



Ford Otosan A.Ş.

Ford Otosan First Half 2023 Financial Results Conference Call

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Conductors:

Mrs. Gül Ertuğ, Chief Financial Officer

Mrs. Bahar Efeoğlu Ağar, Head of Investor Relations

Conference Call Conducted by Chorus Call Hellas



CHORUS CALL HELLAS
PROVIDER OF TELECONFERENCING SERVICES
TEL: +30 210 94 27 300
FAX: + 30 210 94 27 330
Web: www.choruscall.com

OPERATOR: Ladies and Gentlemen, thank you for standing by. I am Popi 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 First Half 2023 Financial Results.

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

Ms. Ertuğ, you may now proceed.

ERTUĞ G.: Thank you, thanks very much. Dear Investor community, we would like to welcome all to our webcast and conference call for the declaration of our First Half 2023 Financial Results. Welcome. So, I will start the presentation with the high level, the critical actions we have managed, the overall results we have seen in the First Half of the year 2023. And then for the further proceedings, further details, I will leave the words to Bahar. Currently, I have Bahar, Ünal, Ekin, Duygu together with me. And at the very end of the presentation, we will be happy to answer your questions.

So, let's start. I'm quite happy to declare that we have finalized a successful First Half for the year 2023 in terms of our Operational and Financial Results. If we touch on our achievements both on Turkey local markets and export markets, I'd like to state that our strength position, the commercial vehicles in Turkey and abroad, we have maintained our position. Turkish industry overall, in terms of overall ranking in all Segments we are operating, we

have been able to achieve 9.8% market share, and we are sitting in position three for the market.

And as for the commercial vehicles, we have protected our first position with 29% market share. Over here, you see our LCV and MCV track results. Maybe as a general comment, I can say that in this half, we have seen the availability within the market for us and for all of the OEMs. There has been an increase over there. In this period, we have also witnessed several important issues that I would like to highlight. And I would like to say that that had an implication on our allocation of our units between domestic and export.

One key thing, unfortunate thing, as you all know, we had this earthquake suffering. And over there, in fact, especially on the heavy commercial vehicle segment, we have seen that there has been a requirement in our allocations to shift more units from export to domestic side to provide support within the area.

Other than this, I should also mention that we had an important election period, and looking into our plans, wherever possible, also in conjunction with Ford Motor Company, wherever possible, we tried to utilize allocation into Turkey in order to benefit from the strong domestic sentiment in the markets. In fact, currently we are still seeing strong signs in the market. We will come to that when we speak about the guidance session. But over there we wanted to utilize Turkey because we wanted to have the benefits out on our shares, on the allocation, and improved profitability results flowing into our actions.

As a result of this, we have seen a 58% rise in the volumes and 130% increase in the revenues in our domestic performance. For the exports, you will remember that with the inclusion of the Craiova plant and with the good capacity utilization out of the Craiova plant, we also supported our export volume growth, 68% in volume units and 114% increase in revenues.

In this period, we had quite a successful plant capacity utilization across the board in all of our production plants. Gölcük achieved 82%. Yeniköy, which is the production hub for our current Courier model, reached 134%. Eskisehir for Ford trucks, 111%. And Craiova which is currently producing the Puma units for 103%. This has supported us in the allocation of our fixed costs. It has been a successful view.

And overall combined EBITDA and PBT values, if you check them, we see a solid profitability per vehicle. On the EBITDA, we have achieved EUR 2,265 per vehicle and PBT EUR 1,861 per vehicle. Another point of pride for us as of July 26th, Ford Otosan has been attaining the value of most valuable company in the stock exchange BIST 100 with a market capitalization of more than \$12 billion. This view, I would say, this has been in line with our expectations for the budget. We are happy that we have met our targets.

At this point, for the further details, I will leave the words to Bahar, and then at the guidance point, I will be back again with you. Thank you very much. Bahar, please?

AĞAR B.: Thank you, Gül Hanım. Hi, everyone. Thanks again for joining us today. Now I will continue with the domestic sales performance. In the First Half of the year, total domestic market rose by 55% and there was a significant sales growth across all segments, primarily driven by the improvement in the vehicle availability with the easiness in the supply constraints and also strong demand for the vehicle purchasing in the inflationary environment. And the higher growth happened in light commercial vehicle segment with 76%. As a result, the share of LCV sales in total rose to 14% level in this period, as you can see from this slide. On the other hand, there was a slight increase in the share of PC, whereas the share of MCV decreased to 7% level.

In this period, in order to benefit from the strong domestic market environment, especially in the pre-election period, we prefer to prioritize the domestic market in vehicle allocation, as also Gül Hanım mentioned about that. As a result, Fort Otosan performed slightly better than the market with 58% increase in total.

If you look at segment-by-segment, we had a flat performance in MCV segment due to the ongoing supply shortages on our side. However, we surpassed the market numbers with 147% year-on-year increase in PC volumes, which is mainly supported with the better availability. Also, our truck volumes went up 73% year-on-year in domestic markets.

With this performance, we were able to increase our market share by 1.2% in PC and 4% in truck segments.

So, as a result of our robust domestic performance, we had a slight increase at our market share with 9.8% and we attained third place in the market so we can actually preserve our position and we maintained our leadership in CV segment with 29% share.

Also in this period, we kept focusing on our pricing discipline as part of our profitability over market share strategy in PC and profitable growth strategy in CV. If it comes to export performance, in First Half, our export volumes reached to 253,000 units with a year-on-year increase of 68%. And for apple-to-apple comparison, excluding Craiova volumes, our export increased by 6%.

In this period, the European automotive market, which is our main export region, shows the signals of recovery, mainly supported by the easiness in supply chain and the low base impact. But it is fair to say that figures are still below the pre-pandemic levels. In that segment sales increased by 13% year-on-year and in this period, Ford Otosan continued to support the growth and CV leadership of Ford with Ford Pro, which is the winning combination of vehicles, software and services, which generates value for commercial customers, and it is also the most profitable business arm of Ford.

And I should say that we are the largest commercial vehicle manufacturing hub of Ford in Europe, and we produce the three-quarters of Ford's European CV sales which makes us critical player in Ford's world.

On the other hand, in PC segment sales grew by 18% in the European region and in this segment, we contributed to Ford's performance with our Puma model, which we added to our production line-up with Romania plant acquisition last year. And it is the Ford's best-selling car in Europe, so which is also a precious product for Ford Universe.

And now let's move to our Heavy Truck Performance in International markets. In the First Half, our international sales volume realized as almost 3,500 units with a moderate increase of 3%, which is below the market performance. Also, Gül Hanım mentioned about that, but I would like to give more details on this slide as well.

So, in fact, the main driver behind our performance was the volume allocation to domestic markets rather than the export markets in order to meet the urgent logistics and reconstruction needs of the cities which were impacted from the earthquake actually. It's also observed from our domestic figures as well.

On the other hand, we successfully continue our expansion plans and following the completion of expansion to Denmark, we are proud to share that our Ford trucks are now sold in 48 countries and currently the share of Western European sales reached to 61% level in total international volumes. And I should say that our truck business is very promising in terms of competitiveness and profitability as well. And in this business, our brand is mainly focusing on cost of ownership and our localization rates reached to 90% level, which again we're proud of, with the locally

produced engine, transmission and axles. As, we are producing those units at our Eskisehir plant.

So, we come to, since we last met part, on this part, before moving to slide 13, as a very recent development, this week we said goodbye to our precious Courier product, which makes us feel sad, happy and proud at the same time as we were producing that model since 2014 at our Yeniköy plant and always proud of it with its highest quality metrics in the Ford Universe. But again, happy to share that we will produce the new version in our Craiova facility.

So, going forward our Yeniköy plant will be the home for next generation 1-ton commercial vehicles. Of course, after completing our investments in line with our plans. The coverage area of this facility will be doubled.

Another good news of this quarter is the decarbonization steps in Turkey. In the recent years, we have seen an acceleration in decarbonization of fleets, mainly in European and UK region. You may recall the efforts of the companies like DHL and Amazon recently as they added E-transit models to their fleet.

So, towards zero emissions, there are baby steps in the Turkish market and our first all-electric vehicle and Ford's first electric CV E-transit is supporting this transformation also in Turkey. So as a result, the ice cream brand, Algida added 20 E-transits to their fleet and they announced that they target to expand their approach to the entire distribution network in the following five years. Actually,

this also shows our pioneer role in the transformation of ecosystem.

Now, let me share main financial highlights of the First Half. Our total revenues increased by 130% year-on-year and reached to TRY140 billion as a result of volume growth both in the domestic and the export markets and a continuous pricing discipline strategy.

In the First Half, we focused on using the opportunity of the strong domestic market outlook. Besides, year-on-year change in our export figures also contributed to our financials. While additional Craiova volumes supporting this performance, Ford Otosan Turkey export volumes had year-on-year a positive contribution to our overall export performance.

In the First Half, our reported EBITDA increased significantly, mainly supported by the continuous volume growth and exchange impact in Q2 on our export business and it reached to TRY19 billion level. In this period, we recorded TRY12 billion net income which is lower than our PBT because the positive impact of deferred tax assets on our net income was limited due to the additional tax related to the devastating earthquake in February in Türkiye.

On our EBITDA margin side, our EBITDA margin stayed at low double-digit level in this period, which is mainly supported by strong domestic market performance and TL depreciation in Q2. Also, we achieved to maintain our EBITDA and PBT per vehicle figures at high levels, which are above EUR2,000 and EUR1,800, respectively, as of the

First Half. Actually, we share this cost dynamic slide for your information. Let's move on to other one.

In this slide, I would like to share information about current net debt over EBITDA ratio. As a result of the slow spending in First Half due to the calendarization impact of our investment, our net debt/ EBITDA level remained around 1. And actually the following slides are shared for your information.

Now I stop here and Gül Hanım will continue with our guidance slide. Then we will be happy to take your questions. Thank you so much.

ERTUĞ G.:

Thank you, thank you Bahar, thanks very much. Maybe on the free cash flow, I would like to highlight that our operating activities are really bringing a lot of healthy cash in, that's why it's also supported the view, but your comment regarding the overall investment spending calendarization is right. But over here on this page, we are seeing that net cash from operating, in fact, increased year-over-year more than 200%.

So, if we look into the further expectations for the year, what to have in the coming near future. In fact, we have seen strong demand in Turkey and also on the export markets where we are operating, the demand over there is strong. Like I said, we are seeing availability levels increasing. That's why it is bringing a little bit of a more competition. I would say, a fiercer competition into the market, but demand is still strong.

Regarding this, paying attention to that, in fact we have updated our retail sales volume a bit, instead of a total of 90K to 100K, now we are seeing 100K to 120K levels. Over here, the overall wholesale values will also increase in parallel. The total production values, we will be keeping levels in this section. For the CAPEX, in fact, the second half of the year, we are really very much into the launch preparations for our two incoming vehicle lines for the next generation Courier, as Bahar explained, we will be having it bring to life in Craiova and also our Custom units. Currently, the test development final actions regarding those vehicle lines are progressing.

With respect to our calendarization spending, I should say that there is some slow spending due to some gateway actions in the vehicle lines and some of them due to the late arrival of the invoices. However, still looking into our projections, we are expecting to fall most of this capital spending into this year because in terms of the content, in terms of the action, the overall levels are protected and even though we had some good news in our spending in terms of real savings, some of the line items, due to the inflationary pressures we have been going through. In fact, some of the savings have been washed away, especially on the construction line items, they have been taken back with the inflationary pressures. But it can be forecasted, it won't be wrong to say that some of that spending might fall into 2024 year.

Over there, in terms of our product-related investments, we are keeping our position. So, as a tabular format, this is what I would like to say regarding our financials. Maybe

you might be questioning how we foresee about the upcoming market conditions. Maybe before I open up the floor for questions, maybe it's a good idea to give some perspective how we are seeing the markets.

I believe most of you are also following the situation quite closely after the election period. The changes happening in the macroeconomic environment of Turkey. Yesterday, we listened to the Governor of Central Bank. Last night, there were several changes. So, there are certain macroeconomic actions that are being taken in Turkey. We think that this is being done in a careful view, also paying attention to the upcoming local elections in the following year. But due to this, in fact, what we think may be currently the normalization of some of the economic activities coming slower than earlier expected. However, still the signs are showing that we are proceeding in that manner. Yesterday, what we heard from the Governor regarding the overall inflation expectation for the year being again up to 58% levels and interest rate movements, they are trying to be still kept at a certain level.

We believe this is going to this delta in between the two will keep on protecting the importance of the vehicles as a tool for preserving value in Turkey. So, we are expecting the demand levels to be still strong. However, because of the certain actions affecting credit lines, potential squeeze in the liquidity, we can see that this might signal the Second Half of the year might be a little bit different than the First Half regarding Turkey markets.

Since we have export operations in Turkey, in Craiova, and over there the demand for our export units are strong, and chip-related several issues, the problems regarding them, they are being now eased. We are, maybe as an industry, not just for Ford Otosan, but as an industry, the chip-related issues are coming to an ease. That's why on the demand front, we are not seeing an issue. Because the availability of, in fact, all OEMs are better than the earlier levels, it might be an issue of how [technical difficulty] will be protected. Over here, we are taking all of our precautions and key attention into this area. That's why all-in-all we wanted to have a one-notch update on the guidance in the favorable end.

So, by saying this, I would like to open up the floor for your questions and we as a team will try to provide you with the most accurate, most satisfying answers. Floor is yours now. Thank you.

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

KILICKIRAN H.: Gül Hanım and Bahar, thank you very much for the presentation. I have three questions. The first one is about your profitability. It was quite strong in the First Half and for some reason probably the domestic market. But do you think that some part of these margin gains are stable in the Second Half of the year? So, I wonder where do you expect your profitability in the Second Half of the year?

And the second question is about your OPEX. I mean, in this quarter we have seen some inflated OPEX over sales

ratio. Is there any one-off expense here or that's just like the inflationary pressure?

And the third thing is about your leverage. I mean, very strong cash flow generation. Do you expect your net debt to EBITDA stay around 1x by the end of this year and also next year? Thank you very much.

ERTUĞ G.:

Thank you Hanzade. Let me start by taking your first question. I believe in fact I already gave some signals regarding what to expect in the market for the upcoming period. In my talk I tried to explain that now the dynamics in the market with the increased availability, it is bringing a change. It is no longer that much of a seller's market, now the competition is large over here and that might impact the pricing level. So that is a word of caution I'm putting over here. And I wanted to highlight because this is some dynamic, I believe, we will be seeing over the Second Half of the year.

In that regard, for the domestic margins, there could be some slight softening. However, because of the interest rate position, the overall how the inflation turns out and how the interest rate plays out, this can still make it, instead of people moving into different instruments, the purchasing actors, let's say, if they keep their demand on the vehicle as preservation of value, I think the strength of the market will be there and we will be able to make good use of our enhanced products, especially on the commercial vehicle. Our products are strong within the market, so that is going to help.

As overall export volume picks-up in the second half of the year, the export impact coming into the weighted average, that might pull it a little bit down, together with the passenger vehicle. You know, we had explained that on the earlier calls, a mixture of the exports, passenger vehicles, and maybe not for this year, but further years, as the electric vehicle units increase in our portfolio, expect these ones to pull the margins a little bit lower.

So that's why, I would say, in a nutshell, we would expect some level of normalization on the margins.

KILICKIRAN H.: Okay, thank you.

ERTUĞ G.: Does that answer your question?

KILICKIRAN H.: Yes, but I mean we always discuss that there will be some level of normalization in the margins, but I just wonder if this normalization will be much softer than initially expected because of the strong domestic margins so far in the First Half. I'm trying to understand how much of them is sustainable? But you clearly explained it.

ERTUĞ G.: How severe it is, is going to be very difficult to judge because from our angle, as the Management of the company, in fact, we are trying our best efforts in order to keep our profitability at the best possible level. And you might have felt within the financials, we are looking into export market, domestic market in such a way that we are even shuffling around in order to maximize the profitability. So that's, I would say in certain instances, it's more art than a science. That's why you can expect that the

Company will pull all the necessary leversto keep the profitability levels at the highest position. However, for the market conditions, if the overall availability and overall macroeconomic factors change this nature, I would say it could come down a little bit. How severe it is, it would be hard to judge. Bahar or Ünal, would you like to add anything to this?

AĞAR B.: Thank you, Gül Hanım. Nothingmore from my side, but Hanzade, also had a question related to the increase in OPEX over sales ratio. Ünal Bey, Gül Hanım, do you have any comment for that question as well?

ERTUĞ G.: For some part of the OPEX, I should say the inflationary environment had an impact over there. I could say that, but any other thing if Ünal Bey wants to add, please go ahead.

ARSLAN Ü.: No, not specifically. In fact, other than those earthquake-related expenses, Hanzade Hanım, as you know, we as like Koç Group companies, all Koç Group companies and Koç Holding, we are investing some money on those, you know, helps, benefits, etc.. So, these are maybe counted as one-time expenses in the OPEX related items. However, these are not big items compared to our overall size.

So, I would say that it's mostly, you know, inflationary pressures and we don't have very significant one-off items.

KİLICKIRAN H.: Thank you very much.

ARSLAN Ü.: And regarding to your first question, maybe I can just add in the second half, Gül Hanım mentioned very well, explained very well. Maybe we can just add, we are expecting our new Courier vehicle in the Craiova plant to be launched in the Second Half, in fact in the Second Half of the year. So, that may also help in the export part compared to the First Half a little bit for the profitability as well.

AĞAR B.: Plus, our next generation Custom is also expected to start production in the Third Quarter, which will have a positive impact on our volumes as well.

ARSLAN Ü.: Yes.

ERTUĞ G.: Yes, both volumes and overall profitability because of the investment recovery element coming into the game for both the new Courier and the Custom. Thanks for the addition, Ünal. That's correct. So, on that end, we will have some more good news.

And Hanzade Hanım, I think your last question was regarding the leverage levels. The net debt over EBITDA, are we going to be at these levels? In fact, since we are entering into a heavy CAPEX period, I would say there would be some level of increase over there. At this round, in the First Half, the good news we are seeing is some of that calendarization impact and the overall EBITDA generation has been strong. That's why the value is low, but I would say there will be an increase on the EBITDA, net debt over EBITDA value.

- KILICKIRAN H.: Thank you very much, Gül Hanım.
- ERTUĞ G.: You're welcome.
- OPERATOR: The next question comes from the line of Lanka Sashank with Bank of America Merrill Lynch. Please go ahead.
- LANKA S.: Yes, thank you for the presentation and the opportunity to ask questions. I just have one question from my side. I think in the past you mentioned that, you know, the sales revenue per vehicle of Puma does not include the recovery fee because it was carried by Ford Europe. Now with the Courier being launched, should we expect an improvement in your sales revenue per vehicle? Because I think you said, if I'm not mistaken, you expect to maintain the levels that you saw in the First Half. But I'm just wondering, with the new vehicle being launched in Romania, should that improve? Thank you.
- ERTUĞ G.: Yes, the new vehicle, the new Courier being launched in Craiova, it is going to be our vehicle. The earlier vehicle, you correctly stated, Puma, is, I would say, we have taken it over from the Ford Motor Company. Since we didn't have special investment on that unit, we do not have special recoveries on the per units for Puma. But after the introduction of Courier, we will have. That's why it will mean relatively positive news on that end. Yes, you are right.
- LANKA S.: But just in terms of the accretion to your margins or price per vehicle, can you give us some guidance there because of this trend?

ERTUĞ G.: Bahar, I will leave this question to you in order not to say maybe too much. I shouldn't be saying anything. So please take this question. Go ahead.

AĞAR B.: Sashank, I'm sorry, I missed the question. Could you repeat it again?

LANKA S.: Yes, my question was related to the investment recovery fee for the new Courier in Romania. How should that impact your price per vehicle overall for the business as well as margins? What's the positive impact from that?

AĞAR B.: We cannot disclose the breakdown of investment recovery fees for each model, but you may assume that as Romania plant, should be assumed that it is in a transition period both in the Second Half of '22 and in the Full Year of '23. So, by completing our investment for Romania plant for the next generation Courier and for the facility, by introducing models gradually, what I mean with it, ICE version of Courier, all electric Courier and all electric Puma will be launched gradually, which will be produced in Romania plant.

After that, we expect the contribution will increase incrementally from that plant. So, we will see the Full Year impact, a positive impact coming from Romania plant starting from 2024. Other than that, we couldn't disclose any kind of information related with the investment recovery numbers as it's a part of our agreement with Ford.

LANKA S.: Yes. Understood. Thank you.

AĞAR B.: You're welcome.

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

ERTUĞ G.: Thank you. Thank you so much. If we just received two questions only, I hope our presentation and the details of financial reports that we have put out for your examination, I hope that has been satisfactory. Thanks very much for your interest in our Company and in the call. I will just wish all of us, all of you a very good weekend and thanks for joining. Until next time, please take care. That's all from my side. Thank you very much.