Transcription for Q4 2019 Financial Results Webcast

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Corporate Participant

Cüneyt Yavuz

Mavi – CEO

Presentation

Operator

Welcome to Mavi Fourth Quarter 2019 webcast conference call. I will now hand over to your host, Cüneyt Yavuz, CEO. Sir, please go ahead.

Cüneyt Yavuz

Thank you. Hello everyone, welcome to our conference call regarding the financial results for the last quarter and full year of 2019. I will be taking you through our operational and financial results for the period, and will provide insights on the current trading environment. In today's call, I will also share with you our management guidance for 2020. I have already received some of your questions and, as always, will try to address them throughout the presentation. Should you have any further questions, I will be happy to answer them at the end of our call.

Before going into the key highlights for the period, I would like to start off by thanking all of my team across the markets for delivering such solid results in a very challenging year. I'm proud of our continued performance and I believe this is to be a testament to Mavi's strong brand identity, best in class consumer communication execution, and uncompromising passion for quality.

We are happy to report that in 2019, despite a very high base, our Turkey retail business remained robust with above 20% like-for-like growth, with positive transaction figures and increasing sales volumes. As a culmination of all our efforts, Mavi exceeded attracting 1 million new customers in Turkey for the third year in a row, showcasing the strength and resilience of Mavi as the jeans brand of Turkey. Continued investment in digital channels also played an important role in delivering our sustainable profitable growth rates.

I am confident that Mavi's emerging digital business is on a solid path to maintain many years of solid top and bottom line growth.

Now, let's move onto slide two with our key highlights. As always, throughout this presentation, I will be sharing the results without the IFRS 16 impact to provide a more meaningful comparison with the previous year. You may find the full IFRS 16 impacts in detail in the appendix of our presentation.

In 2019, our consolidated revenue grew by 21.7% to TL 2.863 billion. Nominal EBITDA grew by 9% to TL 401 million, resulting in a 14.0 EBITDA margin. Net profit grew 33% and reached TL 134 million. We opened 20 stores and closed six stores in 2019, resulting in 14 net additions, and as of end January, we have 314 own-operated stores in Turkey, and a total of 440 monobrand stores globally, including in franchises. Mavi Turkey retail businesses delivered like-for-like revenue growth of 20.9% in the financial year 2019. As a loved and trusted brand, we acquired 1.2 million new customers, exceeding our target of 1 million for the third year. We now have 5.8 million active loyalty cardholders.

Moving onto slide three. With 24% growth in the last quarter, consolidated global revenue grew by 21.7%, reaching TL 2 billion 863 million. 66% of our revenue was in retail, 29% in wholesale, and 5% in ecommerce. We continued to see the positive results of our focus on our global online business. We delivered a solid 86% growth in the sales generated from www.mavi.com and marketplace in 2019. Sales in Turkey showed a very strong performance with 27% growth in the last quarter, bringing the full year growth to 23% with a healthy 24% growth in retail, the main driver of our domestic business. We are very happy with our ecommerce business in Turkey that grew by 89% in 2019.

The transition of our franchised stores into retail and the wholesale ecommerce moving towards marketplace plays a significant role in the lower rate of growth for Turkey wholesale channel, which grew 13% this year. Given the closing down of retail stores in Europe, along with the currency impact reversing in the third quarter, there has been a downside on the international sales contribution in 2019, resulting in 14% growth for the full year. The strategic focus on global ecommerce operations is paying back. Our international ecommerce sales grew strong at 83% in 2019.

Moving onto slide four, let us focus on Turkey retail business. We opened 20 new stores and closed six stores, totaling net 14 additions this year. Additionally, 11 stores went through expansion. As of end January, we have 314 own-operated stores totaling 156,000 square meters of selling space in Turkey, with an average store size of 498 square meters. Turkey retail revenue growth of 24% was mainly driven by like-for-like growth, which constituted 92% of our domestic retail revenue in 2019.

Now, to elaborate further on our like-for-like performance, let's move onto page five. Despite a very challenging start of the year, where we witnessed negative transaction growth figures in the first quarter, consumer demand and traffic has been in a continuously improving trend throughout the year of 2019. Supported by the positive impacts of lower inflation and interest rates on consumer sentiment, our like-for-like growth stood at 21.9% in Q4. As expected, we have started witnessing a move towards a more balanced and healthy composition with 15% basket growth and 6% transaction growth.

All in all, exceeding our targets for 2019, full year like-for-like revenue growth is up 20.9%, driven mainly by basket and a slightly positive transaction growth. It is worth noting that this basket growth has been in line with the competition, and we continue to maintain our price positioning in the Turkish apparel market, as per our strategy.

Going into 2020, we expect this strong performance and the normalization of like-for-like composition to continue. I'm happy to report that in the first 40 days of the first quarter of 2020, like-for-like is up 21.6%, with 12.2% transaction growth and 8.4% basket growth.

Now, let's take a closer look at our category-based performance on slide six. Our denim category continued to be our best performer in terms of positive sales volumes, and grew 24% in value in 2019. Denim now constitutes 44% of our Turkey retail net sales. The lifestyle categories, in total, grew 25%, with knits category growing 29%, shirts 17, jackets 27, and accessories 18% in the reported period.

On slide seven, we again highlight our online growth performance, as this channel now has a significant and growing share in our total sales. In addition to our direct-to-consumer sales covering mavi.com and marketplace, which constitutes 5.1% of our total sales in 2019, our customers can also buy Mavi products through third-party digital platforms to which we wholesale. Including the wholesale ecommerce, our total online sales grew 46%, and reached TL 238 million globally, constituting 8.3% of our total revenue. As you know, we are placing a great deal of effort on our ecommerce business in order to grow our presence and to improve customers' online experience. We are continuously adding new features and benefits for our shoppers on our own mavi.com website, while also improving our availability on third-party platforms. In return, the share of online increase to 3.8% in Turkey, and to almost 30% in international sales.

Let's move on to review our margin performance on slide eight. As you know, we guided for continuous improvement in margins and have been able to deliver beyond our commitments against all the challenging externalities in the previous years. It is important to note that 2019 was a year in which managing externalities while focusing on operational efficiency has been our main priority. Significant increases in the cost of goods led to pressures on gross margin, and resulted with 220 bps contraction in the full year 2019. We are continuously focusing on improving our OpEx management in order to offset product cost pressures. Overall, in 2019, we have managed to gain back 60 basis points of margin in improving our OpEx/sales ratio. As a result, our IFRS 16 EBITDA realized at TL 101 million in 2019, with 14% EBITDA margin, which is 160 basis points lower than the same period last year.

With the absence of the one-off hedging losses of last year and improved financing costs, our net profit improved by 33% to reach TL 134 million ex-IFRS 16 in 2019. Including the IFRS 16 adjustment, EBITDA is TL 644 million, and net income stands at TL 108 million in 2019.

I would like to move onto page nine to take you through our working capital progress. Given the volatile consumer sentiment, we have further increased our focus on inventory management this year. As a result of our efforts to improve our speed-to-shelf, responsive and efficient open-to-buy management, and effective supply chain planning, inventory level as a percentage of revenue has improved significantly. Consequently, our working capital as a percentage of revenue declined from 5.5% to 5.0%, as at the end of January 2020. In financial year 2019, we have generated TL 362 million of operating cash flow, resulting in a cash conversion of 90%.

Let's now move onto the next slide, slide 10. Opening gross 20 stores and expanding 11 stores in 2019, we have spent TL 100 million of CapEx, resulting with CapEx/sales ratio of 3.5%, within our guided target of less than 4% of revenue target. Following the improvement in cash generation, our net debt level declined by 92% to TL 9 million as of the end of January 2020. This implies a leverage multiple of 0.02 times of EBITDA, which is very close to our aspiration of being a net cash company.

Looking into the currency composition of our debt. 29% of total consolidated debt belongs to subsidiaries who all borrow in their respective local currencies. As of end January, only 13% of debt is in foreign currency and is totally covered with foreign currency assets and receivables from subsidiaries.

Moving onto slide 11, lets me share with you our full year expectations for 2020. We set out to build a budget for 2020 to be another strong growth year, with the cost pressures easing and consumer sentiment economically improving. We are building our plans on the opportunities this year holds, but at the same time being prepared to remain agile and responsive to the consumer trends and current externalities.

For the financial year 2020, we are targeting 23% consolidated sales growth, with a plus and minus 2% deviation margin. We expect both Turkey and international businesses to contribute to this growth.

In our Turkey retail business, we target 18% of like-for-like sales growth, again leaving a plus and minus 1% deviation margin, along with similar square meter growth plans like 2019, which is 15 net new store openings and 10 expansions of store square meters.

We guide for an EBITDA margin, excluding IFRS 16, of 14% and including IFRS 16 of 22%, with a deviation margin of plus and minus 50 bps. This expectation includes the impact of lower interest rate estimates in 2020, which result in a lower contribution of “interest on purchases” item to EBITDA.

Building on the abovementioned growth and profitability targets, we expect to be at a net cash position by the end of 2020, excluding the IFRS 16 adjustments. We expect our CapEx spending to be below 4% of total sales. Close to 35% this CapEx will be invested behind IT, ecommerce and [SQ] investments, and 65% in retail.

With this final note, now, I'm happy to take any questions you may have. Thank you for being with us. It’s over to you guys for any questions you might have.

Question and Answer Session

Operator

[Operator instructions]

Our first question comes from Kayahan Demirak from İş Investment. Please go ahead.

Kayahan Demirak

I just have one question about, maybe two, about your guidance. Did you take into consideration the outbreak of coronavirus in Turkey? It may have some negative impact on travelling in the next couple of months, or maybe Government might introduce such measures similar to Europe. And if you see a sudden unexpected decline in sales, how much of your orders you can cancel. Thank you very much.

Cüneyt Yavuz

I'll try to give you a macro picture of what we are doing right now. Currently, we have a major externality as you just mentioned in terms of a crisis. For the time being, what we are doing is we are managing our company in a prudent way in terms of both inventory and cash. And in terms of unexpected close down or slowdown in business, we are constantly working with my finance team to do certain stress tests in terms of our sustainability and business continuity. But for the time being, it's just too early to say anything new, because as of today, year-to-date, our performance in terms of sales and performance, both domestic Turkey and also in Germany, Russia, U.S., Canada, we are heading in sync with our targets. Having said that, we are on full alert in terms of what might be there.

In terms of inventory and cash management, what we can cancel in terms of orders, I'm happy to report that we are agile. As you can see from our balance sheet, we did close the year in a very healthy net inventory situation and, therefore, also on a run rate, in terms of products coming in, be it lifestyle or denim categories, we are on a constant lookout in making sure that the flow of inventories into the stores is maintained. It is at this point in time not within my scope and I'm not in a position to comment on how much I can cancel or hold back right now. It's too early to mention.

But relatively speaking, I feel very confident with our management team. As a company which might be perceived by the investment committee as retail being a risk-related sector, we are very comfortable, in the sense that we can handle quite a bit of downturn in the coming months. But it is quite a bit of unknown for the time being.

Thank you.

Operator
There are no further questions in the conference call. I will now give back the floor to the speaker for the webcast questions.

Cüneyt Yavuz
Thank you. There is one question that has come through the webcast, which is relating to our share of business in street versus shopping malls.

As you know, of our total business, roughly 80% is being delivered through retail in Turkey, and of that 80%, about 65% is coming from shopping malls. So, yes, should there be a slowdown in traffic in shopping malls, Mavi is exposed. What we are trying to do is make sure that we keep a healthy good balance in terms of inventory, and take the current crisis on a day by day basis in terms of making sure that both our cash and inventory situation is managed in a very agile and responsive manner.

Conclusion

Cüneyt Yavuz
With that, I think that ends all the questions that I have received for the presentation. As always, should you have any further questions, our IR team will be more than happy to get back to you and answer any further questions you might have. And I wish you all a very happy and healthy quarter and days in the coming months, and hope to see and talk with you very soon at the end of the first quarter.

All my best from Mavi team. Thank you very much. Bye-bye.