I say, a little bit strange environment, since the real interest rates were negative, people thought, hey, we need to find a way to save the value of our money. In order to do that, they saw the purchase of a vehicle as kind of preservation of money.

But of course, in normal terms, being a successful vehicle producer, and not just a producer, but also, we have enhanced our abilities in the R&D front, engineering work, and also manufacturing engineering, we would like to operate in a normal market. And that's why I'm not seeing that as an overall negative sign. But versus where we were in 2023, since the macroeconomic setup is now trying to be pulled into the normal area.

We might lose that part of the volume to some other investment alternatives. That was what I was trying to say. And we have already baked that into our projection for the overall volumes.

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. Thank you very much. And thanks for this question-and-answer session. I think it has been quite a fruitful discussion. And like I will say once again, for the ones who feel themselves a little bit disappointed, I'm really sad that this turned out to be the case. But in line with the regulations, this is the information that we can support you with.

And if you have any other further questions, maybe after this call, if something comes up to your mind, our Investor Relations team, Bahar, Duygu, Ünal from Corporate Finance and myself, we will be at your service to try to answer any other questions if that comes up to your mind. Thanks very much for your time. And see you in the next quarter, I would say. Thanks a lot. Bye-bye.