Arçelik A.Ş. Second Quarter 2021 Financial Results Conference Call

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Conductors:

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&

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OPERATOR: Ladies and Gentlemen, thank you for standing by. I am Gelly your Chorus Call operator. Welcome and thank you for joining the Arçelik conference call and Live Webcast to present and discuss the Q2 2021 Financial Results.

At this time, I would like to turn the conference over to Mr. Polat Sen, Chief Financial Officer, Mr. Ozkan Cimen, Finance & Enterprise Risk Director & Mr. Alper Gür, Investor Relations & Capital Markets Compliance Manager.

Mr. Sen, you may now proceed.

SEN P: Alright, thank you very much. Ladies and gentlemen, good morning and some…for some of you, good afternoon, welcome to our Second Quarter 2021 Results Webcast. I am here with Özkan Cimen, our Finance and ERM Director and Alper Gür, our Investor Relations Manager. Before going into details, I want to take this opportunity to thank all of our employees, for their dedication and high motivation and relentless efforts this year.

Let's move on to the Slide 2. I'll start with the Hghlights of the Second Quarter. Our net sales haveincreased by 86% year-on-year, and 12% quarter-on-quarter, thanks to the continued high demand in many markets and our pricing initiatives. The increase in raw material prices hit profitability and our margins have declined on both quarterly and yearly basis. Our OPEX to sales ratio in this quarter was flat, compared to the first quarter of this year.

One of the most important indicators for us is working capital to sales ratio, which is 27.4%, which is flattish compared to the previous quarter. Please kindly be informed that this ratio does not include the acquisition of Whirlpool and Hitachi for apple-to-apple comparison purposes. If included, the ratio comes down to 26.8%, I said Whirlpool and Hitachi, but I'm just talking about Whirlpool because Whirlpool has been acquired on 30th of June, so we have to include it in our balance sheet.

I am quite happy that we have completed our strategic acquisitions, Whirlpool in the last day of this quarter, and Hitachi on July the 1st. It gives me great pleasure to tell that our green bonds, the first of its kind in Turkey, was a success story receiving more than 4 times demand from 190 global investors, reflecting the trust that the markets put into our company. Our leverage was 1.54 times in the second quarter, excluding the impact of our acquisition and apple-to-apple comparison…for apple-to-apple comparison purposes again. Can we move to the next slide, please?

Our net sales was 14.5 billion, up by 86% year-on-year, thanks to substantial unit growth yet coming from a low base of course, proactive actions in pricing and strong euro USD against Turkish lira. The revenue growth was 12% on a quarterly basis, mainly attributable to the price increases and Turkish lira depreciation. In terms of margins, the second quarter of the year, marked by the significant upsurge in the raw material prices, which was not unexpected. As you can see in the middle, and the right-hand side of the slide, our gross margin was 30.2% and EBITDA margin was 9.8% in the second quarter, reflecting around 430 basis points and 473 basis points contraction respectively on a quarterly basis, mainly due to the severe increase in the raw material costs. But this was not something unexpected, as I told, and I communicated before.

Our capacity utilization is a bit normalized in this quarter, compared to the last 2 quarters, which was around 100%. Euro USD parity had a neutral impact on our gross margin in this quarter, which…the impact was positive a quarter before, when euro was stronger. Beyond higher raw material costs, a slight increase in OPEX to sales ratio had a small negative impact on the…in the EBITDA margin as well. Can we move to the next slide, please?

I'll continue with the Domestic Market in Quarter 2 of '21, Turkish MDA6 market was up by 16% in unit terms. As Arçelik, we continued to outperform Turkish MDA6 market, once again following the first quarter of this year, delivering 23% year-on-year growth within the same period, and sustained our strong leadership. We have seen a gradual decrease in the trend, in the consumer demand growth from April to June, mainly due to 17 days lockdown in May, and inflationary macroeconomic environment and relatively lower house sales. We see the contraction in June was the first signals of the expected normalization in the demand trend going forwards due to the strong base of the last year's second half.

The growth of AC market decelerated, following the first quarter. Our AC sales have declined due to the high base of June 2020 last year, and not executing the consumer campaign. TV market has declined further, because of the supply issue in the panel market. Can we move to the next slide, please?

I'll continue with the European Markets. In Western and Eastern Europe, the strong demand continued in the second quarter, where we saw growth on both quarterly and yearly basis in majority of the countries. The 4 of the 5 big countries in Western Europe performed quite good on a quarterly basis except for France. Demand remained high and sell-offs were very strong, despite the logistic crisis in the ports faced with Brexit, thanks to increasing vaccination coverage. And Germany recovered very well after a decline in the first quarter, despite the traditional channels opened later than the rest of Europe. Eastern Europe was also resilient and except for Poland, the units sold in each country grew on a quarterly basis. Next slide.

Our situation in the European markets, as demand remained high in European markets, Arçelik has benefited from that. The share of European market in total sales increased slightly compared to the first quarter and reached 45%. In Western Europe, we saw strong top line growth on a yearly basis in euro terms, thanks to the unit's growth and our pricing initiatives. On a quarterly basis, sales were almost flat. We have been able to decrease our market share, increase our market share in UK, in the UK with a slight improvement of our price index there. Our performance in Eastern Europe was resilient, and we delivered around 40% year-on-year and 10% quarter-on-quarter growth in euro terms. We sustained our strong leadership in Romania and Poland. As a result of our price increases, we have been able to improve our price index in Russia, Ukraine and Romania. Next slide, please.

Tuckling a very low base, South Africa sales posted more than double the revenue year-on-year in euro terms. Due to the lockdown in the country, net sales decreased by 8% quarter-on-quarter. In the first 6 months of the year, we had gained significant market share, and reinforced our strong leadership in South African market.

Sales in APAC has increased its share in total sales compared to first quarter of '21. Our sales were up by 83% year-on-year, thanks to mainly the strong growth contribution from Pakistan and Bangladesh. In Pakistan, our sales have increased more than 20% in both euro and

Pakistani rupee terms, reflecting the positive impact of both continued high demand and price increases. Despite lower units sold in Bangladesh, we have been able to increase our sales by 32% in local currency terms. Just after the quarter ended, there has been some looting issues in South Africa, as many of you know, which had impacted our sales in July. We are aiming to recover the loss of July within the quarter 3. We do not expect significant financial loss, thanks to our insurance coverage in this country. Please move on to the next slide.

As expected, the upward trend in the raw material prices which started in the second half of the last year, continued this quarter as well. The supply shortages caused by a high consumer demand to the finished products which contains plastic and metal raw materials, China's conservative attitude for metal producers and logistic crisis that the world has been facing, were the key reasons of the price increases so far. And Arcelik we have been closely following the market in order to manage our costs. But as you can see, we had been affected from the price increases in the raw material market.

As you may remember, the last quarter call, I told you that, we had in…especially in Quarter 3, Quarter 4 and Quarter 1 of '21, 3 quarters back-to-back, our results were very strong mainly due to our long-term raw material price contracts, which has been…starting to finish by now. So, starting from Quarter 2, we are feeling the effect of increases in the prices. So, every company has a different cycle on this one, so everybody is going to be feeling that sooner or later. So, this is what I can say.

I'll just hand over to Özkan to move on with the numbers a little bit more. Özkan…

ÇIMEN Ö: Thank you, Polat. I will continue with the Sales Performance slide. In the second quarter of this year, Turkey sales grew by 47%, on the other side, international sales grew more than…actually doubled where 60% was coming from organic growth and 52% is coming from the FX impact. On the right-hand side, you can see our original revenue breakdown; the share of Turkey in total sales compared to the previous year has gone down to the normal levels of 33%, while our other developing markets and European markets gained some share. Last year, in Q2 Turkey sales was an outlier in terms of revenue breakdown because Turkey shares has increased while the other markets were impacted with the COVID.

Move on to the next slide, please. So here you will see the detail of financials. I will not talk in detail of everything, but I will give some highlights. Our EBITDA was 1.4 billion in Q2, and the margin was 9.8%, around 50 basis points lower than Q2 last year, and around 470 basis points lower than last quarter, which was exceptionally high with 14.6%.

If you look at the full year figures, the EBITDA margin is 12.1%, which is 90 basis points better than last year. We delivered in Q2 €541 million net income with 3.7 margin which is 32% higher than Q2 last year.

If we move to the next slide, please. On the right-hand side, you'll see our loan portfolio and their effective interest rates. We have 24 billion TL equivalent of loan, 40 million TL is bond portfolio and around 10 billion is loan portfolio. We have euro…2 euro and 1 U.S dollars bond as the biggest shares in our total borrowings. We financed our Turkish business working capital needs with the Turkish lira loans. Turkish lira loan and bond is around 6 billion TL. Last year, we have benefited from the low rates while financing our working capital need and it's characterized the renewal loans, we got higher markets…rates from the markets. Therefore, our effective interest rates for TL borrowing has increased to 16%.

On the left-hand side, you can see the leverage. Our leverage, including the impacts of acquisitions was 2.2 in the second quarter. We have been able to manage to sustain the ratio at quite healthy levels, despite cash payments for the acquisitions, well, and without any contribution to EBITDA. So if you look at apple-to-apple comparison, the leverage is calculated as 1.54 actually,

As recently acquired company started to create EBITDA contribution for us, our leverage will get healthier since the CAPEX requirement and net working capital need is quite slower despite their own margins are more than our consolidated figure. So we expect a lower leverage than to run the companies fully operate.

We move on to the next slide. As you know, Arçelik places sustainability at the core of its business. Our efforts regarding sustainability appreciated by various types third parties so many times before. This time, the investors showed their trust in our sustainability credentials. We have successfully issued €350 million Greenbond at the end of May, which is the first of its kind and attracted high demand from the investors. Total demand was 1.6 billion, around 4.5 times the issued amount. We started with 350 basis points initial price stocks **a**nd completed the deal with 300 basis points.

Now we can move to the next slide. Arçelik free cash flow remained at negative level, but with an improvement compared to the first quarter figure, despite having better CAPEX to sales ratio and flat…almost a flat net working capital to sales in this quarter. The significantly higher raw material costs hit our EBITDA margin, which resulted in negative free cash flow in this quarter.

So that was the last slide. So now, I will hand you over to Polat for guidance.

SEN P: Thank you, Özkan. I just muted myself. Our guidance has changed for the year-end, including the impacts of 2 acquisitions. So, we had to do that because of the acquisition. So, our expectation for Turkey's sales growth is around 30% in Turkish lira terms and international sales to grow by 35% in foreign exchange terms in hard currency. And that's mainly due to the change in the international sales mainly due to the acquisitions. And our consolidated sales is going to be…our guidance is to grow by around 50% in Turkish lira terms on a yearly basis.

Considering a relatively lower EBITDA margins of the recently acquired companies, we now expect our consolidated EBITDA margin to be around 11%. And our net working capital to sales ratio and our CAPEX guidance has not changed and it is 25% and €220 million, respectively.

So, this is all from our side. We are ready for the questions and answers session.

Q&A

OPERATOR: The first question is from the line of Demirtas Cemal with Ata Invest. Please go ahead.

DEMIRTAS C: Thank you for the presentation. My first question is about your guidance. You gave a guidance including the Whirlpool and Hitachi, what could be the guidance excluding these two? And what was the effect on the balance sheet? You gave some numbers, but could you further elaborate how this will change the net debt levels for the following year…for the year-end sorry? That's my first question.

And the second question is about the income statement. When I look into details, the FX items, FX losses and gains, and normally when the currency is going up, net-net value will include all the FX and others and financial expenses. You come up with positive numbers, usually in first quarter it was net 99 million Turkish lira, but in second quarter, despite currency increases, we see FX losses. What might be the reason in the second quarter for this? This is the second question. Thank you.

SEN P: Okay, Cemal, well, thank you very much. I'll take the first question and Özkan is going to take the second one. We…to be honest, with you, we had just acquired the companies. It's been one month that we are really working with the companies and the acquisition, especially with Hitachi is very multi-jurisdictional. We are talking about 10 different subsidiaries in 10 different countries. And it is because of the COVID situation, it's really hard to get into the details quickly because of the circumstances that we have. So, we are going to be in need of some more time in order to say, give you a guidance of full year. Because right now what we see is…just what I can share right now, we see a more upside potential; especially on the synergies than what we what we were expecting. It is a better picture for Arçelik in terms of synergies, especially on the raw material costs.

So, our expectation is…and the last year of Hitachi, especially has been a year that was more successful in terms of EBITDA than the year before. So, we expect all of those are going to be contributing on a full year basis, especially on 2022, because the effects will take time in order to change suppliers or, you know, in order to really materialize those synergies. But we are going to start seeing the effects in 2022, so it would be much more wiser for us to make an indication on this, especially at the end of the year in 2021.

So, I have to say that the Whirlpool has been included as a balance sheet because of the 30th of June acquisition. But Hitachi there you can't see any numbers about Hitachi except the, you know, the amount that we have paid has been transferred due to the time differences of Japan and Europe in 30th of July, so we see the cash-out on 30th of July. So that is also one of the reasons of our, you know, a little bit complicated results in quarter 2.

But to give you a better understanding, about, without any acquisitions, what will be the situation, we see…I will not be able to give you a direct or you know, a concrete answer on this one. But I can tell you that we have guided you last time with 12%...around 12%. And according to us around 12% was between 11.5% and 12.4%, according to our interpretation. And I think that we are going to be close to the lower side of this bracket, let me say, for the company for Arçelik without the acquisition. So, I hope that answers your question and then I'll ask Özkan to answer about the FX losses.

ÇIMEN Ö: For the…, Polat…for the top line growth because, you know, because of these inorganic things now we are just, you know, in between because we have some numbers in our evaluation. But now, we don't know whether excluding those changes there is any upgrades in your numbers or not. That's I think…that is a little bit gives a percent plank.

DEMIRTAS C: Okay.

ÇIMEN Ö: …because we know…you know, for the transparency anything with the current numbers will help the analyst to see whether there is a, you know, there is a revision upward or downward. That's what I want to understand. In the margins, I understand it's very clear. But…,

SEN P: In revenue, there is no deterioration without the acquisition actually, what we have guided you before in Turkey, let me…I have to check the numbers, sorry about that.

ÇIMEN Ö: That was 25%.

SEN P: Yes, maybe I'll answer that, after that Özkan answer this question, then I'll get back to that one. I'll check this.

DEMIRTAS C: Thank you.

ÇIMEN Ö: Yes, Cemal your question around FX, as you have pointed out, that we are closely monitoring our open positions in the balance sheet. So, we are trying to do this as square as possible looking at every day's breakdown. So, you know, we have been working with more than 30 different currencies. So, we are trying to manage the impact of those currencies. And sometimes the daily estimations that we are making is deviating from the actual position for this creating small variance in our position, which we need…we can make another transaction to close the deficit in the coming transaction. Therefore, those variances, if there's a big impact…daily impact in the FX sometimes affect the total FX position. But other than that, we have swap differences coming from the total positions, which is reflected to the FX line in the P&L. So when we compare the 2 quarter, yes, you said one is positive and one is negative, but this is coming just to…temporary impact, which is actually balancing each other.

DEMIRTAS C: Thank you. And maybe one last question about the tax rates, it lower than without, I think what could we assume for the second half of the year, and with all this transactions? Does Whirlpool transaction has any effect? I don't think but, you know, what was the reason behind lower tax rate?

ÇIMEN Ö: Sure. As you said, Whirlpool didn't have any impact on the tax rate, because we haven't included any P&L items.

So… but besides, if you just look at turkey operations, as you know there are 2 major incentive lines that we have been benefiting in Turkey. One is the R&D incentives, which…where R&D expenditures are deducted from the corporate tax base. And the second one is the investment incentive, which is provided as a reduced tax rate.

In Q2, our R&D expenditures were high and also we have invested on…we have…the amount of investment that we have made in Q2, which are subject to incentives has increased. Therefore, the FX tax rates just in Turkey reduced compared to Q1 with 4 points. Actually, this has decreased effective tax rates of consolidated figures to the level that you see around 12.7%. So, if you look at quarterly 15% to 7%, which is including the impact of that benefit…R&D benefit and investment incentive benefits.

DEMIRTAS C: Sorry, did I see the wrong number? I see that your effective tax in second quarter was 42 million Turkish lira, am I wrong?

ÇIMEN Ö: €42 million, which is 7.3% of the...

DEMIRTAS C: Yeah, that's correct. Right. That's 7%.

SEN P: Yes. Okay, I'll just get back to your first question Cemal, about the revenue growth. If…I mean, Turkey is not affected…actually, Turkish growth is not affected from the acquisition. So we guided Turkey 25% before, now we are guiding 30%, mainly due to inflation and price increases, and also some unit increases as well. On the international side as well, last time we guided 10%...more than 10%. So I think that we are going to be in the bracket of 10% to 15% organically only. So in order to go up to 35% on FX terms, though, this is the effect of the actually the acquisitions.

DEMIRTAS C: Okay. So 10% to 15% international and Turkey size is 30% versus 25% in the past. And there is no contribution from Whirlpool, right into Turkey numbers.

SEN P: No, there is no, it's all exports from Turkey.

DEMIRTAS C: Okay, now it's more clear and helpful. Thank you.

SEN P: Thank you.

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

KILICKIRAN H: Polat Sen and Özkan Çimen, thank you very much. I have some technical questions; I just want to be clear about this. So are you going to consolidate Hitachi for the full year, so on a 12-month basis or you are going to consolidate the P&L of the Hitachi starting from only July 1st?

SEN P: Yes. The second one, you said the P&L is going to be consolidated for 6 months only, as we are acquiring the company on 1st of July. But of course, the balance sheet is…there is no time issue with balance sheet.

KILICKIRAN H: Is it possible to share some sort of insights about the first half performance of Hitachi? So what type of volume growth the company has experienced? What was the margin in the first half of the company?

SEN P: Yes. As this is not our results, I am not able to give you full disclosure on that one, but I can tell you that it is better than 2020 results.

KILICKIRAN H: And okay, so…

SEN P: In terms of growth and in terms of profitability. Both of them are…has positively surprised us that's what I can say.

KILICKIRAN H: Okay. Alright. And despite the acquisitions, I can't see any adjustment on CAPEX. So does it mean that you are not planning to do any sort of CAPEX in Whirlpool or Hitachi in the rest of the year?

SEN P: Yes, as I told you, our teams are still working on integration. We have 2 Integration Management Officers IMOs for both acquisitions right now working on it. There will be some CAPEX requirement, but we do not have anything that we have approved yet. I do not think that we are going to be starting spending CAPEX money within this year. Most probably, the…if there will be…I think there is going to be small amounts, but the main spending is going to be coming in 2022, which I will be sharing with you at the end of this year.

KILICKIRAN H: Alright. And final question is about pricing in the rest of the year. So, the cost inflation…I mean, cost has just inflated hit your Q2 from margin perspective, so it will continue probably in Q3 and Q4, right. Do you think that the market is good enough to reflect this potential cost increases into prices both in Turkey and Europe, I mean, and the rest of the market, I mean.

SEN P: The situation is different in different counties. I have to tell you that in Turkey until now, actually this quarter…only quarter 2, we have increased prices, almost mid-to-high single-digit price increases. In Europe, we have made again mid single-digit pricing in euro terms this time…this quarter only. In Pakistan and South Africa, we have again made high single-digit price increases in local currencies in this quarter. In quarter 3 and quarter 4, we most probably are going to be in need of some more price increases as we are going to still see some raw material impact, and also in Turkey as you said some inflationary issues.

In Turkey, we already have made mid single-digit, increase in the beginning of August already, and we are watching for the remainder of the year. If we are going to be in need of making some price increases…price increases is all about the raw material, you know, passing on the raw material increases. So, but the most important effect here is, as I tried to explain how the competitors are going to be moving, so we do not want to lose market share, of course, in any of the countries that we operate in. So, we are closely monitoring the situation, and everybody has a different pricing cycle on the raw materials. We have enjoyed our pricing cycle in quarter 3 and 4 and quarter 1 of this year, some other companies are enjoying quarter 1, quarter 2 of this year. So but at the end of the day everybody is going to be balancing at a level, which is going to be more, let's say, more competitive…comparable to each other. Right now, the prices are moving so quickly that I cannot say that the competition…every competition…competitive companies are at the same level, but at the end of the day, everybody is going to come to the same level and we will see the situation after that, but until then, we are planning to push the price increases, as much as, we can in all the…as much as the market can take it. But right now, we do not…in some of the markets, we are having difficulty in pushing the price increases. This is…Turkey is included to that as well. In some of the markets, it is…there is still some room that we can use. But in each market, we are trying to evaluate the situation one-by-one, not to make a mistake at the end of the day as I told, we do not want to lose profitability and we do not want to lose the market share at the same time. So, it's a delicate issue for each market.

KILICKIRAN H: Thank you very much Polat Sen.

SEN P: Thank you.

OPERATOR: The next question is from the line of Kurbay Berna with BGC Partners. Please go ahead.

KURBAY B: Good evening and thank you for the opportunity to ask questions. I have 3. The first one is about the EBITDA margin outlook in the remainder of the year. Your new guidance suggests that you expect around 10% EBITDA margin in the second half, which is similar to what you achieved in the second quarter. But I was wondering, if we should expect this margin to get worse before it gets better, or whether you see a significant difference between the third and the fourth quarters of the year?

My second question is about the net debt, I'm looking at Slide 14 and you have the net debt, including Whirlpool impact and without. And I see that the difference is around €3.3 billion, so €14 billion, including the Whirlpool impact and then €10.7 billion without, that seems a little bit…it seems a little bit high to me, I thought you paid around €78 million. And I was wondering if you could clarify that difference. And finally, Whirlpool P&L in the first half, is it loss-making and is this going to be a significant drag on your second half net profit? Thank you.

SEN P: Alright. I'll take the first and third question and I'm going to ask Özkan to answer the second question Berna. I'll start with the third one which is easier. We did not take over the Whirlpool operations as a loss-making business, it is a profit-making business right now. But, of course, we started the operations very…it's very recent just being one month now, but the situation is that it's not a loss-making business for us. And as I told for Hitachi, it's the same situation with the Whirlpool as well. We see significant synergy opportunities, which we are going to be you know, one-by-one. Some of them are, you know, easy to pick up, some of them takes a longer project to utilize the improvements, but our expectation is to have a better picture than what we have acquired.

About the first question that you have about EBITDA margins, on... Yes, there is a deterioration. As I told, we are…we have already increased prices in Turkey by 5% in August, around 5%. And we are also increasing prices in some of the other markets and we are already done some of them at the beginning of July, in some of the countries. So, we are going to see the positive impact on this one. From second quarter to third quarter, the prices…raw material prices, did not increase as it increased from quarter 1 to quarter 2, let me say. And in terms of quarter 4 discussions that we have with the suppliers right now. To be honest, we do not really expect an increase anymore in quarter 4. So our expectation is to start the normalization. Maybe stagnant in quarter 4, but after that quarter 1, we expect some normalization in 2022. But I can say that third quarter EBITDA is going to be…my expectation is that, it is going to be around this level. And because you know, the price increases take time and the reflection takes time, but quarter 4 our expectation is some more growth in the EBITDA margin in order to get to the guidance levels that we have.

KURBAY B: And this is also taking into account that third quarter typically is the strong quarter in terms of sales, and so you expect third quarter margins to be lower than the fourth quarter, because of this raw material pricing issues?

SEN P: Yes, mainly about…it is not only raw material; it's about pricing as well. The effect of pricing takes time to push. So that's why I said like that. Yes, quarter 3 is a powerful quarter, but I have to say that in the beginning of July, our factories we used the annual leaves in the July mainly. So, the July month in terms of production overhead, it wasn't the most effective month because of this situation, because we wanted to stabilize our inventory levels as well and starting from August, actually we expect again a high-capacity production and high profitability and also, you know, some more price increases to come. So, that's why I expect again maybe a little bit, slightly more than what we have in quarter 2, and in quarter 4, we expect better results, that's what I can say right now. But again, it's really hard to make predictions for quarter-by-quarter. Our expectation, our guidance about our EBITDA margin around the 11% should be the one that we should be sticking to. It can really move around.

KURBAY B: Okay. Thank you.

SEN P: Özkan.

ÇIMEN Ö: As you see in the Slide 14, it's the net impact of the acquisitions we have shown as 3.4 billion TL. If you look at the breakdown of it, €78 million is paid to Whirlpool which is around 800 million Turkish lira. And at the same time, we have acquired…actually we have started to consolidate the last day of the month for Whirlpool, that means there is some cash of the entity that we acquired, which is around 450 million TL. So, the net impact is around 350 million from Whirlpool acquisition. And we have paid $343 million to Hitachi, which is around 3 billion TL there is no consolidation in the balance sheet as of June, it's a transaction completed at the first day of July, but we have made the payment on 30th, June, so therefore, the net impact is 3.4 million, 3 million coming from Hitachi and 400 million roughly coming from Whirlpool.

KURBAY B: Understood, okay. So, Hitachi is…Hitachi acquisition has been paid as of July, as of June 30, that's why this figure is high?

ÇIMEN Ö: Yes, both are paid as of June 30th…

KURBAY B: Okay. Thank you, that's very clear.

ÇIMEN Ö: Thank you.

OPERATOR: Our next question is from…a follow- up question from Kurbay Berna with BGC Partners. Please go ahead.

KURBAY B: Yes, I just wanted to ask one more question about free cash flow generation. This year, there are ups and downs as the acquisitions go. So, what is your view on maybe 12 months outlook or by the end of the year are we going to see some improvements over there or this is the first half, but definitely probably not versus last year. But, how do you see the outlook in 2022 given that all the acquisitions will have been completed and everything would be in the numbers?

SEN P: Özkan, will you take that or shall I?

ÇIMEN Ö: I can take that.

SEN P: All right.

ÇIMEN Ö: So, we have explained that working capital level at the end of last year was not sustainable level; therefore we expected deterioration in our free cash flow on account of the working capital. And in Q1, we have seen this impact high compared to Q2, in Q2 free cash flow is slightly better than last year. And if you look at the total of the year with the impact of the acquired companies which…where we estimate the working capital needs would be lower, therefore, it will take us to the 25% level, which means we will see a positive figure compared to last two quarters when look at the picture in Q3 and Q4.

KURBAY B: Thank you very much.

OPERATOR: Our next question is from one of our webcast participants, from Mr. Unal Cem from Goldman Sachs. And the question is, hi, thank you for the presentation. Do you expect worst than previously expected WC/sales on a LFL basis. As WC/sales is kept at 25% despite Hitachi having no WC needs? Thanks very much.

ÇIMEN Ö: I…actually in the net working capital to sales ratio, we have guided for 25% in Q1, we have seen 27% and it's quite…it's 27% again. So with the impact of the acquisition and partially improvement of the current business, we estimate it will be close to 25%, and if we have a higher sales coming from the acquired companies, for sure that will be a positive impact. But, right now, we think it will be close to 25%, but most probably lower than 25%.

OPERATOR: Thank you. We have a follow up question from the line of Demirtas Cemal with Ata Invest. Please go ahead.

DEMIRTAS C: Just come back, just a question about the payments for Hitachi, you paid in the last day of the quarter, did it have any effect because it's a huge number and did it have any effect on your FX position, the closing? I was just unclear about that? Thank you.

ÇIMEN Ö: Actually, it did not have any impact on…as of June, but it will impact July and coming months because they will have…our position will change with that paid amount. So, that means our income generating from the loan provision will decrease significantly.

DEMIRTAS C: Thank you. And another question about the domestic market trends July and August, how about the sell-in and sell-out rates and the inventory levels, if you could give us some color, maybe you gave, but…but, I possibly I missed those.

SEN P: Let me give information about the domestic side, actually second quarter was quite positive in Turkey, only one of the issues that we had, you may remember at the Mother's Day time, there was a lockdown and this lockdown really affected our SDA sales, and that created more than expected inventory in the whole chain, including us and the dealers. But, other than that, actually our inventory level is very healthy I have to say, both our inventory and the dealer's inventory as well.

We have been…especially the, you know, the heat in July and beginning of August has affected very positively our air conditioner sales, and it has really decreased our air conditioner inventory as well. And in terms of sales the sell-in and sell-out ratios still seem very healthy and strong actually in Turkey. We do not really see a big negative impact, but starting from now, actually last year's third and fourth quarters were very affective as well, you know, for sales. And I think that we are going to be…we are going to be measuring ourselves with the quarter 3, and quarter 4 of last year, which is high base, for us, but I think that we are going to be able to close to what we have achieved or more than what we have achieved in last year for the remainder of this year. So, we see still very strong…inventory is very strong, only SDA inventory is more than our expectation, but other than that it seems healthy.

DEMIRTAS C: Thank you.

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

SEN P: All right. Thank you very much, everyone, for attending our earnings call of quarter two. If you have any further questions, after you evaluate our results, feel free to contract our Investor Relations team, they will try get back to you as quickly as possible. Thank you.