Transcription for Q1 2025 Financial Results Webcast

June 13TH, 2025

Cuneyt Yavuz:

Hello everyone! Welcome to our 2025 quarter 1 financial results update.

Before going over the slides, I would like to make a few comments on the trading environment of the quarter and how we view our performance: Recall that, the anti-inflationary measures implemented in Türkiye began to weigh in on consumer purchasing power and demand starting from mid-June 2024. The first half of last year was characterized by an exceptionally strong consumer appetite. As a result, we reported a particularly strong first quarter in 2024, marked by robust sales growth and record-high margins. Given this high base we anticipated that 2025 first-quarter performance this year would be a challenge on a like for like basis and the results were broadly in line with our expectations. This quarter's top-line performance was also affected by a number of external factors and cooler-than-average weather conditions. On the other hand, we are very happy to witness once again that our strategic focus enables us to navigate this uncertain and challenging environment effectively. Through a strong brand strategy, agile product and price positioning, flexible sourcing capabilities, and disciplined inventory and working capital management, we successfully protected our healthy margins and maintained a solid and resilient balance sheet.

Focused on our long-term sustainable growth targets, we continue our retail investments with dedication. We still plan to reach net 20 new stores openings and 15 expansions in existing locations in Türkiye, along with 8 new store openings in the US. We are also accelerating our new store concept transformations which proved to enhance customer experience and increase sales potential.

Maintaining our leadership in jeans with a market share exceeding 25%, we remain among the top three brands in the total apparel market, and we are the number one destination for casual wear in Türkiye. In this highly competitive landscape, it gives us great confidence that Mavi continues to be the aspirational love brand, the most trusted brand and the preferred choice of consumers.

As demonstrated by our 2024 and this first-quarter results, we firmly believe that Mavi remains one of the most resilient and investable companies in the current economic environment. In line with our commitment to protecting the interests of all stakeholders and supporting a healthy and stable valuation of our stock market share, our Board of Directors has decided to initiate share buyback transactions reinforcing confidence in the company's long-term growth strategy. Details of the plan, including timing and scale, were shared yesterday in accordance with regulatory requirements.

With this, let's start reviewing our results for Q1 2025:

• On a very high base, consolidated revenue declined 14% yoy in Q1 2025 and realized at 9 billion 777 million TL. Türkiye retail sales declined 14% and Türkiye online sales declined by 11% in Q1 2025. Since many of you are comparing our first-quarter results with those of other companies, here, I'd like to highlight an important nuance. As you know, we operate on a non-calendar fiscal period, and our first quarter covers February to April. Last year, April was an exceptionally strong month due to the timing of the Ramadan holiday. If we were reporting on a January to March basis—aligned with the calendar quarters used by most companies—our sales performance in Türkiye retail would have been approximately 6.5% growth in real terms.

• Our EBITDA in Q1 2025 is 2 billion 14 million TL resulting in a resilient 20.6% EBITDA margin

• We managed to reach 810 million TL net income this quarter

• With continued positive cash generation, our net cash position increased 4% to 6 billion 71 TL

• With 400,000 new customer acquisitions in the first 3 months of 2025, the number of active loyalty card members, meaning the customers who have shopped with us in the last year, reached 6 million.

Moving on to review our channel performance on Slide 5:

With all the underlying reasons we already talked about, total Turkiye sales was 13% lower than last year same quarter. International revenue, now constituting 9% of total consolidated sales, also contracted 14% in constant currency during the first quarter. The weakness was primarily driven by demand weaknesses across some of our international markets and prolonged SAP transitioning issues in Europe. The tariff discussions created uncertainty and put pressure on wholesale shipments in the US in the first quarter but seems to have normalized in the second quarter. The e-com channel which is our only direct to consumer channel for now was in the positive territory with 4% growth in USD. The planned store openings in the US will take place as of end August this year and we expect to see notable revenue contributions as of next year.

Looking into our Turkiye retail business in more detail:

We've increased our retail space by more than 8% last year and we have a similar store roll-out plan for this year which we see as an investment in our sustainable growth targets for the future. We are committed to strengthening our physical presence in Turkiye and providing elevated customer experience across our locations. We take a disciplined approach to store openings, focusing on robust feasibility studies and short payback periods. All the new stores opened over the past year have delivered positive store contributions.

As of end- April, we opened 1 store, closed 2 stores and expanded 4 stores in sqms in Turkiye reaching 350 stores and 189 thousand sqms total selling space.

On slide 8, lets elaborate on the like for like store performance:

In Q1 2025, LFL sales contracted 15.9% in real TL terms and 13.4% in volume terms in Turkiye. While the number of transactions was also down 14% in the quarter, basket size was down 2% in real terms but grew 35.7% in nominal TL terms. It is worth noting that the official clothing and footwear inflation in Turkiye was close to 17% year on year in April. With the base normalizing, we are seeing LFL dynamics improving in May with 41% nominal growth in TL terms and 14% volume growth yoy.

Moving on to slide 9 to review category-based developments in Turkiye retail:

The category performances were broadly in line with the overall performance with denim sales down 14%, shirts and knits sales down 20%, non-denim bottoms down 15% year on year. There was a shift in jackets sales from quarter four to quarter one due to weather conditions and hence resulted in 15% growth. Albeit being smaller ticket items, accessories' share in customer baskets increased this quarter, which resulted in flat year on year sales performance.

Going forward to review our online sales performance on page 11:

Global online sales including the wholesale business partners, constitute 10.7% of total consolidated revenue in Q1 2025. Online sales in Turkiye consisting only of direct-to-consumer channels was 11% lower than last year and constituted 8.4% of total sales in Turkiye. The decline in revenue was 15% on the marketplace channel and 6% in mavi.com. International online contracted 16% in inflation adjusted TL figures. Online business makes up 32.4% of total international sales.

Let's move on to review our consolidated financial results:

Since the second half of 2024, declining purchasing power and intensified price competition aimed at stimulating consumer demand have exerted pressure on gross margins across the market. In this challenging environment, we are pleased to have maintained our already strong gross margin levels. This performance reflects the strength of our planning function, our flexible and dynamic sourcing capabilities, and our highly effective, targeted campaign management. In the first quarter, our gross margin came in at 52.2%, reflecting a 160 basis point lower impact from inflation accounting adjustments and a 40 basis point negative impact from imputed interest rates.

Moving on to slide 14 to review our EBITDA performance.

In the first quarter, our EBITDA margin declined by 340 basis points, primarily due to a 320 basis point increase in the operating expenses-to-sales ratio. This increase was largely driven by lower sales volume, which reduced our operating leverage. Despite the softer top-line performance, both gross margin and EBITDA margin came in ahead of our initial expectations.

On Slide 15, we look into our net income margin performance:

The decline in operational profit margin was largely reflected in the bottom line. We generated 810 mn TL net income in quarter one with 8.3% net income margin.

On slide 16, we will review our operational cash flow and working capital performance:

Through dynamic product planning and a flexible sourcing strategy, we continue to efficiently manage inventory and working capital, ensuring operational agility. I am pleased to share that our inventory levels remain exceptionally healthy, comprised mostly of fresh Spring-Summer season products. The apparent TL increase in inventory is a result of sales transitioning from month to month in mid-season and is temporary.

We created 1.3 billion TL cash from our operations in Q1 2025, with a cash conversion ratio of 66%.

Moving on to the next slide: In the first quarter, we invested 428 million TL in capital expenditure, resulting in a Capex-to-sales ratio of 4.4%. This expenditure was primarily focused on retail investments such as store openings, expansions and renovations and the capex related to our new headquarters to which we will be moving into early July. Our net cash position grew 12% in nominal terms and 4% in real terms in the first three months of 2025 to reach 6 billion 71 million TL. As always, the foreign currency debt reflected in our consolidated reports pertains solely to our subsidiaries, which borrow in their respective local currencies, thereby eliminating currency risk.

We are keeping our guidance for the year 2025 unchanged at this point of time.

We continue to prioritize being a reliable and responsible partner to our employees, customers, business partners, and communities while remaining focused on our long-term goals with a forward-looking attitude. In support of our future sustainable growth aspirations, we will be opening net 20 stores and expanding 15 stores in Turkiye, while also opening our first 8 retail stores in the US in 2025. We will continue to prioritize outperforming the apparel market, earn the love of our customers love and loyalty and deliver with an overall commitment to operational excellence. A note to provide some insight into the second quarter: With the base finally normalizing we are seeing improved dynamics in our sales performance. In May, Türkiye retail sales grew 46% with 41% LFL growth and online sales grew 35% with mavi.com delivering 42% growth.

The growth figures for the first 9 days of June do not provide a healthy like for like comparison due to the calendar shift of the Eid Holiday but I can state that the sales performance is in-line with our expectations.

I am happy to take your questions now.

Duygu Inceoz:

Ladies and gentlemen, if you wish to ask a question, please raise your hands and we will call your name. Mustafa, you can go ahead, please.

Mustafa Görkem Göker:

My question is regarding the contraction in your volumes, which is not very common in your case, based on historical performance. I know the low domestic demand played a role, but from a market perspective, did you lose market share to a certain player, or how were the developments in the market? Did we see this type of contraction in overall market, or how specific is it for you? Thank you very much.

Cuneyt Yavuz:

Generally speaking, we think we are in sync with the market, to the best of our knowledge. The market data, market share data, comes in a bit later in the game. What we can read from, talking to our competitors and observing the macro dynamics, we don't necessarily believe that we're losing market share. As you mentioned, it's more like the market also shrinking in this time. There might be a slight category or product base, or maybe woman's or man's base, depending on the brand shifts. But I think overall, this year, as I also tried to elaborate in my presentation, we are quite confident that we will remain, maintain, or if not, grow our market share this year also in the Turkish market. There might be, I mean, there have been, why I'm sort of leaving a bit of a leeway is, there have been the lower price competitors with higher stock giving higher, harder discounts at the beginning of the year, which might have sort of shifted some of the low-end customers from us into them to buy a bit more volume. But what we are seeing, starting with the end of April, May, coming into holiday period, our numbers are indicating a healthy growth and coming back to normal rhythms. If also we are, I'm just going to elaborate a little more, we are tracking our price position vis-a-vis the competitors, vis-a-vis a certain index and purchasing power parity. From that perspective, we are in a very, we remain in a favorable position, and I hopefully, for those of you who are in Turkey, when you go out to shop, you observe that we are doing our utmost to make sure that we protect the Turkish consumer. I'm really proud that we are able to do that and at the same time maintain our margins. So, that would be my take of the market, Mustafa.

Mustafa Görkem Göker

Thank you for the question. Thank you. Thank you very much. Thank you.

Duygu Inceoz:

Hello, everyone. Do you have any other questions? If you prefer to type your questions, you may leave the chat screen. We have Ezgi Akalan. Please go ahead, Ezgi.

Ezgi Akalan:

Thank you for the presentations and congratulations on the results. Do you, looking at your EBITDA margins in the first quarter and with the challenging competitive environment, do you think there will be an upside risk on the margin side in your guidance?

Cuneyt Yavuz:

At this point, I mean, we've gone through a relatively uncertain first quarter. We knew it would be a challenging first quarter. Plus, as you know, the weather went a bit cold and Istanbul got snowed out. There were also some political tensions going on here and there, which made it a bit more challenging. So, there was quite a bit of uncertain times from a top-line perspective. So, actually, vis-à-vis our expectations, to be honest, we were expecting to sell a bit more, but that did not realize. Having said that, in terms of OPEX management, gross margin management, we came through with good results, being, as always, agile and very prudent and capitalizing on the fact that we are in Turkey and that we can move things around quite fast. For the time being, I mean, we're just getting out of this sort of uncertain times into a more normalized time. The environment, as you know, the inflationary numbers are coming in. The environment is getting a little more positive vibes. Therefore, you know, things can get a bit better or not. I'm not so sure, globally looking at things. Therefore, at this point in time, we find it quite premature to make a change in terms of our guidance. So, I'm not trying to be low-balling or high-balling. I think the guidance is a good, solid guidance that we put forth. At this point in time, I would say, you know, let's stick to the guidance and not expect more or not expect less. Thank you.

Ezgi Akalan:

Thank you. Cuneyt Bey.

Duygu Inceoz:

You may type in your questions on the chat screen or for those of you who dialed in via audio, we can also take your questions if you have any. On the chat screen, I have a question from Erkan Edincik. He says, given how tight financing conditions are and the decline in economic activity, you used to find it more reasonable to use your available cash more effectively rather than buying shares. What made you change your minds?

Cuneyt Yavuz:

Thank you for bringing this question up. As you know, because the financing costs are really high, we have been quite prudent and defensive in terms of keeping and holding on to our cash position. Actually, the buyback is on two fronts. One, we believe that the current trading environment and how Mavi represented vis-à-vis its value was quite cheap, and therefore, we see a big opportunity of coming in and resounding the message and strengthening our message that we believe this is wrong and that we can do much better, and also to give you, the investment community, that Mavi is also confidently believing in its future performance in terms of coming out of a tough quarter, in terms of looking into the next quarter that we will be delivering great results, and that this value is not representative of what we stand for. Of course, the other thing is, as you can see from the tough quarter, we came out of it with good cash conversion rates, and we are being able to manage our cash position and the inventory position, despite a bit of headline slowdown in top-line sales. So, when we sit down with the board and talk about, and our CFO and the treasury team, we realize that this is a very good time for us to come in and put aside a certain amount which will not impact our borrowing or cost or investment, hindering any of our investment plans. Therefore, we are really happy, actually, that we are able to do this. This is the first time after 2017, since we went public, that we came about, and we are doing it as a show, you know, vote of confidence of our company, but not only from a share price position, but also to tell you, the investment community, that we have enough cash to do both, to be able to invest and grow and keep the business tracking down while continuing to deliver cash conversions in a positive way. So, thank you for bringing up this question, Erkan.

Duygu Inceoz:

We have our next question from Jan. What is the outlook for international markets that are declining for several quarters? What are the main challenges faced there, and when are any reversals to growth to be expected?

Cuneyt Yavuz:

Of our international markets, again, so, you know, I'm drumming up the same beat. When we talk about international markets, we are predominantly talking about US for us. We have business in Europe, and we have business in Russia, but they are more or less flat, or in some instances declining a bit. In Germany, we had a bit of a hiccup in terms of SAP transitioning, warehouse transitioning, et cetera, but that's over. From here on, it should be more like, in Euro terms, a flat business at the run rate. Russia is a bit more iffy. There are good quarters. There are bad quarters. It depends on the situation, but it's not a big portion of our business. For us, from here on, Turkey remains very important, and from an international market point of view, USA remains very important. As I mentioned, we will be opening at least eight stores this year in the US, and, of course, the revenue stream and the impact of revenues coming from these stores will be negligible or visible next year. Therefore, from an international business perspective, I would say keep tracking Mavi. I will be updating you guys in terms of how we're performing in the US. First, of course, we have to get the stores up and running. This will be the third and fourth quarters of this year, and starting from next year, we should be able to see some real-term growth in the US market. So, that's how I would plan for Mavi's domestic and international business growth plans from here on. Thank you.

Duygu Inceoz:

Thank you. Ladies and gentlemen, do you have any other questions? Okay, I have another question from Aleyna Derelioglu. Can you elaborate more on the sector, both international and domestic, regarding the last question?

Duygu Inceoz:

From our sector, I mean talking about the consumer sentiment and the apparel industry, I think overall the industry is probably shrinking or flat in Turkey. Therefore, in this environment, for us, the key thing is to be able to continue to maintain growth and growing market share. So, from that front, it becomes very important that you have the right price, right product, right communication, right style, right service levels from a Turkey perspective. These are all things we are really good at. If you also look at the consumer behavior in the category of apparel, which is the sportswear or casualwear category, it is the more vibrant part of the category. Therefore, we are blessed with being in the segment where we have the jeans, T-shirts, sweatshirts, the casualwear, sportswear products that are really welcomed by the consumers, and that's where a lot of the dynamism is. Also, what we sell is quite ageless. So, we can start at 13, 14 years of age and go all the way to 78 years of age. So, we cover the whole customer segment in terms of dress attire and their needs. Therefore, in a Turkey context, our main focus is going to be continue to open up new stores, make sure wherever we can find the biggest store to increase our biggest square meters, you know, have bigger square meters, because what we see is the minute we have on average 500 plus square meters shops, the minute we open up 1,000 square meters, it's up and running. So, the consumers themselves are already ready to buy the products that we are willing to offer them. Therefore, Turkey is more of an uphill battle in a constructive way of finding the space, expanding square meters to deliver the doubling of the growth over the next five, six, seven years. I'm really confident that, you know, we've come a long way, but we have so much more to gain and win in a Turkey context. In terms of international markets, starting with last year, we called out the U.S. as a priority market. We've been working really hard in terms of determining the product portfolio, store size, store layouts, store design, categories, people, processes, warehouses, et cetera, to prepare U.S. for this new store opening that's coming ahead of us. So, we start with eight, and we will continue on another eight, 10, and keep going as long as we keep delivering good results in a U.S. context. In the meantime, we had, you may recall, for Russia, for us, it was on hold, and it will remain on hold until there is more political certainty in terms of where the Russian situation ends up vis-a-vis the Ukraine war and its attrition with the West. So, for us, I mean, we are able to trade. We are able to sell products. We are selling our products, but we are not growing our business. We have around 18, 19 retail stores there. If you may recall, you may recall that we had plans to go to 50, 60. We still have those plans, but only when we feel that there is a normalized relationship between Russia and the world. When it comes to Europe, we have a lot of technical groundwork that we have to cover, which is the SAP transaction, warehousing, et cetera, so more of the fundamentals, which are behind us as we enter this quarter. So, we remain quite confident from here on to look into Europe more and see what more we can do. In terms of the upside of Europe, it's going to be more e-com and door penetration. But in terms of the total upside, it's not going to be like U.S., because opening retail means you go directly to consumers, both from a margin perspective and revenue perspective. That's going to be more impactful. But I do expect that the coming years, we will be delivering maybe not huge numbers, but better numbers and growth numbers in a European context, which the European team is working on right now, having finished a lot of the groundwork and put that behind us. I hope that sort of gives you even further detail of how we are viewing the markets we are operating in. Thank you.

Duygu Inceoz:

Any other questions? Okay, seems like we don't have any more questions. Thank you for your attendance and contribution to our webcast. And if you have any follow-up questions, I'm always here as a team. We are here as a team. And see you again in three months.

Cuneyt Yavuz:

Thank you, Duygu. Thank you, everyone. Thank you for joining our conference. And I wish you all a very happy summer and look forward to seeing you with great results in the following quarter. All my best. Take care. Bye-bye.