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CORPORATE PARTICIPANTS

Cengiz Eroldu *Tofas Türk Otomobil Fabrikası A.S. - CEO & Non-Independent Director*

Fabrizio Renzi *Tofas Türk Otomobil Fabrikası A.S. - Financial Director*

Mehmet Aydın Agyüz *Tofas Türk Otomobil Fabrikası A.S. - Financial Risk & IR Manager*

CONFERENCE CALL PARTICIPANTS

Berna Kurbay *BGC Partners, Inc., Research Division - Director*

Hanzade Kilickiran *JPMorgan Chase & Co, Research Division - Analyst*

Murat Ignebecili *HSBC Investment Funds Luxembourg SA - Equity Fund Manager*

Vladimir Bespalov *VTB Capital, Research Division - Analyst of Industrials, Transportation, Infrastructure, Chemicals & Equities and Internet Analyst*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. I am [Gaily], your Chorus Call operator. Welcome, and thank you for joining the Tofas Türk Otomobil Fabrikası A.S. conference call and live webcast to present and discuss the third quarter 2020 financial results.

At this time, I would like to turn the conference over to Mr. Cengiz Eroldu, CEO; Mr. Fabrizio Renzi, CFO; and Mr. Mehmet Agyüz, CFA, Investor Relations Manager.

Mr. Renzi, you may now proceed.

Fabrizio Renzi - *Tofas Türk Otomobil Fabrikası A.S. - Financial Director*

Good afternoon. Thank you, operator. Thank you all for joining our call today. I hope to find you all in good health.

We are very happy and proud to announce the excellent results we achieved in the third quarter. Our profit before tax results went up 100% compared to previous year and 90% compared to the previous quarter. In the local market, we achieved an outstanding market share of 18%, our best since 1995, 20 years ago.

Our Egea model remains, by far, the best-selling passenger car in Turkey, confirming the quality of the current value of the project. In the LCV segment, we increased our sales by 500% in the quarter 3 compared to previous year.

Regarding the exports, we have seen an important recovery compared to the quarter 2. And in particular, in September, we have seen the good result of the incentives introduced in the many European countries after the worst period of the pandemic. About export, I would like to remark that our business model and export agreement is solid and stable, and this unpredictable year is the proof of debt.

Our plant in Bursa is fully operative. We have implemented all the necessary measures to protect our workers. And as of today, we are producing more than 1,200 cars per day to meet the increase in demand. Our organization is fully operative in Istanbul, and our commercial network is full operating and has never closed during this unpredictable and critical year.

It has been fully operating also our engineering center, that was able to respect the deadline for the launch of the new Tipo face-lifting. Last -- in fact, last week, 21st of October, we produced in Bursa the first Tipo face-lifting. In reality, the first car produced is a new body type, is a new car. It's our new Tipo Cross MCA that together with Hatchback, Sedan, Station Wagon, we completed the existing lineup.

Regarding Doblo. In our last conference call, we have announced the postponement of the project for the new generation as a result of the outbreak of the pandemic and also with the aim to protect our liquidity. Now we have just announced the prolongation of the actual Doblo from 2021 to 2022 will be the prolongation of the project life. And this is a brief solution waiting for the final decision over the new generation Doblo.

Now I would like to give the word to Mehmet Agyüz, starting from the picture of our new car, the Tipo Cross that we have just mentioned.

Mehmet Aydin Agyüz - *Tofas Türk Otomobil Fabrikasi A.S. - Financial Risk & IR Manager*

Yes. Good afternoon and good morning, everybody.

As you can see, we recently introduced this vehicle to the market. And commercial launch is planned to be in December of this year in Europe and late January of next year in Turkey. There are many additions and [various factors] in this car. But we think with the share of crossovers in Turkey as they're broadly increasing, we will be in a much better position in our end market.

Moving on to production. Overall, in the first 9 months, automotive production declined by 19% in Turkey, reaching to around 850,000 units. This suggests a significant deceleration from the worst part of the pandemic, which was down around 29% in the 6 months of the year. So far, share in the total production increased by 80 basis points to almost 19% with a production of 160,000 units, which is down around 16% compared to last year.

When we look into quarterly figures, third quarter production of Tofas expanded by 30%, reaching to 76,000 units. This is very high than the industry growth, which was observed at around 4% during the same period.

Our shipments was slightly higher than our production at 34% in the third quarter, reaching to 80,000 units. And this has brought our total shipments year-to-date to 167,000 units, which is also slightly down around 14% compared to last year. And obviously, our significant performance in the domestic shipments, which is up more than 500%, was the main enabler of this performance.

Moving on to our volume mix -- shipment mix. As you can see, the most notable change was in our domestic business, with the share of LCVs reaching to 32%, which is 10 percentage points higher compared to last year, but this is more of a normalization from the last year's [sales pace], which was impacted from the incentives for the PC essentially cannibalizing our LCV sales.

Moving on to domestic markets. Light vehicle market in the third quarter [sold] substantially, which was up around 178% in the third quarter, reaching to 240,000 units. And LCV sales was -- were stronger than the PC side at around almost 300% increase versus 156% increase on the PC side. Overall, this has brought the total light vehicle demand to close to half a million units, which suggests around 76% growth compared to last year. And here, also year-to-date, LCV was slightly better than the PC growth at 99% versus 70% for this level.

You see here the monthly evolution of the domestic markets. As you can clearly see that's a significant acceleration throughout, especially the last 4 months of the year is very visible, especially the impact of the pandemic [lift -- very] -- quite shortly. And with June, the market assumes significant recovery. And in September, it was a historic-high September, which -- with a light vehicle pace of around 91,000 units.

At Tofas, we outperformed the market [during this phase] significantly with our shipments at around 50,000 units, which is up more than 300% compared to last year. And also similar to the market, our LCV shipment growth is better than our PC side, which was up around 500% versus close to 300% for the PC. Overall, this has brought our total shipments to 90,000 units, which more than doubled compared to last year. And on the LCV side, our performance was quite visible with more than 200% growth at 30,000 units.

So our monthly evolution of our shipments are pretty much a similar correlation with the light vehicle demand. And as you can see, despite the diminishing effect of the base effect of last year, in September, we continue to perform quite strong with almost 18,000 unit shipments in September.

On the PC side, we were able to increase our market share by another 30 basis points on top of the 670 basis points during the same period last year. And we maintained our second position, and this is an improvement. The improvement is quite noteworthy, especially considering that we

have kept the market share gains of last year as well as adding to that base. And when we look at the third quarter, actually, the performance was much more significant with 170 basis points improvement in our PC market share. Of course, as a local producer and, I guess, strong track record, these are quite important competitive advantages for us in addition to better availability and flexibility as a local producer, these were all the factors that played a role in this strong performance.

The improvement in our LCV market share was more noteworthy. It was up more than 10 percentage points, reaching to about 28%. This is partly due to normalization, but also higher than our historical range of around mid-20% level. So this is thanks to our better competitive position, which are similar to the drivers in the PC market.

So overall, in total, we further solidified our market leadership with 17.7% market share, which is more than 240 basis points better than last year, and this is way ahead of our closest competitor in the market.

And looking into the second quarter, the improvement was more substantial with more than 650 basis points improvement in the market share. This essentially suggested around 20% market share, a historic-high quarterly figure observed in the past more than 2 decades.

So overall, including the premium brands, Tofas platform similar to the Fiat brand. And its market share was up by around 260 basis points, reaching to 18.3% in the first 9 months of the year.

Moving on to exports. The impact of the pandemic has notably decelerated in the third quarter, with the easing of the lockdown as well as the introduction of the scrap incentive in the midst of the quarter. So overall, EU PC decelerated down around 29% in the first 9 months versus around 40% contraction in the 6 months. And actually, the market turned growth in September with around 1%. And on the LCV side, the story is similar. The registrations were down 24%, and a notable deceleration from 34% contraction in the first half. And actually, the recovery in September on the LCV side was much stronger, with around 18% growth in the LCV registration in September. Overall, in those markets, Germany fared better while the most severe impact was observed in Spain.

Looking into our exports. Our export volumes were down overall 48% to 78,000 units. And the performance was broadly similar in our -- across our segments on the PC and LCV side. But I would say the pace of contraction has decelerated in parallel to the market, which reached around 36% decline in the third quarter. As you may recall in the second quarter, we had a -- quite a negligible export shipment, which was down around 97% in the second quarter.

Here, the monthly trajectory. And you can see that August is -- [except it's even low monthly as well as our plant closures], we can see the monthly improvement in our export volumes.

Here, our breakdown of our volumes by our end market. Obviously, the share of Europe has been declining, with Italy declining by more than 500 basis points and the other markets also to a lesser extent. But here, I want to highlight the most visible improvements in the MENA region, whose share has increased to 13% of volumes from 4%. And this is thanks to -- partly thanks to our very strong performance are -- again, modeled at these regions.

So here, our shipment volumes by model. Overall, we shipped 72,000 less exports at [76,000] units. And the main drivers of this is the Doblo LCV and our Hatchback model. And as you can see, our Sedan model contraction was down only 2,800 units. And this is in parallel to the previous slide I mentioned due to the strong performance of [this vehicle] at MENA region.

On the domestic side, we more than doubled our shipments with 45,000 units more. And as you can see, the spectacular performance of the Sedan model, which on top of strong growth of last year, they grew another 60% and reaching to 50,000 units, essentially improving its quality over the 4 years, 5 years in a row. But despite the low base, the growth in the Hatchback model is also striking, more than -- increasing more than 5x to 6,000 units.

And also, despite the aging of the Doblo vehicle, you can remember, it's almost 10 years old, the growth was quite exciting in the Doblo, which almost tripled to 15,000 units. And also, I want to mention on the imported vehicles. It also more than doubled to 7,400 units, and strong performance of the Jeep model as well as Ducato were the main drivers of this performance.

Moving on to financial performance. The snapshot of around 14% contraction in our total shipment, whereas we recognized 7% growth in our revenues. And if the divergence between those 2 is mainly due to weaker Turkish lira as well as our better pricing, especially in the domestic market. Our main KPI, profit before tax, was up 18% during this period, reaching to almost TRY 1.2 billion in the first 9 months of the year.

Looking into a breakdown of our revenue by -- quarterly. Our revenues surged by 65%, reaching to almost TRY 7 billion in the quarter. And this compares to around 40% contraction in the previous quarter. Obviously, domestic revenue was the main driver for this, with 340% growth in domestic revenues. Thanks to robust shipments, around 300% growth as well as our disciplined pricing, which is essentially reflecting the cost of depreciation of Turkish lira against the hard currency.

And also here, I would like to mention that export revenue contraction also was -- slowed down notably, around 20%, which was around 72% in the previous quarter. And this is parallel to the deceleration in volume decline as well as higher euro, Turkish lira rate.

Here, profitability of our business by quarter. Gross margin compared to last year was flat, thanks to disciplined pricing in the domestic market. Our PBT margin, our main KPI for -- which we track for the operational profitability, it has improved by more than 150 basis points, reaching to 8% in the third quarter and remaining comfortably above our sustainable PBT margin guidance of minimum 7%.

Our net profit also surged by 71% to TRY 510 million, with around 20 basis point improvement in the net margin, reaching to 7.4%. The growth in the net income was slightly lower than the PBT because we recognized some tax expense this quarter. As a result, this has brought our cumulative net income to around -- close to TRY 1.2 billion, which is up by around 11% and suggesting a healthy net margin of 8%, which is around 30 basis points better than last year.

Here's the snapshot of our -- the previous slide, I would say. Here, you can see, we managed to grow revenues by 7%. We managed to grow PBT by 18%, which is higher than inflation, with -- across the profitability metrics, those are all suggesting a year-over-year improvement in the first 9 months of the year.

On the balance sheet, you can see here the -- a couple of noteworthy items. One is the inventory, which was up more than 80% to TRY 1.4 billion compared to the year-end. I would say this is mainly due to weaker Turkish lira. On the other hand, our receivables also doubled, but I will suggest you to look at also on the payable side because the payable has also increased significantly. So we were able to manage that spread quite well and considering our [related part of] transactions are mainly with the same company. And also, our long-term loans, it has increased by around TRY 2.2 billion, reaching to TRY 4.4 billion due to the loans we have taken during the first 9 months related with our ongoing investments.

Here, our financial position has improved on both year-over-year and Q-on-Q basis. We had a net short position of EUR 83 million. Excluding factoring of last year, this suggests an improvement. On the working capital side as well, you can see there's improving trends on both Q-on-Q and year-over-year basis if you were to exclude factoring the improvement on a year-over-year basis is more visible. And this is thanks to our management -- better management on the payable side as well as despite the weaker Turkish lira as well as very strong demand on the domestic side, our inventory was almost flattish. And also I would say that the trade receivables is also partly due to the higher mix of the domestic business.

We have spent around EUR 75 million in the first 9 months of the year. The majority of which is related with our ongoing investments with the face-lift of our Egea family, which we have undertaken a significant amount of debt.

Moving on to our outlook. As a result of very strong performance of the domestic market in contrary to most expectations, we are revising our light vehicle demand outlook by around 20% to 730,000 to 770,000 units. On the other hand, thanks to our very strong performance in terms of market share in the domestic market, the increase in our domestic retail sales is much higher at 36% compared to our previous guidance at 130,000 to 140,000 units.

With the introduction of the scrap incentive at the easing of lockdowns, we remain more -- we become more confident on our export business, which we are narrowing the bank, which we have only 2 months left for the rest of the year. And now we are expecting 120,000 to 140,000 units of export shipments. As a result of this, we are raising our production guidance to 220,000 to 250,000 units. And also lastly, we maintain our CapEx outlook at EUR 150 million.

And I stop there. And operator, we will be very happy to take questions.

QUESTIONS AND ANSWERS

Operator

The first question is from the line of Bespalov, Vladimir with VTB Capital.

Vladimir Bespalov - *VTB Capital, Research Division - Analyst of Industrials, Transportation, Infrastructure, Chemicals & Equities and Internet Analyst*

So my first question will definitely be on the crossover version of the Egea/Tipo family. How much of capacity are you going to allocate to these crossover versions? And maybe you could provide some color based on the initial orders, export orders and your analysis of the domestic market. How much you offer of this new version of the model you are going to sell maybe as a percentage of total sales of the Egea/Tipo?

Cengiz Eroldu - *Tofas Türk Otomobil Fabrikası A.S. - CEO & Non-Independent Director*

Vladimir, thank you for your question. This is Cengiz. We are planning to reach a -- 20% of the capacity with the Cross version. But of course, this is the first time that we are entering in this segment, not only in Europe, but also in Turkey. The first reaction for the car are very positive. For this reason, we have also possibility to do better. Thank you.

Vladimir Bespalov - *VTB Capital, Research Division - Analyst of Industrials, Transportation, Infrastructure, Chemicals & Equities and Internet Analyst*

The second question that I have is on your CapEx. You've spent EUR 75 million so far this year. You have EUR 150 million attached to the same amount for the fourth quarter. Maybe you could comment a little bit on what this investment will go to. Is it the Doblo or maybe some remaining investments in the face-lift or maybe something else?

Fabrizio Renzi - *Tofas Türk Otomobil Fabrikası A.S. - Financial Director*

Fabrizio Renzi speaking, Vladimir. Okay. And I understood your question. Makes sense because it seems that we cannot reach EUR 150 million in the last quarter. But please bear in mind that in the guidance, usually, what we like to put in evidence is the committed amount. So let me say, the amount that represent an obligation for us, so it means purchase order, not only invoices registered. So for us, this EUR 150 million is the amount that will be committed this year. The major part of this amount is, of course, Tipo.

On top of that, we have the first spending for the Fiorino prolongation, and we have also other small investments that we continue to carry on for the structure and delegated investment. Also, we continue to invest in the strategy because never we have reduced our spending for the security and safety of the plant and our workers. So most probably, it's 70 -- we will have an increase of the registration in the last quarter because in the last quarter, it is concentrated a major part of the spending for Tipo. Most probably, this -- the accounting amount will be slightly below this EUR 150 million, but EUR 150 million represents our commitment. So I don't know if I answered your question.

Operator

We have a follow-up question from the line of Bespalov, Vladimir with VTB Capital.

Vladimir Bespalov - *VTB Capital, Research Division - Analyst of Industrials, Transportation, Infrastructure, Chemicals & Equities and Internet Analyst*

The question, it is basically on the export outlook. You have increased the lower end of your guidance kind of very cautiously. But in general, could you maybe provide more color. What do you see with the October almost over? What do you see in terms of orders for November, December? And maybe some color, what do you expect from next year given the current trends and potentially the second wave of pandemic, how this can affect your exports?

Cengiz Eroldu - *Tofas Türk Otomobil Fabrikasi A.S. - CEO & Non-Independent Director*

For the -- as you -- as Mehmet mentioned at the beginning of the meeting, we already started to produce new cars. But as you know, in automotive industry, there is always a production curve. So because every day, you are also trying to increase the daily speed of newly produced cars. So now we started, in those days, with a -- with very few numbers. And day by day, we will increase. So for this season until the year-end, we have the limited capacity for the new version production. So main reason is this. Unfortunately, we have only 2 months, and we should manage also this year. We have also very sharp production curve. But the main reason is this. So we don't have a technical capacity, let's say, for the new car. Thank you.

But overall, when I comment on the -- I can comment both local and export markets. On the local side, the demand is still high. So we are very -- in a difficult situation in order to find the cars and respond to demand of the customers in Turkey. So what we see until the year-end, this demand will continue. Although we are seeing increase on the exchange rate side, but still, the demand is very light. For this reason, the local market side from the Fiat brand point of view is very positive.

What can I say? And the -- regarding the export, in September, the sales in the Western European countries is very promising, we are seeing also in our numbers and orders. So also the export for a moment is in -- a good trend.

Vladimir Bespalov - *VTB Capital, Research Division - Analyst of Industrials, Transportation, Infrastructure, Chemicals & Equities and Internet Analyst*

And can I add one more question on probably the cost side? Given that you are launching a new -- the production of the crossover plus the technical version of the Egea/Tipo, did you have any extra expenses, let's say, in the third quarter or maybe in October, November, you're going to have some extra expenses, which are going to put pressure on your margins first on the production side and then maybe some additional marketing costs? Was there some impacts on the numbers that you reported or maybe we can see something like this in the fourth quarter? How should we look at this?

Cengiz Eroldu - *Tofas Türk Otomobil Fabrikasi A.S. - CEO & Non-Independent Director*

I can say no because, as Fabrizio said also, we are running with the highest technical speed in the plant. So in this period, also one car is important for us. So for this purpose, also, we are working in a very productive environment. And we will not we will not face any additional costs due to the ramp-up period, so we did all our plans accordingly. And we will -- our main target is to increase the output of the plants as much as possible because we have the demand from export side and also on the local market, as I mentioned before.

Now, actually, we are only distributing the cars. So we are aiming -- and we are selling what we are able to produce. That's the situation that we are in now.

Operator

The next question is from the line of Kurbay, Berna with BGC Partners.

Berna Kurbay - *BGC Partners, Inc., Research Division - Director*

I have 3 questions. The first one is the -- is just a clarification of what you have already mentioned. Does your fourth quarter guidance on the export side include the renewed models of Tipo? Or is it going to be all next year? That's my first question.

Fabrizio Renzi - *Tofas Türk Otomobil Fabrikasi A.S. - Financial Director*

Okay. I can answer. Fabrizio speaking, Berna. So the guidance include also the volumes for the MCA. Of course, these volumes will be sales for Tofas this year, but most probably will become sales for FCA next year because the commercial launch of the vehicle will be in December. But it includes, the last quarter, a certain quantity of MCA.

Berna Kurbay - *BGC Partners, Inc., Research Division - Director*

Okay. My second question is about working capital. There has been an improvement in the first quarter compared to the second quarter. And I remembered that you were mentioning that this is going to normalize further. If Tofas where it desires in terms of working capital at the moment? Or should we expect some further improvement in the fourth quarter?

Cengiz Eroldu - *Tofas Türk Otomobil Fabrikasi A.S. - CEO & Non-Independent Director*

Berna, this Cengiz. So of course, after the pandemic period, the most important issue for the company has become the management of working capital, and we are very keen on this. And also, thanks to the high level of demand that we are facing, we are working with, let's say, theoretical stocks. So actually, we don't carry -- almost none of the CBU cars in our stocks. So this is also -- is bringing an advantage for us. Also, the speed of sales in the network is very high. That's also another advantage that we are carrying. So for -- until the end of this year, we are not raising any increase on the working capital side.

Berna Kurbay - *BGC Partners, Inc., Research Division - Director*

Okay. And my final question is about the export outlook in general. Looking to 2021 and 2022, you have announced that the Doblo contract is extended for another year. And I understand or I assume that it comes with some take-or-pay guarantees continuing into 2022. If you look at it from an annual perspective, would it be fair to assume similar compensation in all 3 years, 2020, 2021 and 2022, at this point? Or is there going to be fluctuations? Is this going to be something that you need to pay attention to in terms of forecasting your profit before tax numbers?

Fabrizio Renzi - *Tofas Türk Otomobil Fabrikasi A.S. - Financial Director*

Okay. About take-or-pay, Berna, 2021 and 2022 will be not so different from 2020. So if your question is related to the additional year of the Doblo, I can say that the quantity, based on what we are going to calculate, the take-or-pay will be not so different from 2020. Why I say not so different because you cannot assume that the take-or-pay is flat during the life of the vehicle, so there is some small variation at the beginning, at the end of the project. But if you ask compared to 2020, we will not have any big difference compared to -- the 2021, 2022, we will not see any big difference compared to 2020 in terms of protection level threshold.

Operator

The next question is from the line of Ignebekcili, Murat with HSBC.

Murat Ignebekcili - HSBC Investment Funds Luxembourg SA - Equity Fund Manager

I've got several questions. Let me start with the Egea crossovers. Which tax brackets are you targeting for this crossover version? Do you think it's possible to keep this model in the lowest tax bracket and benefit from the current price dynamics? This is my first question.

Cengiz Eroldu - Tofas Türk Otomobil Fabrikası A.S. - CEO & Non-Independent Director

Of course, our target is still to keep this car in the 50% bracket, not -- because the cars, we feel, will be at the 80% level of the taxation zone. They are not sellable. I am talking about C SEGMENT mainly, C SEGMENT cars. So as today, all our products are below this threshold. And this is also the success of 2 brands, why we have this kind of market share, also thanks to management of the bracket and our competitiveness level in this market. Also, we are targeting to keep this car in the -- at the 50% zone.

Murat Ignebekcili - HSBC Investment Funds Luxembourg SA - Equity Fund Manager

The reason I'm asking is because given the Turkish lira depreciation rate in the last couple of days -- I mean it's -- I don't know, maybe this is going to stop. But at some point, even the Egea regular Sedan model, due to cost inflation, it will be difficult to keep it in the lowest bracket. Is there a threat like that? Or you say for certain...

Cengiz Eroldu - Tofas Türk Otomobil Fabrikası A.S. - CEO & Non-Independent Director

Yes. But this is, of course, is -- it's very linked with the exchange rates, okay? Until certain level, we can keep our position. But of course, if the exchange rate is -- I don't know, euro will be TRY 15, then, of course. But we will talk with the government then in order to increase the bracket because now you are seeing also there is big attention from the government side in order to protect the local -- the producers. So if we will face these kind of the -- issues, of course, we will manage it.

Murat Ignebekcili - HSBC Investment Funds Luxembourg SA - Equity Fund Manager

Okay. So you think the government will support local producers and increase the bracket?

Cengiz Eroldu - Tofas Türk Otomobil Fabrikası A.S. - CEO & Non-Independent Director

But already, they are supporting because, today, the 50% bracket is supporting local producers. In the month of September, if you see the number of September alone, the local portion of the light vehicle reached to 50%. And this is a very high penetration level. And I think it will continue also in this way.

Murat Ignebekcili - HSBC Investment Funds Luxembourg SA - Equity Fund Manager

Okay. And last question is about this accounting change regarding the amortization period of Doblo. If such a situation did not happen, what would be your quarterly net profit for third quarter? And assuming that the business is going strong and no such accounting impact will be -- will happen in the fourth quarter, we should definitely expect some recovery on a quarter-on-quarter basis, I suppose. Is it fair to think so?

Fabrizio Renzi - Tofas Türk Otomobil Fabrikası A.S. - Financial Director

Okay. Fabrizio Renzi speaking. So as you can see from the footnote of the financial statement, the effect on the depreciation is around TRY 80 million, but this is not the effect that we can see on the bottom line because, as you know, for the export, we have a cost-plus methodology. So

part of this benefit is given and is considering the price list. So we can say that, that minor part -- a minor part of this related to the local market is in our results. But generally speaking, I could say that no impact on the net revenue and profit before tax.

Of course, you have an effect at the level of EBITDA, where, of course, the reduction of the depreciation and the reduction also of the revenue generate an effect. But on the bottom line, it's not a huge effect.

Operator

Our next question is from our -- one of our webcast participants, Koort, Olavi with Avaron. "What's your take on the domestic market volumes in 2021? Do you expect to see domestic PC and LCV volumes higher than in 2020?"

Cengiz Eroldu - *Tofas Türk Otomobil Fabrikasi A.S. - CEO & Non-Independent Director*

But actually, for a moment, our expectation is the -- for local market is the same as this year as a market size. But of course, the local market conditions are very dynamic in Turkey, and we are following closely. But for a moment, what I can say, we are forecasting as a flat like 2020 for the local market.

And for the export, of course, with the launch of the new passenger car family, our expectation is to have the better numbers than this year. Also this year, we had a couple of months, the pandemic period, where the on -- important Western European markets were not active. So for this reason, our expectation for exports for next year is better than this year.

Operator

Our next question is from the line of -- excuse me, from our webcast participant, Danis, Erol with Unlu & Co. "What is your initial views on 2021 for the domestic market and the exports?"

Mehmet Aydin Agyüz - *Tofas Türk Otomobil Fabrikasi A.S. - Financial Risk & IR Manager*

Yes, I think we answered this question in the previous one.

Operator

We have a follow-up question with -- from the line of Bespalov, Vladimir with VTB Capital.

Vladimir Bespalov - *VTB Capital, Research Division - Analyst of Industrials, Transportation, Infrastructure, Chemicals & Equities and Internet Analyst*

It's a pretty technical one. When do you need to find a new Doblo contract with FCA to be able to launch production at the end of 2022 or early 2023? How much time is needed between signing the contract and starting production?

Fabrizio Renzi - *Tofas Türk Otomobil Fabrikasi A.S. - Financial Director*

Vladimir, Fabrizio speaking. Usually, we need 2 years from the approval of the program to go on the market.

Vladimir Beshpalov - VTB Capital, Research Division - Analyst of Industrials, Transportation, Infrastructure, Chemicals & Equities and Internet Analyst

So basically, this means that to start production in the end of 2022, you need to sign the contract somewhere at the end of this year or early next year, right?

Fabrizio Renzi - Tofas Türk Otomobil Fabrikasi A.S. - Financial Director

Or at the most first quarter 2021, let me say, okay? So usually, our best result is 18 months. Standard time is 2 years. But let me say, first quarter 2021, it could make sense if you want to have the car on the production line end of 2022.

Operator

The next question is from the line of Kilickiran, Hanzade with JPMorgan.

Hanzade Kilickiran - JPMorgan Chase & Co, Research Division - Analyst

My question is about the progress on the electrification. Do you plan to get any share from electrification program going forward?

Cengiz Eroldu - Tofas Türk Otomobil Fabrikasi A.S. - CEO & Non-Independent Director

As you know, the -- they already -- last week, they launched a new 500 BEV model and also FCA following for the Jeep version of the plug-in hybrid application also in Turkey. A couple of weeks ago, we launched the Compass Plug-in. So the electrification strategy in FCA for a moment is mainly to use the mild-hybrids and the plug-in hybrids because what we are seeing also, the real demand for the electrification could be started after 2025 from the cost point of view. For this reason, the FCA strategy has detached this period with the hybrids, and we will see much more electrified versions 2023 and onwards.

Hanzade Kilickiran - JPMorgan Chase & Co, Research Division - Analyst

And Cengiz, they -- when you discuss about the expansion of Doblo [short-term], do you think that you can also discuss about the inclusion of the hybrid or electrification process here as well? I mean do you have [a trend] here?

Cengiz Eroldu - Tofas Türk Otomobil Fabrikasi A.S. - CEO & Non-Independent Director

But for the commercial vehicles, more than hybrid, the valid version is the fully electrified version. But of course, still, the electrified car costs are not very attractive for customers nowadays only. Also, the light commercial vehicles, for example, the FCA also started -- or they are going to start to sell the Ducato electrified version. But we forecasted that in the coming 1, 2 years, the penetration of those cars will be very limited.

As I said, everything is linked with the, let's say, cost curve of the batteries and the electrical engine. And our expectation is that those cars will be for the mass markets. Of course, I am talking not for the niche market. Now we are all -- we are seeing some niche products also in Turkey, but those are the -- they are showing very, very limited numbers.

Also in Europe, the registration of the fully electrified cars is still very low when you compare the total European market. Of course, in the next generation of the commercial vehicles, we are going to offer also electrified version.

Operator

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

Fabrizio Renzi - *Tofas Türk Otomobil Fabrikasi A.S. - Financial Director*

Okay, operator. We've come to the end of this session. I would like to thank you all for the time and for the interest on Tofas, and I wish you all a pleasant day.

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