

Türk Traktör ve Makineleri A.Ş.
2024 Financial Results Analyst Meeting
Matthieu Séjourné, Company Leader
Özgür Ergun, Financial Affairs Business Leader

Matthieu S.: Locally for New Holland from 48 HP to 145 Hp, we've got a large portfolio that is localized, for Case IH as well. There has been a major transition in 2024. The regulation changed. It's not possible anymore to produce Tier 3 tractors. It has been extended. We were expecting the end of the regulation by 1st of July. There has been an extension granted by the government, and production has been postponed until the end of December for what we call the Small Series. And now there is 12 months for the manufacturers that get tier 3 to sell and retail the Tier 3. So the market moved to Stage 5, which is in line with the European market. So that puts Turkey in a strong position in order to sell their product outside of the borders of Turkey.

Construction equipment was a really good year for us. We have grown our market share. We topped a record in terms of unit sales to 811 units made of 411 TLB that we produced locally, and 400 units that we are sourcing from CNH. So, as we started producing the TLB in 2020, we pushed this year and we were slightly below 2023, but we maintain or gain market share on that specific segment. That has been the one suffering the most, I would say, in terms of credit availability because of the type of customer that is buying this kind of product.

Agriculture equipment. There has been a big decrease in the combine sales after a big supply in 2022 and 2023. So we face some headwind on that side with 158-unit retail in 2024. The equipment market has been growing year over year. You know as well that we have been signing a share purchase agreement with Kayhan Ertuğrul in order to acquire 100% of the company. We are waiting for the clearance from the Competition Board in order to complete this acquisition.

In terms of advanced technology and what we have been presenting. as we said, our motto is to invest to the future of agriculture of the city and the farm area in Turkey. And we believe that the adoption of new technology to improve efficiency and the productivity of the farmer is key. So we have been presenting a product, but also innovation, to support, let's say, the development of the agriculture area. We've got a guidance system that we offer locally produced with TT guide. We are connecting our tractor to get more data and be able also to use AI in the future in order to develop further service for our farmers. We've got a solution for drones in order to make either recognition or analysis of the field, or also some application of fertilizers.

In Bursa, we have been displaying two new products, two new concepts. One is the robot. It's a spraying robot that analyzes image and is able to make selected spraying, which has two advantages. First of all, a reduction of cost of usage for the farmers because they use less fertilizer or pesticide. And on top of that, there is a benefit when it comes to the environment. The autonomous vehicle is something that has an opportunity here and also at export because there are some areas where there is stress in terms of labor availability for agricultural work. So, there is a demand globally for autonomous solution.

Then in Konya earlier this year, we presented the concept for electric tractor. This year in 2025, we are going to give some of the units to farmers and customers in order to get feedback and finalize the concept and the commercial validation of the of the concept.

Özgür E.: In terms of 2025 expectations, you may see that 2024 has decreasing units in terms of many aspects compared to 2023, which was the record year. But 2024 is also the second-best year of the company in terms of many metrics, both monetary and unit wise. For 2025, we expect a slight decrease in the industry volumes, which we think that the normalization will continue for a while. And, on the export side, it's sort of flattish. And when we come to our investments, we are committed to growing the business and we will keep on with our investments pace of previous years. And we will be spending around \$140 to \$160 million in 2025. And of those, the one of the biggest items, as you were explained here, we already signed a share purchase agreement of Kayhan Ertuğrul, which is an agricultural equipment producer in Turkey. The enterprise value we will be paying will be around \$65 million. Okay. If we go to financials, most of these have been shared by Mr. Matthew in the previous slides. But just as a wrap up of 2024, we have the market dynamics, going slightly negative compared to year-on-year units, both in local and export volumes. We have a fundamental impact, which is the Stage 5 emission transition from Stage 3 motors. So this is very important in terms of the economy, because the lifelong usage of these Stage 5 units is also more efficient compared to Stage 3. But for the first year, there are some cost hits in terms of the value because this engine is more expensive. So this was an important change for us in 2024. And TürkTraktör Finance, TT Finance that I explained in previous slides, there was a major change in the government subventions on the loans granted by Ziraat Bank to farmers, but we compensate for this with our own solution. Despite those two facts, we will keep our investments. and at the end of the day, we end the year with double digit markups, like 14.7%, on EBITDA, reaching up to €267 million. And on PBT 11.9% margin, which is reaching up to €217 million. And you are also well aware, in 2024, we paid 9 billion TL dividend with the nominal values to our shareholders. And you also learned this morning that we will be paying another dividend at the beginning of April.

If you go into the financials of TürkTraktör, the income statement that we released yesterday through KAP, as you may see on the screen, year on year, there is a sales decrease of 21%. The revenue is 67 billion TL. This is mainly driven by the unit change year after year. And we have a gross profit decrease of 43%, which is mainly because of these Stage 5 engines, Ziraat Bank policy change and some of the cost elements increase. That is not in line with our sales pricing, or the euro increase, I would say. So at the end of the day, when I come into EBITDA, the company made around 10 billion EBITDA, in 2024. And we are still in double-digit figures in most of the profit elements. And just to note, all of these figures are IS29 adjusted. So the figures that you see in 2023 are also adjusted to the end of December 2024 inflation.

When we moved into the balance sheet and cash flow, we announced these yesterday. And you have many more details in our financial reports. What I would say is, although we lose cash, in terms of the size of the assets in terms of a decrease in year-on-year comparison, the financial health of the company is quite high. So that we can continue our investments and our businesses. This is basically backed by financial ratios, as you may see from this table, our debt to EBITDA is 32%, and our return on equity is 34%. Our current ratio is 1.43%, which is a higher amount in terms of coverage of current assets versus current liabilities. And our liquidity ratio is 0.82%.

I think this is the end of our presentation. Thanks for your attendance. If you have some questions, we can take some of them as we have some time, and later on, we can have a chat in our area in front of the meeting room. Thank you.

Analyst 1: Thank you for the presentation. My first question is regarding the market conditions in 2024. On the auto side, the market was resilient due to cash buying rather than credit. What was the case with your side? Maybe you could further elaborate. Your market was weaker, possibly. And we see from the numbers. So any more detail. And I see that TT Finance had a higher position or higher share of your customer base. And it had some costs I believe. So any further detail on that will be helpful. And for this year you have weaker maybe lower number after 2 or 3 strong quarters or 2 or 3 strong

years. And how is the outlook for this year in terms of financing or without financing? Do you have other sources to go? That's my first question. And after this I will have two more questions. Thank you.

Matthieu S.: So first of all, if you look at what we have in terms of consumer finance, you've got 50% that came for the full year from TT Finance, as you said, 20% from Ziraat, 29% is coming from other sources and also a dealers finance. So the cash is a small part of our business. Indeed, with the change of Ziraat Bank, without TürkTraktör Finance and also, all the commercial banks that step in with some of our competitors in order to offer a loan, the market would have been much lower because at the end of the day, our customer base is not using extensively the cash payment. So there has been a cost, but it was also a cost to keep the market at a reasonable level and give access to the farmer, and to access to purchase our machinery.

So and yes, officially Ziraat Bank announced that the same politic for up to 2026. So we're expecting the same condition. We are not expecting a change. Where we're expecting an improvement is the interest rate, as we see it has been really high this year, picking up to 58%. In April, we are expecting an ease and a reduction of the Central Bank directional rate, and the cost should go down. I'm using conditional because I cannot predict.

Analyst 1: Definitely. On the demand side in the last two years, again, there was possibly a pull forward demand or even when the interest rates were low, there was a higher demand. This year, do you see that if we assume again, it's a conditional thing, but if we assume that the rates will be coming down and the conditions will improve. Do you see some improvements or a chance of improvement in the demand side?

Matthieu S.: So if we look at the current weather condition, we don't have the result. But just looking at what is going on, the snow that came at the right time, the rain that came quite right around Turkey. I need to stay positive, but I don't have solid ground. we will have the data coming from TURKSTAT soon and understand if it's the perception is confirmed. So there could be an upside. We are expecting the first six months, when we see how it goes, and there could be, after the second part of the year, some improvement. We'll have to see. What you see as our expectation is at the moment, our base guess. I know it's a wide range because it's between 12 to 25% reduction. But that's how we see and read the market. Generally is a bit difficult. It's too early. If you want to have a flavor of how the market will go.

Analyst 1: And another strategic question about the digital farming side, which you have some drones TürkTraktör drones, but as far as I know, that's not very popular in Europe. That's limited.

Matthieu S.: No, this is correct. Drone it's not a big part of the business today in terms of digitalization, where we've got some good usages with Tarlam Cepte. We launch our application where we give data to the farmer through satellite data. We've made an investment in Agrovizio where we are having a satellite image of the field, understanding the moisture, understanding the health of the plant. And this is giving already good information to the farmer. The next step is to offer. And it's what we call variable rate. So based on this data to try to reduce the cost for the farmer and increase productivity.

Analyst 1: Do we have any source of improvement like value added from that side during maybe next several years? Because we have a traditional product which you have very strong presence. It's okay. And we have a database, the best database I assume, in agriculture. So any growth prospects on that side, could you picture us anything on that side?

Matthieu S.: So we are growing on guidance. For example, the system, which is the first step of precision farming year over year we had the growth. I don't have the number here, but there's a

subsequent growth. Especially because now, we are coming with our local solution. In the past, we imported some solution from some OEM. We have been developing our own solution at a more reasonable cost. So this is straightaway a benefit to the farmer. Why? Because they do not overlap in the field. So, there is no increase. So, we see a greater adoption on that side. Variable rate. It's also an area where we are working where there could be some upside. We are using several OEM to not only sell tractor but sell equipment with our tractors. So, we are working and that should make an improvement in terms of revenue. Kayhan Ertuğrul as well, now we are selling Kayhan Ertuğrul products through our portfolio. It was one of our OEM. Now it's becoming, if we get the approval from Competition Board, a full entity of TürkTraktör, and that brings us new competencies in order to grow in that area.

So that's why also you see that our investments are not going down because we are still investing in R&D. With 22 years of experience in that industry, we go up and down and during the down, you still have to invest in order to enjoy at most when the market restarts. So that's what we are keeping as our political strategy.

Analyst 1: My last question is about the euro-dollar parity historically as having a negative impact on your margins. When I look at for the last maybe ten years or more than that, how do you see the cost competitiveness of Turkish plant? We know that there is more pressure like theory or hypothesis, but what's the picture from your side, in the parity impact and the overall, the cost impact? How do you expect, maybe for even your domestic competition and your export? Thank you for all.

Matthieu S.: No problem. On domestic, I think, it's we can manage because we are competing mainly with the local players. On export, it's creating pressure, for sure. In the last two years, if you consider 2022 and 2024, the inflation was much greater than the devaluation of the Turkish lira versus the hard currency. So definitely Turkey has been losing competitiveness because of that. I don't know how long it will last. But yes, it's putting pressure on our export profitability for sure, and competitiveness versus all the plants that you may have outside Turkey. This is something, so we are working a lot on efficiency in order to try to compensate. But, if I'm not mistaken if you consider 2022 and 2024, it's probably 25-30% decrease in competitiveness, which is purely linked to this disparity between inflation and hard currency devaluation, which never happened in the past. I mean, at least I would say since 2004, it always catches up. And we have seen this delta.

Analyst 1: Exactly, this is the real testing, to be honest, for the exporters. Yeah. Good luck with that.

Matthieu S.: We will work on that. Thank you. We have a plan.

Analyst 2: Thank you for the detailed presentation. I actually have two questions. The first one is again about the competition in the domestic market mainly in 2025, considering again the appreciation of Turkish Lira. Are you expecting an increase in competition in the domestic market from importers? The first question is that.

And the second question is actually about the operating margins but focus on the fourth quarter rather than the full year. We see that the fourth quarter operating margin is quite low compared to the third quarter and especially compared to the prior year. So, may I ask the reason for that? And may I again ask your expectations about 2025 for operating margins? Well, you are expecting a decline in the sales volume. This means that the decline in the production volume and capacity utilization rate, which brings pressure on margins. But on the other hand, we are expecting a declining trend in inflation, which should have a positive impact on operating margins. So at the end, what is your expectation about the margins for 2025?

Matthieu S.: So, the let's answer the first question about importers. Yes, there may be a bit of pressure, I think. Turkey and Turkish farmers are attached also to buy Turkish-made products. If we look at the share of Turkish-made products in the whole mix, it's always been high. And it's linked to the fact that the product is serviceable and quite easily. And the strongest brand like ours have been setting added value with their network, which gives something more than the product and just the price. Of course there are imports that put pressure. There's a couple of brands I would say that can come. There's also the Chinese that could arrive. At the moment we don't see them really active in Turkey. But we've been also into those up and down with our brand. And usually we are able to maintain our market share. Especially when the market is slowing down, we're usually having some strengths and trying to gain some market share. So on that point, I'm rather positive. On the operating margin, the four months, I think it's different. Go ahead.

Özgür E.: On the margin side, actually, there are two impacts I was going to say. As you know, with IS29 there have been some changes in the reporting structures. And you put your stock carrying costs in the monetary gain for the duration of the inventory that you carry on. And last quarter was a very important period for us to clean most of our stocks. And you may see an improvement in stock levels. And we have done some reclassifications between cost and monetary gain. So you will see that impact on the last quarter.

Matthieu S.: So as I said, we are trying to rightsize our operation through the fluctuation of the volume. We do not have that big impact, honestly. So if we control our cost, if we are able to reach our target when it comes to cost containment and cost negotiation with the supplier, I'm expecting percentagewise to stay online. But it's not going to be an easy year to navigate. But we would be really fool to think it's going to be an easy year, but I think I'm confident we are taking the right action in order to secure the financial.

When we look 2023-2024, I'm not sure we are comparing the same situation. It's tough as a decrease. But we have to bear in mind that 2023 was an exceptional year where our supply chain was allowing to price, also in terms of let's say, dealers were booking ahead, there were no stock in the pipeline. So, a lot of the costs did not exist.

Özgür E.: There was also a transition effect from 2023 to 2024, which is in terms of net working capital, 2023 is an exceptional year that we sold many products, even with advanced payments, etc. So there is a year change impact as well from 2023 to 2024.

Matthieu S.: But we are strong and resilient and as we said, the financial health of the company is good. We are still investing for the future. So, we will try to optimize our market share to grow again in market share, even if the market is down. Diversifying the area of income, we've got construction equipment where we've got the opportunity of growth, agricultural equipment, and we'll have to see also how we can accelerate the integration of the new company once we get the clearance and the output from it. And there is spare part as well. That is an area where we sold a lot of machines in the past years, and they need to be maintained. So, the mix may change.

If you want to ask a question in Turkish, there's no issue.

Analyst 3: Hi. Thank you for the presentation. Can you give us some colour on how the sectoral cycle works in a historic way? Because how long do you expect this downward pressure in the global market or Turkey? Thank you.

Matthieu S.: Okay. Historically its cycle of five seven years globally. In Turkey, it's maybe a bit narrower. And there is some other impact. If I listen to other CEOs from companies and competition and also global players, people are more positive about 2026. They are expecting 2025 to be the settle and then restarting from 2026. It's early to predict. But for example, if we follow some of the statements that have been made outside, they are expecting 2025 to be the lower part and then the restart. So, I believe that if the economic indicators conditions in Turkey improve during 2025, we should also see a restart in 2026.

Analyst 4: Barış Ş. from Oyak Portföy. Thank you for the presentation. I want to ask a question about the domestic prices. When I look at your revenue and I divide it by the volume, I kind of get an idea about how your price per vehicle is trending. So when I look at the data, I see that in 2023, the price is almost doubled in fixed terms. And even though it came down a little bit, it is still in elevated prices. So, I want to ask, do you see any pricing pressure in the domestic market, and should we expect the prices to come down a little bit compared to 2024? And because when I look at the data from pre-COVID, the prices are almost doubled. So should we expect pressure in terms of the pricing? Thank you.

Matthieu S.: I don't think so. So there are two elements that you got in 2024. It is the mix also of the product that we have been selling. 2023 was mainly full Tier 3. And then we moved to Stage 5. So there is a price difference here. And we've been able to price the inflation during the year last year. That's still the strategy we have. And so far, it seems it's working. So, I'm expecting to be able to keep our prices on line with our cost trend as well, depending on the inflation.

Analyst 4: So, the main reason for the change is the product mix, that's the signal?

Matthieu S.: If you look at 2022, no, I think we all know what happened in 2021, Covid. There has been a lot of increase in all the prices. So, this part of it is based on the economy and what happened. There is a bit more that is coming between 2023 and 2024 from the product mix. In 2025 we will be fully Stage 5.

Analyst 4: Okay, thank you very much.

Matthieu S.: You're welcome.

Analyst 5: Hi, thank you for the opportunity to ask questions, I got two. Can you break down your 2025 Capex guidance between growth and maintenance? And I assume this Capex guidance doesn't include Kayhan Ertuğrul Makina acquisition, right?

Özgür E.: It includes, okay.

Analyst 5: Can you break down between growth and maintenance?

Özgür E.: We are not unfortunately, disclosing that in this state.

Analyst 5: Okay, I see. The second question is whether there is a significant decline in the day's trade payables days based on my calculations in the last quarter. What was the reason for the decline and how should we think about it going forward?

Özgür E.: Can you tell me what your exact calculation is?

Analyst 5: I don't have the numbers with me, but there was a significant decline in the days.

Özgür E.: Significant, is relatively different. We do not see a significant change, let's say. The changes are mostly coming from the receivables in our net working capital, and it is because of the sales term change that I explained previously. The market has a much more unfavorable appetite in terms of buying. So we were even selling vehicles with the advance payments, etc. So this is what makes the difference in terms of payable. We are much in line compared to the previous year.

Analyst 6: A question about the inflation accounting side. Could you comment on the statutory account side, which is the site? We don't know a lot, but at least can you mention whether you pay less tax or not? That's my question. Because when I look at your IFRS 29 numbers, your numbers should have been weaker than this number. I got it from the monetary position. And normally, if you didn't apply to IFRS 29, you should have possibly or like 1 or 2 million. I don't know the exact number, but you should have less profit before IFRS 29. That's the again IFRS 29 financials. But I wonder whether you paid less because of the inflation accounting. Because that's a question for some companies nobody really has the right answer. But for some companies it had a negative impact on inflation accounting on the statutory side and for some it was positive. What was the case with your side?

Özgür E.: For the two questions, let me start with first in terms of IFRS 29, our financials generate more profit in 2024. Our inventory and fixed asset valuation is higher than our equity deterioration. So in the net, we have a surplus in our monetary gain, in the IFRS report. So I want to reiterate, because I don't think you said this way.

Analyst 6: I look at from your footnotes, the details of the monetary position. It has two parts. One is the related to financial statement, the balance sheet, and the other part is related to the income statement. So, when I look at those related parts I tried for several companies it fits. That's why maybe I can check the number. But I can say that, from what I remember if you didn't apply for IFRS 29, you would have less profit. But if, you are sure.

Özgür E.: It's an increase, this is what I'm also saying. IFRS 29 increased our profit.

Analyst 6: Yes okay. That's fine. My question is about the statutory side.

Özgür E.: In terms of tax, there has not been a full IS29, but there has been some sort of inflation adjustment in the tax reporting. Our effective tax rate is much below the tax rate of the standard because we have investment incentives. So, we utilize them in full. So, we have a beneficiary of these incentives going on. And if you look at the footnotes related to tax, you will see the impact exactly.

Analyst 6: Thank you very much.

Matthieu S.: Okay, if there's no further question, I want to thank all of you for coming today for the result of 2024. And I hope to see you at the next meeting this year that we will organize regularly in order to discuss the results of the company. Thank you very much.

Özgür E.: Thank you. I'll be around if you have more questions so we can have a chat. Thank you for joining.

Matthieu S.: I enjoyed it better than the previous meeting. It's all about the money.