



# mavi

**Mavi Giyim Sanayi ve Ticaret A.Ş.**  
Interim Report for the Nine Months Period  
February 1 - October 31, 2017

## **TABLE of CONTENTS**

- 1- Corporate Information
- 2- Operational and Financial Information
- 3- Economy and Industry Information
- 4- Future Expectations
- 5- Other Developments
- 6- Summary Financial Tables

## 1- Corporate Information

This Interim Report is the Report of the Board of Directors, prepared according to CMB Communiqué II, Numbered 14.1; related to the nine months of 2017, ended October 31, 2017.

Within this report, the Company (Mavi Giyim Sanayi ve Tic. A.Ş.) and its subsidiaries will be defined as “Mavi”, “Company” or “Group”

### i. About Mavi

Mavi Giyim San. ve Tic. A.Ş., is established in Turkey. The registered address of the Company is Sultan Selim Mahallesi Eski Büyükdere Caddesi No:53 34418, Kağıthane, İstanbul.

Mavi engages in wholesale and retail sales of ready-to-wear denim apparel to local and international customers. The product range includes knit and woven shirts, t-shirts, jackets, skirts, dresses, accessories and denim bottoms for men, women and children. International sales operations started in 1994 and the company has showrooms in Heusenstamm, Düsseldorf, Sindelfingen, Munich, Hamburg, Berlin, Zürich, Salzburg, Prag, Brüksel, Moskova, New York, New Jersey, Los Angeles, Atlanta, Dallas, Chicago, Vancouver, Toronto and Montreal.

Our Company is a member of Büyük Mükellefler Tax Office with tax id number 613 002 7985, registered under Istanbul Trade Registry with registration number 309315.

Fiscal year of the Company is between February 1 – January 31 in line with the fashion apparel business seasons; and our interim report is based on the nine months period of the fiscal year 2017, between February 1 – October 31.

Official company websites are [www.mavi.com](http://www.mavi.com) and [www.mavicompany.com](http://www.mavicompany.com)

### ii. Capital Structure

Company’s shared capital consist of 49.657.000 shares, all of which are issued, fully paid and have a nominal value of TRY 1.00 each at the date of July 31, 2017. Our authorized share capital limit is TRY 245,000,000.

With the appropriate permission from İstanbul Stock Exchange Market Presidency, shares equal to TL 27,311 representing 55% of nominal shares was offered to public on 15 June 2017 with the ticker MAVI.

Capital structure of the Group as of October 31, 2017 is as follows;

	%	31 October 2017
Blue International Holding B.V.	46.55	23,115,396
Publicly Listed	53.45	26,541,604
	<b>100.00</b>	<b>49,657,000</b>

### iii. Direct and Indirect Subsidiaries

Direct and indirect subsidiaries of the Company are as follows;

Subsidiary	Country	Share
Mavi Europe AG	Almanya	100.00%
Mavi Jeans Nederland BV	Hollanda	100.00%
Mavi Jeans LLC Limited	Rusya	100.00%
Mavi Kazakhstan LLP	Kazakistan	100.00%
Eflatun Giyim Yatırım Tic. A.Ş.	Türkiye	51.00%
<i>Mavi Jeans Canada</i>	<i>Kanada</i>	<i>38.25%</i>
<i>Mavi Jeans Inc.</i>	<i>ABD</i>	<i>51.00%</i>

### iv. Structure and Composition of the Board of Directors

Our Board consists of six members, two of which are independent board members.

As of October 31, 2017 the Board of Directors is as follows:

Director	Role	Executive/Independent
Ragıp Ersin Akarlılar	Chairman	Non-Executive
Seymur Tarı	Vice Chairman	Non-Executive
Elif Akarlılar	Member	Executive
Cüneyt Yavuz	Member	Executive
Ahmet F. Ashaboğlu	Member	Independent
Nevzat Aydın	Member	Independent

Also within this reporting period Arif Kerem Onursal and Hatice Hale Özsoy Bıyıklı have served as board members up to July 17, 2017. Short biographical information about the board members can be found on our company website [www.mavicompany.com](http://www.mavicompany.com).

In order to assist the Board of Directors with their responsibilities, Audit Committee, Early Identification of Risks Committee and Corporate Governance Committee has been established within the Board on

May 24, 2017 and their working principles has been disclosed within the offering circular. Regarding the committees, our Board of Directors has made the following appointments on August 22, 2017.

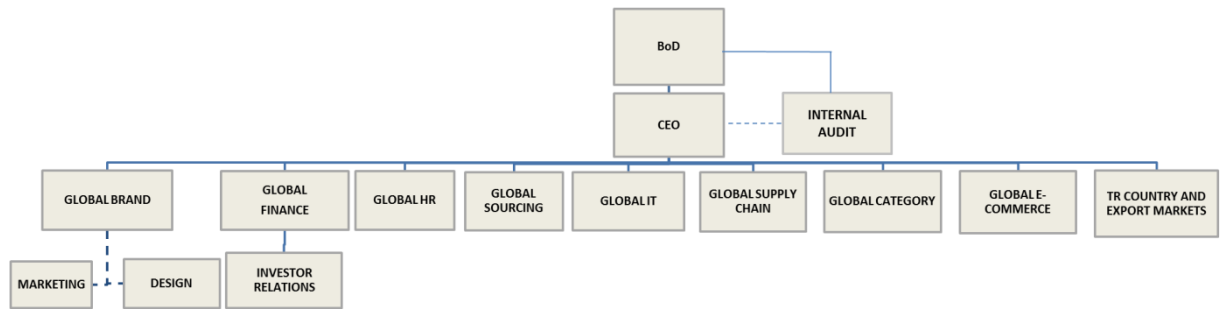
Independent board members Ahmet F. Ashaboğlu and Nevzat Aydın has been appointed as members of the Audit Committee with Ahmet F. Ashaboğlu as the chairman of the committee;

Chairman of the board Ragıp Ersin Akarlılar, independent board member Nevzat Aydın and investor relations director Duygu Inceoz has been appointed as members of Corporate Governance Committee with Nevzat Aydın as chairman of the committee;

Chairman of the board Ragıp Ersin Akarlılar, independent board member Ahmet F. Ashaboğlu and CFO Tuba Toprakçı Yılmaz has been appointed as members of the Early Identification of Risks Committee with Ahmet F. Ashaboğlu as the chairman of the committee.

#### v. Organization Structure and Management

As of October 31, 2017 Group's total number of employees is 3.770 (3.393 in Turkey, 377 in International offices) Following charts show our Company's organisation structure and management team.



	<b>Position</b>	<b>Starting Date</b>
Cüneyt Yavuz	CEO	2008
Tuba Toprakçı Yılmaz	CFO	2006
Elif Akarlılar	Chief Brand Officer	1991
Savan Tüysüz	Chief Commercial Officer	2016

## 2 – Operational and Financial Information

### i. Operational Developments

Mavi sells its products in 35 countries including Turkey, USA, Canada, Germany and Russia through three sales channels;

- Retail; represents our sales to consumers at mono-brand stores that are operated by Mavi. (%64 of total sales in 9M 2017),
- Wholesale sales are to third-party retailers that then on-sell to customers, which includes department store chains, corner shops and other stores and third-party e-commerce channels as well as franchise mono-brand stores (34%)
- E-commerce; represents direct sales that the Company makes to consumers on our own websites (2%)

During the nine months period of 2017, we opened 25 new mono-brand stores (21 in Turkey and 4 in Russia) and mono-brand stores directly operated by the Company reached 307. (282 in Turkey and 25 International)

Turkey retail operation reached 136k sqm with 282 mono-brand stores by the end of October, 2017 compared to 117k sqm at the end of fiscal year 2016 with 21 new store roll-out with an average of 619 sqm and the expansion of 17 existing stores corresponding to 4,724sqm.

Within the wholesale operations Mavi has 110 monobrand franchise stores and more than 5.000 sales points globally.

We continued to gain new retail customers as the number of our loyalty card members (Kartuş Card Holders) increased to 6.3 mn as of 31 , 2017 from 5.7 mn in year end 2016.

## ii. Financial Developments

TRY('000)	9M 2016	9M 2017	Change (%)
Revenue	972,671	1,350,424	38.8%
Cost of Sales	(478,362)	(665,692)	39.2%
Gross Profit	494,309	684,732	38.5%
Gross Margin	50.8%	50.7%	-0.1 p.
Operating Profit	105,612	164,752	56.0%
Operating Margin	10.9%	12.2%	1.3 p.
Profit	52,703	84,108	59.6%
Profit Margin	5.4%	6.2%	0.8 p.
EBITDA	134,670	207,808	54.3%
EBITDA Margin	13.8%	15.4%	1.5 p.

In the nine months of 2017, total company revenue stood at 1,350 TRYm with an increase of 38.8% compared to the same period of 2016. Sales were realised with 50.7% gross margin, 12.2% of operational profit margin and 15.4% of EBITDA margin.

Turkey sales increased by 29% as a result of;

- strong LFL performance (22.4%), with
  - 13.6% transaction
  - 7.7% basket size
- 21 new store openings and 17 retail store expansions
- as well as 40% increase in E-commerce.

International sales increased by 112% to 243 TRYm in nine months 2017, from 115 TRYm in the same period of 2016, including the inorganic growth impact of the acquisition of US and Canada businesses in August 2016. On a pro-forma basis, sales increased by 38%.

E-commerce sales grew by 85% to 25 TRYm and constituted 2% of sales.

## iii. Financial Overview of the Management

Financial and operational results of the nine months of fiscal year 2017 actualized in line with management targets and expectations.

- Group's Consolidated Revenue increased by 39% to 1,350 TRYm in 9M 2017, compared to the same period of the previous year.
- Gross profit increased by 38.5% to 685 TRYm, corresponding to a gross margin of 50.7%

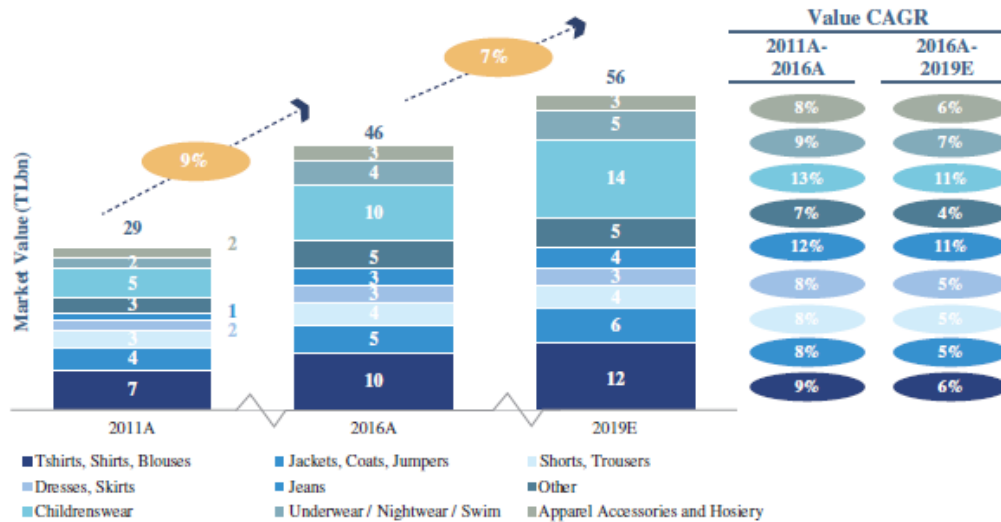
- EBITDA reached 208 TRYm with a margin of 15.4% resulting to 54% growth and 1.5pts margin expansion compared to the previous year.
- Net Debt decreased to 124 TRYm as at October 31, 2017 from 178 TRYm at the end of fiscal year 2016. As a result net debt/LTM EBITDA multiple came to 0.5x.
- 55 TRYm capital expenditure was realised including new store openings and store sqm expansions and renovations. CAPEX as percentage of sales in 9M 2017 was 4.1%.

### 3 – Economy and Industry Information

The Turkish economy sustained average real GDP growth of 5.7% between 2001 and 2016, with GDP per capita reached \$10,807 for 2016, up from \$3,084 for the year ended 2001 (Source: Turkstat).

Furthermore, according to Turkstat, Turkey has a young population with a median age of approximately 30 years in 2016. Turkey has a population of 79.8 million with males constituting 50.2% and females 49.8% and 32.5% of the population is in the 15–34 year age group. Considering our loyal customer base whose core segment consists of young, fashion-conscious men and women under the age of 34, Turkey's young population is helping us to optimize our sell-through rate.

#### Evolution of Apparel and Accessories Market in Turkey (2011 (actual) - 2019 (expected), TRYbn )



Source: Euromonitor<sup>1</sup>

According to Euromonitor, the total market for apparel and accessories in Turkey was approximately TL 46 billion in 2016. The total market, which grew at an annual CAGR of 9% between 2011 and 2016, is expected to reach TL 56 billion in 2019, growing at an expected annual CAGR of 7% between 2016 and 2019.

<sup>1</sup> İlgili raporlara <http://www.euromonitor.com/jeans-in-turkey/report> ve <http://www.euromonitor.com/apparel-and-footwear-in-turkey/report> adreslerinden ulaşılabilir.



Jean spending per capita in Turkey is €10, which is materially lower than other countries (e.g., United States with spend per capita of €49, United Kingdom with €45 and Australia with €39) which suggests ample room for further growth.

From a competition standpoint, the Turkish apparel market includes a mix of local and international players. According to Euromonitor, the five largest players accounted for approximately 30% of the market in 2016, with Mavi as the only local brand in the upper market segment.

Mavi is a brand focused on core to premium in Turkish apparel market. Internationally, we are positioned as lifestyle aspirational brand with a product strategy built around the pillars of our Perfect Fit approach, high quality for the price and customer-centric products. We compete at the upper end of the core jeans market, and are able to offer premium products to reinforce and grow our market position and pricing power.

Mavi is the Jean brand of choice for 29% of women and 28% of man and the number one “top of mind” Jean brand in Turkey with 53% according to a brand perception study of GFK<sup>2</sup> which took place in June 2016. It has also been named the “Coolest Brand” in Turkey and “Best Youth Brand” in Turkey in several surveys in the recent years.

According to 2016 Fortune 500 results, we rank as the 142nd largest company in Turkey, according to Economist Franchising 100 Study, we are the fourth largest franchiser in Turkey and according to Brand Finance we are the 31st most valuable brand in Turkey as of 2017.

## 4 - Future Expectations

In the last three years ended January 31, 2017 Mavi has opened 26 new retail stores in Turkey, and realised 16.3% like-for-like growth and 24.7% Turkey retail revenue growth on average. According to our company business plans covering the 3 years period 2017-2019, we are targeting to sustain 26 store openings yearly with similar growth rates. Our management is devoted to achieving these targets through the following actions:

- Increasing sales by enriching customer experience
- Accelerating category based growth to increase conversion rates
- Efficient product planning to drive higher stock turnover
- Increasing items per ticket
- Increase floorspace in Turkey, both via new mono-brand stores opening and mono-brand store expansion
- E-commerce growth
- International expansion

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<sup>2</sup> İlgili rapora [http://sky-static.mavi.com/sys-master/maviTrImages/234234/01/GFK\\_Marka\\_Bilinirlik.html](http://sky-static.mavi.com/sys-master/maviTrImages/234234/01/GFK_Marka_Bilinirlik.html) adresinden ulaşılabilir.

## 5 - Other Developments

- In regard to the Corporate Governance Guidelines, International Operations Advisory Board has been established on May 16, 2017 and Audit Committee, Early Identification of Risks Committee and Corporate Governance Committee has been established within the Board on May 24, 2017.
- Our %100 joint venture Mavi Kazakistan had ceased its operations and as of August 11, 2017 its liquidation period has been announced and officially started.
- Our Company has become the sole shareholder of our subsidiary Mavi Europe AG on September 29, 2017, through increasing its shareholding to 100% from 87.5%, following the payment of the last installment of the share purchase price in relation to the put option exercised by the minority shareholders on March 29, 2017 and the completion of the share transfer procedure.
- Serving the international recognition and brand building of "Mavi" brand, our company had been accredited under the Turquality support programme since 2008 and has completed its second five year support cycle as of September 2017. In accordance with the amendments made to the Turquality legislation in 01.06.2017, that allows for additional time in the programme for new markets for up to five years, our USA and Canada operations have been included in the support programme for the next five years.

## 6 – Summary Financial Tables

### Summary P&L

TRY('000)	9M 2016	9M 2017	Change (%)
Revenue	972,671	1,350,424	38.8%
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Operating Margin	10.9%	12.2%	1.3 p.
Profit	52,703	84,108	59.6%
Profit Margin	5.4%	6.2%	0.8 p.
EBITDA	134,670	207,808	54.3%
EBITDA Margin	13.8%	15.4%	1.5 p.
Earnings per Share	1.04	1.58	51.8%

### Summary Balance Sheet

TRY('000)	31-Jan-17	31-Oct-17	Change (%)
<b>Current Assets</b>	625,380	723,400	
<b>Non-Current Assets</b>	301,430	314,047	
<b>Total Assets</b>	<b>926,810</b>	<b>1,037,447</b>	<b>11.9%</b>
<b>Current Liabilities</b>	664,463	686,914	
<b>Non-Current Liabilities</b>	121,877	111,613	
<b>Total Liabilities</b>	<b>786,340</b>	<b>798,527</b>	<b>1.5%</b>
<b>Total Equity</b>	140,470	238,920	70.1%
<b>Total Equity &amp; Liabilities</b>	<b>926,810</b>	<b>1,037,447</b>	<b>11.9%</b>
Total Debt /Total Assets	0.85	0.77	
Equity / Total Assets	0.15	0.23	

## Summary Cash Flow Statement

<b>TRY('000)</b>	<b>9M 2016</b>	<b>9M 2017</b>
Profit <sup>1</sup>	53,773	84,127
D&A Expense	33,193	43,827
Net Finance Expense / (Income)	33,860	49,998
Tax Expense	15,239	20,296
Other Non-Cash Items	(855)	13,921
<b>Cash Flow from Operating Activities</b>	<b>135,210</b>	<b>212,169</b>
Δ in Net Working Capital <sup>2</sup>	(34,322)	4,521
Income Tax Paid	(9,281)	(10,936)
<b>Net Cash from Operating Activities</b>	<b>91,607</b>	<b>205,754</b>
<b>Cash Flows from Investing Activities</b>		
Capex	(45,566)	(55,452)
Other Investing Cash Flow <sup>3</sup>	(15,815)	(42,330)
<b>Net Cash Flow Used in Investing Activities</b>	<b>(61,381)</b>	<b>(97,782)</b>
<b>Cash Flows from Financing Activities</b>		
Debt Issued / (Repaid)	22,397	(74,623)
Other Proceeds	1,562	2,197
Interest Paid	(12,873)	(23,552)
<b>Net Cash Flows Used in Financing Activities</b>	<b>11,086</b>	<b>(95,978)</b>
<b>Net Cash Flow</b>	<b>41,312</b>	<b>11,994</b>
Cash and Cash Equivalents at the Beginning of the Period <sup>4</sup>	110,805	154,832
Cash and Cash Equivalents at the End of the Period <sup>4</sup>	152,117	166,826

### **Disclaimer on Market Data and Forward Looking Statements**

To the extent available, the industry, market and competitive position data contained in this report come from official or third party sources. We have not, however, independently verified the information in industry publications, market research or other publicly available information provided by third parties, although we believe the information contained therein to be from reliable sources. In addition, certain of the industry, market and competitive position data contained in this presentation come from our own internal research and estimates based on the knowledge and experience of the Company's management in the markets in which we operate. Although we believe our internal estimates to be reasonable, these estimates have not been verified by any independent sources. We cannot, therefore, assure you of their accuracy, or that a third party using different methods would obtain the same results.

This report includes forward-looking statements. Forward-looking statements provide current expectations of future events based on certain assumptions and include any statement that does not directly relate to any historical or current fact. Forward looking statements involve risks, uncertainties and other important factors over which we may have limited or no control. These factors could cause our actual results, performance or achievements to differ materially from any future circumstances, results, performance or achievements expressed or implied by such statements. As a result, you should not place undue reliance on such statements. You can find further details of the principal risks and uncertainties affecting the Company in our filings with Borsa Istanbul. The forward-looking statements included in this report represent the Company's views as of the date of this report. These views could change. In consequence, you should not rely on these forward-looking statements as representing the Company's views as of any date after the date of this report.