



mavi

Mavi Giyim Sanayi ve Ticaret A.Ş.
Interim Report for the Nine Months Period
February 1 – October 31, 2018

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1- Corporate Information

This Interim Report is the Report of the Board of Directors, prepared according to CMB Communique II, Numbered 14.1; related to the nine months of 2018, ended October 31, 2018. Throughout 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. was established in 1991 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 now has showrooms in Heusenstamm, Düsseldorf, Sindelfingen, Munich, Hamburg, Berlin, Zürich, Salzburg, Prag, Brussels, Almere, Moskova, New York, New Jersey, Los Angeles, Atlanta, Dallas, Chicago, Vancouver, Toronto and Montreal.

The Company is a member of Büyük Mükellefler Tax Office with tax id number 613 002 7985, and 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 this interim report is based on the nine months period ending October 31.

Official company websites are www.mavi.com and 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 October 31, 2018. Authorized share capital limit is TRY 245,000,000.

Mavi shares started trading on Borsa Istanbul on June 15, 2017 with the ticker MAVI.

Capital structure of the Group as of October 31, 2018 is as follows;

| | % | 31 October 2018 |
|---------------------------------|---------------|--------------------|
| Blue International Holding B.V. | 27.41 | 13,608,293 |
| Publicly Listed | 72.59 | 36,048,707 |
| | 100.00 | 49,657,000 |

On November 7, 2018 the 27.40% indirect shareholding of Hayriye Fethiye Akarlılar, Fatma Elif Akarlılar and Seyhan Akarlılar in Mavi Giyim Sanayi ve Ticaret A.S. has been, without any change in their total shareholding percentage, transformed into 27.19% direct shareholding and 0.21% indirect shareholding through Blue International Holding B.V.

Group A shares representing direct shareholding of Hayriye Fethiye Akarlılar, Fatma Elif Akarlılar and Seyhan Akarlılar have been converted into Group B shares as per Article 6 of the Articles of Association of the Company. As a result of these transactions, Group A shares that are held by Blue International Holding B.V. constitute 0.21% of the company's shared capital. The special rights attributed to these shares by the Articles of Association of the Company continue to survive. The effect of Akarlılar family members on the management of the Company remains unchanged.

iii. Direct and Indirect Subsidiaries

Direct and indirect subsidiaries of the Company as at October 31, 2018 are as follows;

| Subsidiary | Country | Share |
|---------------------------------|---------------|---------------|
| Mavi Europe AG | Germany | 100.00% |
| Mavi Jeans Nederland BV | Netherlands | 100.00% |
| Mavi Jeans LLC Limited | Russia | 100.00% |
| Mavi Kazakhstan LLP | Kazakhstan | 100.00% |
| Eflatun Giyim Yatırım Tic. A.Ş. | Turkey | 51.00% |
| <i>Mavi Jeans Canada</i> | <i>Canada</i> | <i>63.25%</i> |
| <i>Mavi Jeans Inc.</i> | <i>USA</i> | <i>51.00%</i> |

iv. Structure and Composition of the Board of Directors

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

As of October 31, 2018 the Board of Directors is as follows:

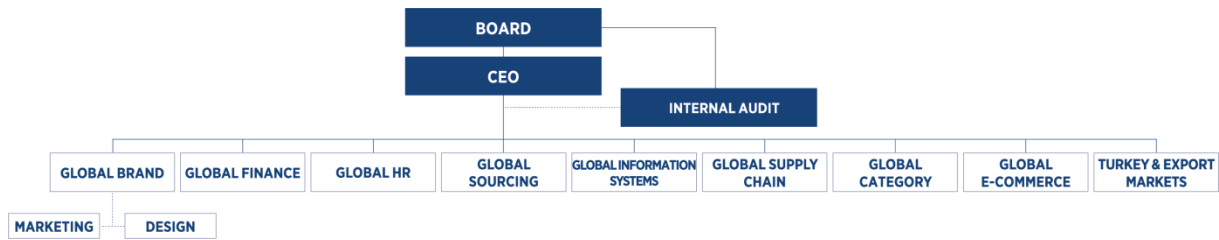
| Director | Role | Executive/Independent |
|-----------------------|---------------|------------------------------|
| Ragıp Ersin Akarlılar | Chairman | Non-Executive |
| Seymur Tari | Vice Chairman | Non-Executive |
| Elif Akarlılar | Member | Executive |
| Cüneyt Yavuz | Member | Executive |
| Ahmet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

Short biographical information about the board members can be found on the company website www.maviccompany.com.

Independent board members Ahmet F. Ashaboğlu and Nevzat Aydın are members of the Audit Committee; Chairman of the board Ragıp Ersin Akarlılar, independent board member Nevzat Aydın and investor relations director Duygu Inceoz are members of the Corporate Governance Committee; Chairman of the board Ragıp Ersin Akarlılar, independent board member Ahmet F. Ashaboğlu and CFO Tuba Toprakçı Yılmaz are members of the Early Identification of Risks Committee.

v. Organization Structure and Management

As of October 31, 2018 Group's total number of employees is 4,016 (3,680 in Turkey, 336 in International offices) Following charts show the Company's organisation structure and management team.



| | Position | Starting Date |
|----------------------|---------------------|----------------------|
| Cüneyt Yavuz | CEO | 2008 |
| Tuba Toprakçı Yılmaz | CFO | 2006 |
| Elif Akarlılar | Chief Brand Officer | 1991 |
| Okan Gürsan | CCO | 2018 |

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. (%64.2 of total sales in 9M 2018),
- 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 (33.2%)
- E-commerce; represents direct sales that the Company makes to consumers on its own websites (2.6%)

During the first nine months of 2018 fiscal year, Mavi opened net 7 stores in Turkey reaching a total number of mono-brand stores of 425. Turkey retail operations reached 146.5k sqms with 294 mono-brand stores by the end of October 2018 compared to 139k sqm at the end of fiscal year 2017 with the addition of sqms rising from 7 new store openings and the expansion of 9 existing stores.

Within the wholesale operations Mavi has 74 monobrand franchise stores in Turkey and 35 internationally and more than 5.000 sales points globally.

Mavi continued to gain new retail customers (905K in 9M 2018) as the total number of its loyalty card members (Kartuş Card Holders) increased to 7.1 mn and active number of members reached 5.2 mn of October 31, 2018

ii. Financial Developments

| TRYm | 9M 2017 | 9M 2018 | Change (%) |
|---------------|---------|---------|------------|
| Revenue | 1,350.4 | 1,777.7 | 31.6% |
| Cost of Sales | (665.7) | (846.5) | 27.2% |
| Gross Profit | 684.7 | 931.3 | 36.0% |
| Gross Margin | 50.7% | 52.4% | 1.7p. |
| Profit | 84.1 | 101.2 | 20.4% |
| Profit Margin | 6.2% | 5.7% | -0.5p. |
| EBITDA | 207.8 | 304.3 | 46.5% |
| EBITDA Margin | 15.4% | 17.1% | 1.7p. |

In the nine months ending October 2018, total company revenue stood at 1,778 TRYm with an increase of 32% compared to the same period of 2017. Sales were realised with 52.4% gross margin, and 17.1% EBITDA margin.

Turkey sales increased by 31% as a result of;

- strong LFL growth performance of 23.5% with
 - 13.7% transaction growth
 - 8.6% basket size growth
- 7 net new store openings and 9 retail store expansions
- 26% increase in wholesale channel sales
- as well as 65% increase in mavi.com sales

International sales increased by 36% to 330 TRYm in the reporting period, from 243 TRYm in the same period of 2017. International e-commerce sales increase was 110%.

Global e-commerce sales was 45 TRYm and constituted 2.6% of total sales in the reporting period.

iii. Financial Overview of the Management

Financial and operational results of the nine months ending October 31, 2018 have realised above managements initial targets and expectations.

- Group's Consolidated Revenue increased by 32% in 9M 2018 to 1,778 TRYm compared to the same period of the previous year.

- Gross profit increased by 36%, resulting with an improvement of 170 bps in gross margin corresponding to 52.4%.
- EBITDA grew 46% reaching 304 TRYm with a margin of 17.1%, 170 bps margin improvement compared to the same period previous year.
- Net Debt dropped to 93 TRYm as at October 31, 2018 from 112 TRYm at the end of fiscal year 2017. As a result net debt/LTM EBITDA multiple decreased to 0.3x.
- 43 TRYm capital expenditure was spent on mainly new store openings and store sqm expansions and renovations. CAPEX as percentage of sales in 9M 2018 was 2.4%.

3 – Economy and Industry Information

The Turkish economy sustained average real GDP growth of 5.7% between 2001 and 2016, and grew by 7,4% in 2017. GDP per capita is \$10,597 for 2017, up from \$3,084 for the year ended 2001 (Source: Turkstat).

Furthermore, according to Turkstat, Turkey has a population of 80,8 mn With males constituting 50.2% and females 49.8%. With a median age of 31.7 years as of year end 2017, 31.6% of the population is in the 15–34 year age group. Considering Mavi's loyal customer base whose core segment consists of young, fashion-conscious men and women under the age of 34, Turkey's young population is positive catalyst in optimizing the sell-through rates.

According to Euromonitor, the total market for apparel and accessories in Turkey was approximately TL 58 billion in 2017. The total market, which grew at an annual CAGR of 12.3% between 2012 and 2017, is expected to reach TL 60 billion in 2020.

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 25% of women and 26% of man and the number one "top of mind" Jean brand in Turkey with 58% according to a brand perception study of GFK¹ which took place in November 2017. It is the leader in the jeans category in "Turkeys Coolest Brands" survey by Marketing Turkey in 2017. According to the Consumers Voice Survey by IPSOS and Kalder, Mavi, with its product and service quality, is the leader of the apparel industry among the brands that create highest customer loyalty. Mavi stood on top of the industry with second ranking in "Turkey's Most Admired Brands" survey by Capital Magazine. It is also named the best looking, most trusted, highest quality jeans brands with the most options by Marketing Turkey.

Kartuş has been chosen number one in apparel industry for the Most Successful Loyalty Cards Survey by Digitalage. Mavi ads delivered the highest TOM results in April. It has won the gold prize in apparel category in Social Media Awards Turkey and has been named the top brand to use social media most effectively by Marketing Turkey.

4 - Future Expectations

Mavi disclosed the management guidance for the financial year 2018 which covers the special accounting period of February 1, 2018 – January 31, 2019 on the Public Disclosure Platform on March 15, 2018. Following the first nine months realisations and the macro economic developments, management has updated their guidance as follows :

- 30% consolidated sales growth
- 16 new retail store openings and 13 store expansions in Turkey
- Above 20% Turkey retail like-for-like store revenue growth
- Consolidated EBITDA margin of 15%
- Net Debt / EBITDA below 1x
- Capex : Up to 4% of consolidated sales

5 - Other Developments

- Ordinary General Assembly Meeting for the financial period of 1 February 2017 – 31 January 2018 was held on May 2, 2018. The general assembly resolutions have been registered under the Istanbul Trade Registry on May 8, 2018 and published on the Turkish trade Registry Gazette dated May 14, 2018, numbered 9577.

¹ İlgili rapora http://sky-static.mavi.com/sys-master/maviTrImages/234234/01/GFK_Marka_Bilinirlik.html adresinden ulaşılabilir.

- The General assembly elected the current Board members to serve another term of 3 (three) years.
- Independent board members Ahmet Fadil Ashaboğlu and Nevzat Aydın has been appointed as members of the Audit 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, chairman of the board Ragıp Ersin Akarlılar, independent board member Ahmet Fadil Ashaboğlu and CFO Tuba Toprakçı Yılmaz has been appointed as members of the Early Identification of Risks Committee.
- On May 21, 2018 the purchase of shares representing 25% of the capital of Mavi Jeans Inc. ("Mavi Canada"), a subsidiary of the Company, from the Company's related party, Kitsch Apparel Inc., was completed and the share transfer took place. Following the share transfer, Mavi directly controls 25% of the shares of Mavi Canada and together with the 38.25% indirect shareholding the Company's effective shareholding ratio in Mavi Canada increased to 63.25%.
- Chief Commercial Officer (Turkey & Export Markets) Savan Tüysüz has been appointed to continue his duty as Mavi Europe Regional Head at Mavi Europe AG as of September 2018. Okan Gürsan has been appointed as Chief Commercial Officer (Turkey & Export Markets).
- On November 7, 2018 the 27.40% indirect shareholding of Hayriye Fethiye Akarlılar, Fatma Elif Akarlılar and Seyhan Akarlılar in Mavi Giyim Sanayi ve Ticaret A.S. has been, without any change in their total shareholding percentage, transformed into 27.19% direct shareholding and 0.21% indirect shareholding through Blue International Holding B.V.
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6 – Summary Financial Tables

Summary Balance Sheet

| TRYm | 31 January 2018 | 31 October 2018 | Change (%) |
|--|-----------------|-----------------|--------------|
| Current Assets | 761.4 | 1,022.0 | 34.2% |
| Non- Current Assets | 313.9 | 381.6 | 21.6% |
| Total Assets | 1,075.2 | 1,403.6 | 30.5% |
| Short Term Liabilities | 742.2 | 957.2 | 29.0% |
| Long Term Liabilities | 85.9 | 110.6 | 28.7% |
| Total Liabilities | 828.1 | 1,067.7 | 28.9% |
| Shareholders Equity | 247.2 | 335.9 | 35.9% |
| Total Liabilities and Shareholders Equity | 1,075.2 | 1,403.6 | 30.5% |
| Liabilities / Total Assets | 0.77 | 0.76 | |
| Shareholders Equity / Total Assets | 0.23 | 0.24 | |

Summary P&L

| TRYm | 9M 2017 | 9M 2018 | Change (%) |
|-------------------------|--------------|--------------|--------------|
| Revenue | 1,350.4 | 1,777.7 | 31.6% |
| Cost of Sales | (665.7) | (846.5) | 27.2% |
| Gross Profit | 684.7 | 931.3 | 36.0% |
| Gross Margin | 50.7% | 52.4% | 1.7p. |
| Profit | 84.1 | 101.2 | 20.4% |
| Profit Margin | 6.2% | 5.7% | -0.5p. |
| EBITDA | 207.8 | 304.3 | 46.5% |
| EBITDA Margin | 15.4% | 17.1% | 1.7p. |
| Earnings per Share (TL) | 1.58 | 1.89 | |

Summary Cash Flow Statement

| TRYm | 9M 2017 | 9M 2018 |
|---|---------------|----------------|
| Profit | 84.1 | 101.2 |
| D&A Expense | 43.8 | 52.1 |
| Net Finance Expense / (Income) | 50.0 | 75.0 |
| Tax Expense | 20.3 | 29.5 |
| Other Non-Cash Items | 13.9 | 36.8 |
| Cash Flow from Operating Activities | 212.2 | 294.6 |
| Δ in Net Working Capital | 4.5 | (74.8) |
| Income Tax Paid | (10.9) | (25.6) |
| Net Cash from Operating Activities | 205.8 | 194.2 |
| Cash Flows from Investing Activities | | |
| Capex | (55.5) | (43.0) |
| Other Investing Cash Flow | (42.3) | (10.4) |
| Net Cash Flow Used in Investing Activities | (97.8) | (53.4) |
| Cash Flows from Financing Activities | | |
| Debt Issued / (Repaid) | (47.2) | (21.2) |
| Other Financial Payments | (25.2) | (51.0) |
| Dividends Paid | - | (25.9) |
| Interest Paid | (23.6) | (26.4) |
| Net Cash Flows Used in Financing Activities | (96.0) | (124.5) |
| Net Cash Flow | 12.0 | 16.2 |
| Cash and Cash Equivalents at the Beginning of the Period ⁵ | 154.8 | 262.5 |
| Cash and Cash Equivalents at the End of the Period | 166.8 | 278.7 |

Disclaimer on Market Data and Forward Looking Statements

This Report is prepared in accordance with the legal requirements only to provide information and it is not intended to form the basis of any investment decision. The industry, market and competitive position data contained in this report come from official or third party sources. Although the company believes the information provided by third party industry publications and market research studies to be from reliable sources, it has not, however, independently verified the information contained therein. This report includes forward-looking statements. Forward looking statements involve risks, uncertainties and other important factors over which the company may have limited or no control. These factors could cause the actual results, performance or achievements to differ materially from any future circumstances, results, performance or achievements expressed or implied by such statements. The forward-looking statements included in this report represent the Company's views as of the date of this report. All information contained in this Report was believed to be accurate at the time of publication. The company accepts no responsibility for any spelling or printing errors that may occur during the Report's preparation