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Financial Results Conference Call

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Aykut Ö. (Translated from Turkish): Good morning, everybody. Let's start our meeting. First of all, welcome to you all. We haven't met for a long time. We were going to hold a meeting in February, but unfortunately, we had to cancel it during the earthquake our country was going through. So, today we are probably meeting for the first time since last year. I will try to go over the presentation quickly. We want to devote more time to Q&A session. Apart from the presentation, I will give you general information on three issues that are not in the presentation. I will give very general information about them. We published the presentation yesterday. Maybe some of you checked it but let me give you the latest situation over our main works very quickly in general. Let's move forward, Ahmet. First of all, we would like to talk about the Turkish domestic market and the factors affecting agriculture in Turkey. We look at five main factors in Turkey. These are rain, sector production, pricing, input costs and support programs. I won't go into detail about them one by one, but I would like to give you some information about which ones have been prioritized or if there has been any change, especially in the last 6 months, after our last meeting. Firstly, the precipitation. If we had held this meeting in February, maybe we would have shared with you that the precipitation is much lower than the seasonal normals. If I remember correctly, the figure at that time was around 38%. By March, it dropped to 25. April is also above the seasonal normals. The point I would like to underline here is that the rainy season started at the right time. In general, the comment we received from the farmers was "the seasons are shifting a little bit because of this climate change". But especially with the March and April rains, a really strong crop yield is expected. If you remember 2021, two years ago, there were severe droughts in certain regions. This time, it does not seem to particularly affect the region after the March and April rains. The other subject I will focus on is production information. We have not been able to update this part because TurkStat publishes a forecast every year. I guess they will publish its yield expectation for the 2023 next month. Therefore, the information here is actually the transition of 2021-22, which was also in the presentation I shared at the beginning of the year. There was a 9% increase in production last year. Moving on to the next slide, let me give you a very brief overview of input costs. The biggest challenge on agricultural sector was the input cost increase, which started at the end of 2021 and continued in 2022 where we saw the peaks. Especially in the last three or four months, there has been a downward shift from the peak. There is still an input cost above the PPI and CPI in the agricultural sector, but at least it is going towards normal or in other words, more calculable and predictable input cost for farmers and us. I didn't put any specific information about pricing in particular. As I conclude my remarks on the sector, I will give a very short information about it. Another important factor is government support. It was announced earlier this year. If we put the image Ahmet, approximately 54 billion TL support was announced. In addition to this, we especially saw in the last three years that the government increases investment supports apart from general supports. It was also 40 billion TL. If you look at the past years, this support started to increase, especially with COVID and the importance of the agricultural sector in the world is increasing and we observe that this support is increasing in all countries. Parallel to this, especially the agricultural sector in Turkey has started to diverge as it is a critical strategic sector, and the support of the state is increasing day by day. Especially as I said, investment incentives have started to increase in a much more serious way in recent years. Another support, as you know, is consumer finance. Ziraat Bank has been an important supporter of the agricultural equipment industry for many years. Again, if we show the last two images Ahmet, Ziraat Bank has been supporting sales of over around 50-60% for the last 3 years. This has increased even more recently. In the last quarter of 2022 and in 2023, over 70% of consumers are making purchases with Ziraat Bank loans. This, of course, is quite ambitious considering the interest rates and the economic indicators we are in. That's why the demand is increasing in this regard at Ziraat Bank. To summarize the indicators without going into detail, we have a summary table of how these affected dynamics have changed last year and this year and we are sharing it with you. Rainfall was very good last year. This year, we see it's a little lower than last year. But as I mentioned before, especially in March and April, at the right time, we anticipate that precipitation will not have a negative impact on consumption this year as the precipitation decreases. Input costs are still high. If we were to regroup in the domestic market in general, we would look at input costs in particular. Last year it was a much more difficult item to manage. This year, as I just mentioned, it has seen its peaks and started to become more normalized. Therefore, a predictable environment emerged for us and the farmers. As I've said, the production progresses with the seasons shift due to rains at the right time, but there is still a positive expectation in production. The prices of certain products have been announced in the product prices and there is a positive expectation there as well. It was announced two days ago that taxes on grain imports would be increased. These, in turn, will positively affect product prices in the domestic market. Supports continue. I mentioned Ziraat Bank. I will also give some information about emission at the end of the presentation. In the emissions transition last year, the Tier-4 transition was done before the Tier-3 transition. Later, additional rights were given, such as small series production but at that time we had difficulties in changing the entire production program, re-manufacturing products and ramping up, especially in the second and third quarters. At least this year, we have a more predictable emissions plan ahead of us. When we evaluate all of these, we expect the domestic sector market to follow a positive course this year as well. We expect it to follow a positive course in parallel with last year. As a result, there is already a high demand in the domestic market. There are other reasons. There are also economic reasons, but we see a high demand in the domestic market due to both good business and economic reasons. Let's talk a little bit about performance. Market share. We started this quarter with a market share of 47%. Last year, if you remember, it was around 42% at the end of the year, and we started very strong in the first quarter. Our general target here is to continue with a market share of 50%. We currently have approximately that level of market share. New Holland and Case brands are 1st and 4th. Especially here, there are very close shares among the 2nd, 3rd, 4th brands. Our goal is to compete at the highest levels with two brands. Let me talk about export. When we look at the whole world pharmaceutical market, a decrease from approximately 1.9 to 1.8 is expected next year, but when we look at these markets, we look mostly at the markets we export to. More than 80% of our exports are to North America and Europe. When we look at these markets, there is a parallel expectation in 2022-23 period. We observed this in the first three months, and even in the fourth month, in the European and American markets. Therefore, we foresee that the export market will be in parallel with 2022 this year. Again, when we look at the first three months of our exports, we started with a record number of exports. We had 5,000 exports. We commissioned the newly commissioned products in the last quarter of last year. It continues this year. As the production of those products and their numbers increase, our export numbers get affected positively. This year, we started the year with an export of 15% more than last year. Let me give a very short information about the production. Our first quarter production was over 13,000 units. 13,625 units to be specific. This production level was a record for this first quarter. Therefore, we were able to reach high numbers of exports rates and the domestic market. Here again, I will talk about one more issue that is not in the presentation. You may also have a supply chain question, but in summary, although the fragility of the supply chain has continued for the last 6-7 months, we see a more positive supply chain with each passing day. As a result, our production plans have increased in the last two quarters. Federico will also provide financial information on our non-tractor revenues business in his presentation. Apart from tractors, we are also trying to grow in construction machinery and harvester equipment. 18% of our total income consists of non-tractor income. This rate is slightly above 20% in profitability. Therefore, in addition to our main business, we are putting great effort into our plans and the market, especially in the field of construction machinery and equipment, which is more open to this growth. Finally, expectations. We see a more positive market structure, especially in the domestic market. That's why we raised our expectations in the domestic market a bit. We kept it at the same level in exports, according to the numbers we announced at the beginning of the year. As you know, we exported a record just over 17,000 units last year. Again, our plan for this year is to raise this record one notch and close it with a new record. That's all I have to say. I want to talk about a couple of issues that are not in my presentation. The first is the earthquake. Let me give you a very general information about the earthquake, how it affected our business, whether it did or not. If you look at 11 provinces where the earthquake occurred, agricultural geography is an important region in our business. Approximately 18 to 20% of our business takes place in this region. But when you look at the 5 provinces affected by the earthquake, this drops to 8 or 9%. Therefore, it is an important region for us. There has been a very rapid recovery in our business since the agricultural process hasn't stopped, especially in the period after the earthquake. Of course, you will appreciate that many of our trades, dealers and services were closed in the first two or three weeks of the earthquake. But very quickly towards the end of February, many of our dealers whose facilities were damaged started their business very quickly with the containers we sent, and so did our services. In particular, Ziraat Bank started to offer its activities again in almost everywhere in the region in March. Therefore, when we look at this region specifically, the earthquake had no effect on our business except for a very short period of time, like two or three weeks in February. There has been a very rapid recovery since March. Especially in terms of the sustainability of this region, the first two months we focused on the continuation of operations and rescue efforts. But especially in the last month and a half, we focused on sustaining our business and the farmer's agricultural business. Especially recently, we have provided free maintenance to farmers. We are still keeping a significant number of tractors and equipment in the region so that the farmers whose tractors are damaged can go to the field free of charge and continue their work. Therefore, when you look at the upcoming period as of today, I can say that the earthquake does not have an effect on our business. In general, there is already a very strong demand in Turkey. As I mentioned before, both because of the good agricultural work and because of economic reasons, as you all know. Therefore, the earthquake zone does not differ from the general in this sense. I said that I would talk about an emission-related issue, let me share this a little. Last year was a difficult time, we moved to Tier-4. Then, Tier-3 rights to produce again was given and of course, when we brought materials and started production, there was 3 or 4 months of difficult times. But as of September, last year, we started to produce at normal levels again. We are already constantly publishing our production numbers. We have increased our performance in a sustainable way by producing in the range of 4,000-5,000 since September last year. This year the emission was planned to move to Stage-5 as of July, but we already knew that from the ministry. Especially with the effect of the earthquake, it was published as a new draft regarding Stage-5 production and old-level tractor production in a way that will give life to the sector for a while. Therefore, due to that draft, we will be able to produce both the newly commissioned products until the end of this year, and we will also be able to produce Tier-3 series and Tier-4 series tractors which we call small series as well. Of course, it will provide us with production flexibility, especially until the end of the year. In this respect, I can say it as a positive comment. We talked about the possibility of a question about the split of shares. As far as I know, Ahmet will make a statement on that. He is planning it. Let me give you some very brief information about the supply chain. For two and a half years, we have had serious problems with the chip issue from time to time, especially with the effect of the Russia-Ukraine crisis, which started with COVID. In fact, I still cannot say that the supply chain fragility has completely disappeared. Fragility continues, but when we look at it compared to a year ago or to 6 months ago, the risks seem much less than before. Nevertheless, we continue to take actions to eliminate the negative effects of possible supply chain vulnerabilities on our business by creating alternative supply sources with very close monitoring. That's all for me. Now Federico will share the financials, then we will move on to the general Q&A.

Federico P. : Thank you Aykut, good morning, everyone. First of all, I would like to join Aykut and express my solidarity with the families hit by the events of the year. Moving to the financials. We had a strong first quarter, we improved both profitability and cash flow compared to the previous quarters of 2022. Tractor volumes, registry records, production, domestic and export sales. This was our strongest first quarter ever from a volume perspective. And the financial situation of the company reflects this positive momentum. Our revenue grew in real terms compared to last year in all our core businesses. We priced and increased our margin on domestic tractors. We grew our export sales and performed very well on our spare parts, equipment and construction equipment businesses. Our EBITDA margins improved quarter over quarter since the beginning of last year, supporting an outstanding cash generation and helping us to improve our net financial this quarter. As Aykut was saying we experienced a more normalized supply chain environment in this first quarter, which enabled us to recover some of the market shares so that we lost in the second out of last year due to shortage of some key components. In any event, tractor finished goods inventories both at the dealers and in our premises continue to be very low as we made our best efforts to optimize our performances. Entering more into the details, tractor total revenue was 9.5 billion TL, a 139% year over year growth with all our core businesses contributing at different levels. The non-tractor revenue represented 18% of our total revenue, approximately the same level as last year. The domestic revenue was 6.9 billion TL up 182% year over year with domestic tractor volumes increasing by 36% due to a higher industry. While our shares did not perform at the same level as last year, even though, as we have noted that last year's first quarter was particularly stronger with market share achievement with more than 55%. We continued our disciplined approach on pricing and in the market dominated by the demand, we priced our product, increasing our profitability. Our export revenues were 137 million euros, a 32% increase compared to last year, driven by volume. This marked our first quarter all time at export volume record. As we've anticipated in earlier meetings, we launched a new generation utility model. We completed the initial ramp up phase last year, and we are now feeding dealerships in Europe with this product, and thanks to its improved functionalities is expected to increase our penetration in the export market. Later this year, we will start commercializing this model also to North America. Moving to the gross profit, in a slightly less portable and inflationary scenario compared to last year when we started seeing some input costs stabilized, our pricing realization enabled us to increase our margin, which are now 520 basis points higher than they were a year ago. EBITDA was 1.8 billion TL at 19.1% of sales with a nice trajectory over the quarters, as we will see in a moment. The net profit was 1.4 billion TL, almost three times higher than last year. While we are again, gaining money in the financial interest expenses due to a nice spread between interest yield on our TL deposits and the cost of funding, this year we are enjoying less effects gain. So, between the higher non-operating expenses and the tax provision, we're losing a couple of percentage points moving from EBITDA to net profit margins comprised to last year. Looking at the free cash flow, we generated 2.4 billion TL, significantly improving at the cash conversion ratio compared to last year. Along with the strong profit generation, we are enjoying a negative working capital as we are increasing production and our trade payables are financing the rest of the working capital. Finally, our liquidity is 4.6 billion TL and the net financial position is at 1.3 billion TL on the cash side. On the next page, we can see the P&L, I will not make comments because I covered all the points in the previous slide. Moving to the quarterly evolution of our profit margins, we can appreciate improvements over the previous quarters across the board. This improvement on the gross profit is reflected in EBITDA and PBT margins quarter after quarter, thanks to the efforts to close the gap by aligning price into the material economic increases last year. And so, we enter 2023 strong thanks to these efforts. The net profit margin was very strong in Q4 at 18.8% thanks to a negative tax provision related to the revaluation of fixed assets, which enabled us to recognize a deferred tax asset of about 400 million TL. So, the 14.7% net profit that we see now in the first quarter is a more normalized percentage, which includes the earthquake tax. Moving to the next page, our cash flow. We generated about 2.4 billion of free cash flow tanks to strong earnings, a reduction in the working capital and moderate capital expenditures. We generated some cash from the financial income expenses. We repaid the equivalent of about 1.9 billion TL of loans that were during the quarter, and we erased about 1.3 billion TL of new loans reducing the average cost of capital compared to last year. Finally, we paid 2.1 billion TL of dividends using in total 200 million TL of cash and reducing our cash-on-end from the 4.8 billion we had in December last year to 4.6 billion. On the bottom right chart, we are showing our low maturity profile, which doesn't deserve any particular comment. Moving to the cash flow, if we can stay on this slide still, as I mentioned previously, we currently have a negative working capital. So, as we increase production, our working capital is financed by the trade payables. This is a nice to have at the moment, but obviously, it is a temporary situation; when we stabilize the production, we should expect to see something more around 10 days, which was our historical average over the past couple of years. Moving to the next page, we showed the evolution of our net financial position with the improvement that I already mentioned. Finally, on the next page, I would like to remind our historical performances on dividend distribution. As we have seen, we distributed 2.1 billion earlier this year in March. So, this was the last slide of my presentation before turning back to Aykut for the final marks and Q&A. I wanted to provide some details on the stock split that Aykut and we already anticipated that we have announced at the end of February.

Ahmet D. (Translated from Turkish): We completed all our work. We are only waiting for some signatures, and we will apply to the CMB in a week or two regarding this. It normally takes 1 to 2 months for the CMB to approve. But as you can see from TÜPRAŞ lately, they can approve it a little faster. Therefore, our aim is to make our application within a week when we receive the signature, and after receiving our approval within a month, divide the shares and start trading again at the new price. Thank you very much. We can get the questions now.

Kamer K. (Translated from Turkish): Hello Ahmet, I am Kamer. Firstly, thank you for the meeting. I had a few questions for Mr. Aykut or you. First of all, congratulations for these results. Remarkably successful results. In addition, do the shared quantities include an interest rate increase or other different variations? Or does it just include the current conjuncture? I would like to ask that. Because the customs seem quite strong despite all kinds of negativity. I would like an answer on this. And secondly, was there a possible stock return in the first quarter financials? If there is stock profitability, how much of an effect did we see? What kind of normalization can we expect in this regard in the coming quarters? Thank you.

Aykut Ö. (Translated from Turkish): Thanks. I can answer if you want. I will ask Mr. Ahmet for support if I can't answer your question. We try to predict and give all possible developments as much as possible when we make predictions about the rest of the year. Let me comment like that. There is uncertainty especially in the second, third and fourth quarters of the year. We are considering it too. There is also today's demand. We have a strong order line. We and our dealers have an extremely low stock level. Therefore, when we evaluate all these, the size of the estimated market for the end of the year, the domestic market, tractor sales, especially the reason why we gave intervals is to stay within these possibilities. We will most likely narrow these ranges and improve if necessary as we finalize the first six months results in July. But you are following us too. I guess we have always been in the range for the last 2-3 years. Let me comment like that. We tried never to deviate from it. Therefore, we try to anticipate all possible risks. There may be an increase in interest rates, there may be volatility in exchange rates. We planned that we would make decisions and manage in a fast and agile manner, as we did in the past. But especially the general dynamics of the agricultural sector, the subsidization of agriculture even if the interest given to the tractor increases, these are all relatively positive in our sector. This is the very general answer to your first question. The second issue is the inventory cost if I understand correctly. Let me say it like this. In fact, I can roughly say that there has been no such effect in the last three quarters. While the stock cost was mostly the emission transition in the first and second quarter of last year, when old-level products were produced afterwards, we also kept them with the materials left over from the older months. So, there was such an inventory cost effect. Especially in the third and fourth quarters of last year, and the first quarter of this year, we were able to improve our production pace immensely. As of September last year, we exceeded the 4,200 production tempo. If you look at the number of working days, we can sustainably produce at a pace of 180-185 per day. This, of course, helped us to turn the business around with a much more plannable material stock 3-4 years ago, before COVID. Therefore, I can say that there is no inventory cost effect specific to this quarter. On the other hand, this leaves us more open to possible interest rate and exchange rate increases. It also causes us to be affected more quickly, but as I have said before, we plan to follow the developments related to this very closely, take actions beforehand, and manage this in the best way, whether it is pricing, cost production or efficiency in the factories.

Kamer K. (Translated from Turkish): Thank you very much, Mr. Aykut. And I have one last question. The last time we met was the third quarter meeting last year. We talked about a new model there. In fact, you have already said that you will give export figures. We see it in the expectations here as well. I would also like to know if there is any negative situation related to that project or if it is going completely within expectations. Thanks a lot.

Aykut Ö. (Translated from Turkish): There are two main new products with different other products in it. We have a product range called Utility. Let me speak this in automotive language, entry level and intermediate level in technical aspect. Don't look at it as hardware level. Think as if the gearbox is different. We also have a global garden tractor project. These continue in parallel with the timetable, without any interruptions. At the end of last year, we had already commissioned the Utility series with the gearbox we call 55, the second one will be launched this year. At the beginning of next year, a more complex gearbox will be put into operation. The project we call Global Orchard will also be enabled for the domestic market this year. It will be enabled for export markets in the first 6 months of next year. Therefore, you will appreciate that after these are enabled, there will be a certain ramp-up process. But in the end, that's how we plan it. Especially export projects are progressing in parallel with our plans. There are no disruptions. While our main export markets have remained the same size, part of the reason we are seeing a more positive result is that we are slowly starting to see the impact of these new products.

Kamer K. (Translated from Turkish): Thank you, Mr. Aykut, good luck.

Aykut Ö. (Translated from Turkish): Thank you.

Ahmet D. (Translated from Turkish): Mr. Mehmet, go on.

Mehmet G. (Translated from Turkish): Good morning. I also want to congratulate TürkTraktör. You really set a good example for sustainable profit and corporate governance. You set a serious example by holding multi-disciplinary investor meetings with continuous dividends. I think this should be appreciated as well. Borsa İstanbul is a very good example. My question is this. I especially care about the development of non-tractor products. I've seen non-tractor products reach 18% and I'm wondering about this. Does the non-tractor profit margin dilute or enhance the total? Can you tell us a little about the development? How is the non-tractor market doing? In terms of profitability, volume, and your market share there. Maybe it would be useful to strengthen the presentation a little more in this respect. I think it would be valuable if you analyzed a slide or two on the non-tractor market. Thank you.

Aykut Ö. (Translated from Turkish): Thanks. There is one more question, should we take it as well or answer this one and then move on, Ahmet?

Ahmet D. (Translated from Turkish): Of course. Ms. Ece, please ask your question.

Ece M. (Translated from Turkish): Hello, thanks for the presentation and congratulations as well. You have pretty strong results. I have a few questions too. I can ask them again later. Your investment expectations are unchanged for the year 2023. When I look at the investment expenditure in the first quarter, it continues at a lower amount than the guidance. Would it be possible to have a lower CAPEX all year? The CAPEX you shared there corresponds to over 3%. Is it useful to have similar foresight in the coming years? I'm going to ask you to take a look at this in that way. Also, there are credit term finance income expenses under the other income and expenses. They are actually in balance. There has not been a big change in the sales rate in the last 2 years, but there are serious changes in your working capital. How should we foresee it in the next process? Also, inventory levels will likely continue to lower for a while, supporting working capital. When should a normalization be foreseen? Should we think about it as around 2024? I was wondering about these in general. Thank you.

Aykut Ö. (Translated from Turkish): Thank you, Ms. Ece and Mr. Mehmet. Let me first start with Mr. Mehmet's question. I will answer some of Ms. Ece's questions, but I may ask for help from expert financier friends about some of the questions. We have 2 main growth areas in non-tractor revenues where we are newly starting, or the market is big. One of them is equipment. Especially small equipment because we have been selling large equipment and combine harvesters for many years already. But we have been focusing on them for the last 2 to 3 years and we see great potential, especially in the small equipment business. The other one is business machines. We entered the construction equipment sector in 2014, but especially with our production of this Backhoe loader starting in 2020, we are trying to strengthen our structure both in the dealer organization and our position. Here, there are market dynamics similar to the tractor market in terms of dynamics. There is also a very large construction equipment market in Turkey. We see a great opportunity here too. I took your note on giving a little more information, Mr. Mehmet, let's evaluate that with our colleagues. Here we have the following difficulties. Information availability is problematic. There is not just one market size for equipment. We analyze it from research companies and ask for it. It was not published on business machines for a while. A very general market information is published. Segment information is not published. But let's make a note of this so that we can share more information clearly. Again, we do not disclose very specifically whether it dilutes or positively affects profitability. But I can say this. In a very general sense, I can say that it constitutes 18% of the turnover, but above 20% in profitability. After all, the issue that we pay the most attention to while growing in other areas, to the answer to your question, is to grow, if possible, without diluting or even improving our profitability. We have a 18% in turnover profitability but over 20 in gross margin in these other areas. I tried to give a very general answer and will give the floor to Federico and Ahmet in a little while. They add their remarks on this subject. Let me answer Ms. Ece's question as follows. Now, the first issue regarding investment is that you are right, the first quarter is low. We did not change the investment expenditures. Let me give a general answer. We currently have significant ongoing investments. Some of them is our emissions investment and our engine investment. We have a domestic production engine investment in the Stage-5 transition. This will come into effect in the first quarter of next year. This is the new Stage-5 engine. We have serious machines and investment in this regard. We started the cabin investment last year especially as assembly. We have long-term 1, 2 or 3-year additional investment projects regarding that. To summarize, Ms. Ece, we may be in trouble for a period of time, especially due to the arrival and time shift of these machines. But let me answer your question like this. From today until the end of 2024, and even until the beginning of 2025, we will have significant force in these two investments. Maybe we may not achieve within spending limit this year and will be a little below it, but we have to look at it as if it will shift to the next year. That's why we didn't want to change your investment spending while sharing this with you today. Because we have important investment items that are in the system, ordered or about to be ordered. We can even go up. If we stay below, we can see a larger amount of investment spending next year. This is my general comment. For your second question, I'll ask for some more support from Federico, so I'm passing that one. Third, Federico can also make a general comment about inventory, but we are also more efficient with inventory than we should be, of course, due to the high demand at the moment and the relative improvement of supply chain fragility. But while it is difficult to comment on 2024 from today, especially in this process, I made a very general comment by looking at the next four quarters. Because I am more or less talking about emission transitions and calendars. We don't expect it to be a major change. But of course, especially if there are changes in Turkey, we act very quickly accordingly. Federico also mentioned it. So, working capital is negative. “This is a momentary situation, but our aim is again a low working capital,” he said. Although managing the upcoming process is not negative, we are concentrating on the commercial side. We are trying to manage this business very well from the commercial side, such as dealer payments, especially sub-industry payments, and more advanced sales through marketing campaigns from dealers and customers. In addition, we plan to focus on both channels and manage this process with lower working capital by ensuring efficiency with more accurate planning, especially for the sub-industry.

Ahmet, Federico, I think you got the translation also for second question.

Federico P. : Yes. First of all, I would like to add a little bit of color on the non-tractor profitability. So as Aykut said, non-tractor profitability is generally a creative to the overall gross profit of the company. It depends. One of the elements to consider is that any way in the non- tractor, we are classifying the spare parts. So, you can argue whether we have the spare parts for all the products that we sell. And out of the 18%, a little bit less than 8% is represented in spare parts. And as it is normal in our industry, in the automatic industry, obviously spare part profitability is rather strong. The rest depends a little bit on the specific instances. And this links also with your question on inventory. Last year we had a pretty high inventory of combines, which we depleted throughout the second half of the year, and also in this first quarter. So, we have acquired combines from CNH in Euro. At the moment where the currency was stronger. And therefore, in the first quarter we enjoyed higher than usual profitability on combines. At times, the same happens with the construction equipment. So, it depends but generally, non-tractor profitability is a creative to the overall company profitability. Moving to the expectation for the normalization of the working capital, I think that with the guidance we have provided, you can make your own calculations. And it all depends on what will happen in the economic and political scenario. So, at the moment we think that in the second half, the production will stabilize. We'll be at slightly lower levels from today. And therefore, from a mathematical perspective, we expect the normalization of the working capital to happen sometimes in the second half of the year. In terms of inventory specifically, we have already made an improvement. I mentioned combines reduction. There was a reduction also on the raw materials. In general, in order to try to offset supply chain issues what we are doing is to keep the MRT at a little bit higher level. So, our raw material inventory is a little bit higher than it should be. Obviously, we are carefully monitoring this situation. And as the supply chain conditions continue to improve, we might revise this policy. So, this is my call on inventory. The translation was a little bit bad, so I'm not sure if I covered all the aspects of your questions.

Ece M. (Translated from Turkish): There was one more question on credit finance expenses and income under other income expense item.

Ahmet D. (Translated from Turkish): Ms. Ece, you are in the wrong channel.

Ece M. (Translated from Turkish): Sorry, let's do it like this. Financial income and expenses are under the other income and expense item. How should we make predictions about them in the future, considering the change in working capital?

Federico P. : So, at the moment as you've seen, sitting on a lot of liquidity, even after paying the dividends. As we have seen from our loan maturity profile, we have enough liquidity to face all our commitments. And with the volumes and the guidance that we have issued, you can imagine that we are planning to continue to generate cash. We were able, as I mentioned in my presentation, to renew a portion of our loans that expired in the first quarter with new loans. And anyway, in a difficult capital market, we were able in the first quarter to take some loans with very good pricing. So, we were able to slightly reduce the cost of funding and therefore the expectation is to continue to be in a positive situation from both the financing and from an interest expense perspective.

Ahmet D. (Translated from Turkish): Ms. Esra has a question, I think.

Ece M. (Translated from Turkish): Hello, first of all, I would like to congratulate you for very strong and successful results. As a person following TürkTraktör for a very long time, I would also like to thank the manager of investor relations Mr. Ahmet for his always helpful approach. My question is again, about the demand obviously. There is a very strong domestic demand in the tractor market. Frankly, as an analyst, I am worried like many of my colleagues about whether there will be a situation similar to the second half of 2018 both for the tractor market and for the automotive market. I have two questions regarding this concern. First, how many months can you foresee for continued strong demand? Maybe as a backlog? Or can you see your pre-orders two months or three months ahead and how much is that value? I want to ask that question. Secondly, do you think that the reason for this strong demand, which you can foresee until the first 6 months, is the demand that has been pushed forward due to a lagging demand, problems in supply, uncertainty, increase in exchange rates, price increase and uncertainty of the second half, and how much do you think it weighs? Is it high compared to others? I realize it's impossible to give numbers, but I'd be glad if I could at least get an answer as to whether this outweighs or weighs less. And my third question is, if demand suddenly stops again in the second half, how is TürkTraktör different now from the 2018 period? Are you better prepared? Because after the currency crisis in 2018, we saw a serious decline in margins in 2019. When you compare those times and today, in such a bad scenario, is TürkTraktör in a different position compared to that period, or can you respond differently? And why? I would be very happy if I could get answers to these questions.

Aykut Ö. (Translated from Turkish): Thank you, Ms. Esra. I am laughing because those are difficult questions. I don't know if we can give numbers, but I'll try to answer. Let me start with the last question. Let me start with the question of how much TürkTraktör is ready. I came here at the beginning of 2019. Therefore, I know very well the situation when I arrived at the beginning of 2019. It was a year where the contraction rate of the market that day, the stock numbers at dealers and the stock numbers at TürkTraktör were low as we finished the production days. It was in 2018. It was really a difficult process. Since then, if I just evaluate it from TürkTraktör's perspective, leaving aside the demands, I am not sure if I can give a final number. But the current situation TürkTraktör is better today compared to that day. Once again, our exports are getting stronger day by day. I think exports are the most important factor balancing manufacturers like us. If I remember correctly, to give an example, in 2019 we produced approximately around 14,000 exports. We manufactured around 7,000-8,000 for the domestic market. Because we had a lot of stock left over from the previous year. Therefore, one of the first issues that came to my mind compared to that day was the increase in exports and their flow in a smoother pipeline. This is good for us, and secondly, both the dealer organization and TürkTraktör have zero stock levels at the moment. Of course, it is not zero, but not according to the volume of the work we do. That's why I said zero because I have worked in the automotive sector for many years. In other words, at the moment, we have a salable product in the dealers, because sometimes we have 100, 200 or 300 tractors for missing parts. In the domestic market, they are sold as they are completed, but aside from that, we have a lean level. You already see this in our business results. You see the impact of these in inventory or receivables from dealers. Therefore, compared to 2018, I can say that TürkTraktör is much more prepared for a possible rapid or slow deceleration in 2023 than in 2018, compared to the conditions and values we are in. These estimations are for TürkTraktör, of course I don't know about other companies, but we have a structure that will allow us to be more flexible in case of possible slowing down. I started with your last question because it was actually about all of them. Demand started with COVID. We have been going with a high order volume for a long time. It slowed down from time to time. It started to decrease especially in the first quarter of last year. At that time, it had dropped to a demand level of roughly one and a half months or two-month demand level for our sales. Then it started to increase very rapidly, especially from the second quarter. Of course, regarding demand, we do not fix the price of five or six months from now and turn the demand into firm demand. But again, we as a company, are also involved in the short term commercially and this usually takes up to two months, so we make sure that this demand is a real demand by explaining the price and selling in the last period, especially for one or two years. So, what do I mean by that? While we are selling a product in May, we sell it at the price it will be on June, in order to turn some of the customers who are waiting for an order into a real down payment customer. This was my general comment. Because the demand is on paper, we all know, we have experienced this. There may be a lot of demand today, but tomorrow the economic conditions may change very quickly, and the demand may decrease very quickly. With his awareness, we try to manage our business this way. Let me answer your question about the request. It is very difficult to give a rate, as you said, because of how much of it being a pull forward and how much of it being a protection from inflation. But I can say this. When inflation was not that much, or when you look at the first period of 2022 or 2021, I would say that there was high demand there as well. There is a demand for it today. I am saying proportionally because I don't want to say a lot, but when I look at the order list in 2021 with the pending order list we have today, roughly 60% of the demand was always there. Let me make a very general comment that the demand for the product will not exceed 30-40% due to inflation. I don't know if I could address your question exactly. It's very difficult to give a rate here. I'm only telling you because I know the order bank in 2021. But in any case, today's order bank is very high. Even 60% is too high. I can tell you so. Let me strengthen the answer I gave to your last question. In response to your first question, I can say that TürkTraktör is positively differentiated both as a sector and as a brand. Therefore, I can say that we are relatively more advantageous in case of a possible negative impact. In terms of demand too, because we follow the market and the competition. There is a great demand for our brand. There is a very strong demand for some brands, but it does not mean that there is an excessively high demand for every brand. Today, you can go and find products from some brands in the market without waiting in a line for too long.

However, I can say that the TürkTraktör brand is also very strong, and the customer even waits a little longer to get the product from us. I would like to emphasize this. With being a leading brand, growing in recent years and the satisfaction of the consumer, we estimate that the demand for many uses, both second-hand and our demand, differs positively from the sector as well. There is no data for other companies in Turkey. I don't know if I could answer that question, Ms. Esra, it's a difficult question. It is also difficult to give very precise numbers. I tried to give some information as much as I could by just thinking about the problem within myself, comparing it with the demand two years ago.

Ece M. (Translated from Turkish): Thank you very much Mr. Aykut, it was very helpful.

Ahmet D. (Translated from Turkish): Mr. Cemal, go on.

Cemal D. (Translated from Turkish): Thank you too for the presentation and for the powerful results. Actually, my question is about direction. If we look at the fourth quarter and the first quarter, the inflation in foreign currency goes in favor of inflation. In fact, your costs are greatly affected by the Euro. This is what I've generally looked at over the years. If the Euro is low and there is a strong demand for TL, TürkTraktör makes a profit. You have a high profit margin this quarter as well. I actually have questions about how sustainable this margin is. And we see it at 23.3% of the period, the Euro is stable, and you can make natural pricing. It is important because if the costs increase, we cannot see it in many exporting companies. Inflation started to affect our real producers. Does this come to you late or do you have an approach thinking you are immune and continue? To sum it up, when we look at the domestic market and export balance, I assume that your foreign margins are lower. How will the exchange rate go like this, in other words will any devaluation affect you in the upcoming period? If not, I would like to ask whether this is sustainable. And I always wonder this. We are the third largest tractor market in the world. I still haven't been able to figure out the reason for this, but from time to time it seems like a financial instrument to me, and indeed we have Ziraat Bank loans. How did we become the third largest in the world? Let me ask you this as an anecdote, I can't find an answer about this in general, but I'm curious about your opinions. Thank you Aykut.

Aykut Ö. (Translated from Turkish): Thank you, Mr. Cemal. Now, let me answer your first question, maybe Federico would like to give support on this question. As you said, the fact that the currency was low is one factor. We also have an important foreign exchange inflow. Our local rate is very high, but 90% of the foreign exchange input is already from raw materials, even in local. There is also an indirect foreign exchange inflow due to the raw material we buy from the imported industry. Therefore, the suppression of foreign currency positively affects the costs of foreign exchange income. As you said, maybe we see the effect of this on the margins from time to time. There was an average salary, and there was a period when we had more positive times. There was a period when we had a reduction. So, your comment is correct. I talked about commercial actions a little while ago, especially as soon as there is a devaluation in the next period. Maybe I didn't go into too much detail, but in order to eliminate such risks as much as possible we keep the cash flow strong with the actions, we take on the commercial wing, and again in terms of cost as I mentioned generally, by predicting possible risks and pricing accordingly, especially in the next 2 months because as you have said, we are a company that can make pricing. Our product is really the market leader, and you might expect a cheaper product from a company that normally has had a very high market share in the last 20 years, not only the last three years. Here, too, we diverge, and this has been the case for 20 to 30 years. Therefore, having this advantage means that we can easily manage possible foreign exchange movements. Of course, when I say comfortable, there are monthly and quarterly shifts. I also looked at last year's presentations. If you include this year in the last 8 or 9 quarters, we have fallen below 18 from time to time and we have been sold out. There were times when we had supply chain problems. It also had an effect, but ultimately it arrives where it should be, albeit belatedly. Therefore, with TürkTraktör's pricing capability, I think we manage costs pretty well in every aspect, both financially and in terms of inventory management. We have the ability to manage a possible devaluation by making pricing more comfortable, fixing prices, and making maybe 1 or 2 months of sales a firm sale much more easily. We made the pre-sale for much longer periods between the last 6 months of 2021 and the beginning of 2022, not in 2-month periods. It also kept us very alive in total, even though margins fluctuated up and down from time to time on a monthly or quarterly basis. Tough question, but I don't want to say anything concrete. Trust us, we do well. This isn't a good answer either, but it's a valid point. We need to act in case of devaluation without waiting too fast. Today we set the price for May and even the June price. We are thinking of what the possible price would be. We plan what happens in scenario A and in scenario B. Let me give an example, We set the June prices between A and B already so that I won't cause trouble for us. Let me give an answer to the first question. It may be a financial instrument, but relatively little. Because there is a farming business. Not everyone can buy a tractor. You must have a land and you must have a farmer's license. Everyone can do it as an investment tool in automotive, but on tractors, the cluster gets smaller. Not everyone falls into this cluster where people have an interest in agriculture and business. It can be a field as an investment tool. It's impossible to say no. But there are also limiting factors. In other words, Ziraat Bank does not give endless loans to people. They give up to 1 billion TL. We do not share the details here much, but if you sell it within 2 years, you will have received 500 million of the 1 billion TL loan, but you can't get the other 500 million. There are restraining measures there as well. Ziraat Bank also wants to give that low-interest loan to people who really need it. It's healthy to have a high percentage in one place. It restricts its use as a financing tool. In other words, 75% of our sales and 25% of Ziraat Bank's loans are mostly as a risky financing tool. In 75% situation, if the buyer sells this vehicle, there is no point in closing the loan anyway. They can't get a loan again for 2 years. And the limit is 1 billion. In other words, they cannot make a trade of 2 billion TL from Ziraat Bank's loans. So, I can't say that it can't be done. It would be wrong to say that nobody thinks about it as a financial instrument. But it has very restrictive reasons compared to other sectors. One, cluster is very narrow. Second, Ziraat Bank doesn't allow you to buy and sell as much as you want. They don't guarantee that they will give you the same loan again. They have taken serious measures especially in the last year. Let me make a general comment about the tractor market. There is a big park in Turkey, but you can see that there are tractors 45 years old, 38 years and 55 years old, and they are used as a car. Very simple stuff by the way. They are used for transportation, used like a car in the village. But if you look at them as being used for productive agriculture, very little of them is actually used for agriculture. Because these are not tractors that will do major work, except for the machine and equipment that you will attach like towing a trailer. Therefore, it is necessary to take a look at the park. I think the park of the last 10 years has been a bigger park. You have to look like that. So, we are third or fourth. There are countries that are very close. Brazil, us, Pakistan, which is around the 40 to 50 thousand band. They are agriculture focused countries. This was my interpretation of the reason why we are high, mostly by putting the economic situation of this year aside. The engine power of tractors is increasing. You can use larger equipment accordingly. The desire to do more efficient farming is increasing. And you can only do this with new tractors. Let me give an example, you can reduce the time you plow a field in 3 hours with an old tractor to 1 hour with a larger tractor. That's why I think, especially looking at the market of the last 10 years, I can say that there is a demand for renewal and real agriculture in the market, except for the crises. But as I said, in Turkey, second-hand is important in every trade. If there is no income level, a farmer can use a tractor that he would normally use for 8 years for 4 years and then sell it second hand and buy a new one. This can also have a positive effect. This is the general dynamics of Turkey. Consider these comments I have made independent from the inflationary environment of the last year in general about change earlier. In general, these are the measures for Turkey as well. It is the same in the automobiles. Sometimes you see older model automobiles in Europe. Turkey is a newer market. For some reason, people change their automobile every 3 to 5 years. You have used a car for 8 years. There is something similar regarding the tractors. Maybe due to Turkey's own agenda. I talked a lot, but I don't know if I could answer your questions.

Cemal D. (Translated from Turkish): You summed it up well. I can perhaps add very briefly to this. Of course, you are an institution that knows the waters very well. Do you see such a trend in the dealer network? Do you say, "Let's buy when ready interest rates are low, let's enter with stock". Stock levels are at the level you showed of course. Because you actually have to think about September and October right now. Your sales channel is very important. We also know that your communication with farmers is based on years. Do you observe a stockpile in the dealers? And at this price, does the product directly attract final demand? Also, have your margins on the export side decreased a little bit? I don't know how specifically you check this. Why am I asking this? The domestic market protects you, because we also look at a general macro picture on the export side. If the exports did not exist in the domestic market and if you only exported, would you also have this cost snap together with the import competition? Thank you.

Aykut Ö. (Translated from Turkish): Let me answer your first question. We have very good relations with the dealers. To make a joke, our dealers can't catch their breaths, but don't get me wrong. We have really good communication with our dealers. We are a very strong brand. The most important reason for this is that we already have a strong dealer organization. We have been managing the demand very closely for the last 2 years, especially in the last period when our stocks have decreased very quickly. Let me give you a real example. At the close of last year, Case brand had zero stock. None. There was no tractor that we could bill. But we made a special effort for them. If we didn't try to be second in the industry, there would be 8 or maybe 18 tractors, can I explain what I mean? Our dealers are very aware of this right now. Our commercial decisions and campaigns also direct the dealer. Code name the "best product" is the product sold at the right price at the right time. Our dealers are also following this mindset. Currently, if our monthly sales are in the range of 2,500 to 3,000, we return with a stock of 2% or 3%. This is not true by the way. It is difficult to do such a trade in such a stock in the ordinary course of life. Because we are selling a very complex product. The product variety is so great that it is an advantage to take it to the right regions at the right time, and given the high demand for it, you need to meet those customers. But I can say that we can do this very easily because our organization is very strong. Therefore, when the old inflation was high in the 90's and when we lived in rising inflation for many years, there would be a 5 percent increase every month. In fact, if you sell what you bought this month, you would have earned money. Its code name was Inflation. In the 90's, at least. We don't have this in our organization because we are already at zero stock. All of our promotion campaigns are geared towards this. So, this is the answer to your first question. In the second question, let me generalize as follows and see if Federico wants to add his comments in exports. We also update prices in exports every six months at certain periods. With our cost structure and partner. Therefore, the exchange rate decreases and increases from time to time. It was in the first question. We went through with a lot of stock inventory and the rate was high. Exports have so many effects like this. But in the end, even if there is some fluctuation in these 6 months, check this, look ahead every 6 months and revise our cost structure and prices with the latest data we have. This was a very general information in answer to your second question.

Federico would you like to add anything about this?

Federico P. : Yes, I think it is a very nice link to the previous question about the sustainability of our profit margins. Obviously this is not a solution, but as you all understand in this moment, Euro is relatively stable. And we had a pretty high inflation. Our export profitability is a little bit lower than the average. In the situation where Euro exchange rate should move significantly, what happens is that, because of the inventory the cost increases less than the revenue. So, in the scenario of exchange rate devaluation we should expect, the export profitability to increase.

Cemal D. (Translated from Turkish): Thank you. I also asked about imports. There was pressure for a while, but can imported products come to Turkey much in this environment? You are the market leader, is there anything you can share about this? Products sometimes came from India. Do you feel the import pressure this period? Maybe the pricing doesn't show it, but is there at least import pressure?

Aykut Ö. (Translated from Turkish): As you know, there are competitors in imports. Massey and John Deere in Turkey. Some products we locally produce, some we import. But we do not see a new trend such as a new Chinese channel or an Indian channel other than the products you know. There is no such thing. We have already started Tier-3 and Tier-4 in our emission level. Now we are moving on to Stage-5. It will get harder every day. In that respect, I can say that Turkey is more domestic to that type of products in our sector. There are, of course, Indian brands by the way. I'm not saying no, but it's more domestic. Also, the Turkish tractor market is a more established market. Consumer expectations are also high. Not just for our brand. We have been talking about such a trend for the last five years, but we have not seen it. From now on, our emission level will reach Europe's level within the next year. The European level is what we call Stage-5. We decreased our emissions even more. We do not see such a risk, but our emissions will decrease even more.

Cemal D. (Translated from Turkish): Thank you very much. Thank you for your sincere and comprehensive feedback.

Ahmet D. (Translated from Turkish): I guess there is no further question, Mr. Aykut. You can finish here if you want.

Aykut Ö. (Translated from Turkish): Thank you. There were a lot of questions, we are tired. Thanks for your participation. I hope we have answered as clearly as possible. I will repeat the same thing again. Our speakers today have said it already. You can always meet with our Investor Relations department in the next period if you have more detailed and additional questions. I would like to thank you all for joining us and I hope we will meet again when we announce the financials for the first 6 months in July.

Federico P. : Thank you very much. Have good day.

Ahmet D. (Translated from Turkish): Thank you.