



mavi

Mavi Giyim Sanayi ve Ticaret A.Ş.
Interim Report for the Nine Months Period
February 1 – April 30, 2019

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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 first quarter of 2019, ended April 30, 2019. 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 first three months period ending April 30.

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 April 30, 2019. Authorized share capital limit is TRY 245,000,000.

Capital structure of the Group as of April 30, 2019 is as follows;

	%	April 30, 2019
Fatma Elif Akarlılar	9.06	4,500,000
Seyhan Akarlılar	9.06	4,500,000
Hayriye Fethiye Akarlılar	9.06	4,500,000
Blue International Holding B.V.	0.22	108,293
Halka açık	72.60	36,048,707
	100.00	49,657,000

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 April 30, 2019 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

As of April 30, 2019 the Board of Directors is as follows:

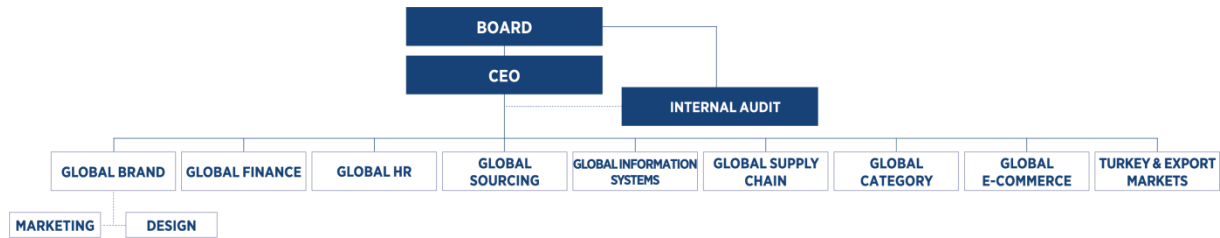
Director	Role	Executive/Independent
Ragıp Ersin Akarlılar	Chairman	Non-Executive
Seymur Tari	Vice Chairman	Non-Executive
Fatma Elif Akarlılar	Member	Executive
Ahmet Cüneyt Yavuz	Member	Executive
Ahmet F. Ashaboğlu	Member	Independent
Nevzat Aydın	Member	Independent

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 Bige İşcan Aksaray are members of the Early Identification of Risks Committee.

v. Organization Structure and Management

As of April 30, 2019 Group's total number of employees is 3,867 (3,530 in Turkey, 337 in International offices) Following charts show the Company's organisation structure and management team.



	Position	Starting Date
Cüneyt Yavuz	CEO	2008
Bige İşcan Aksaray	CFO	2019
Elif Akarlılar	Chief Brand Officer	1991
Okan Gürsan	CCO	2018

2 – Operational and Financial Information

i. Operational Developments

As of April 30, 2019 Mavi generates its sales through retail, wholesale and online channels and 81% from Turkey and 19% from international operations.

- Retail channel represents the sales to consumers at mono-brand stores that are operated by Mavi and constitutes 58,4% of total sales in Q1 2019
- 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 and constitutes 37.3% of revenue in Q1 2019
- E-commerce represents the direct sales that the Company makes to consumers on its own websites and through third party digital platforms. As of first quarter 2019 the group generated 4.2% of its revenue through e-commerce.

During the first quarter of 2019 fiscal year, Mavi opened 3 stores, closed 3 stores and expanded 4 stores in Turkey, meeting its customers in 300 mono-brand retail stores and 149K sqms selling space.

Within the wholesale channel Mavi continues operations through 70 monobrand franchise stores in Turkey, 35 monobrand stores internationally and more than 5.000 sales points globally.

Mavi continued to gain new retail customers in Q1 2019 as the total number of its loyalty card members (Kartuş Card Holders) increased to 7.5 mn and active number of members reached 5.4 mn as of April 30, 2019.

ii. Financial Developments

TRYm	Q1 2018	Q1 2019	Change (%)	Q1 2019 (IFRS 16)
Revenue	535.8	648,4	21.0%	648,4
Cost of Sales	(268.5)	(341.4)	27.1%	(341.4)
Gross Profit	267.3	307.0	17.8%	307.0
Gross Margin	49.9%	47.3%	-2.6p.	47.3%
Profit	25.1	15.5	-38.3%	10.1
Profit Margin	4.7%	2.4%	-2.3p.	1,6%
EBITDA	72.3	74.0	2.3%	132,6
EBITDA Margin	13.5%	11.4%	-2.1p.	20,4%

IFRS 16 standard is applied in financial statements as of 2019. The analysis given in the second section of this report uses data without the effect of IFRS 16 for meaningful comparison. A table illustrating the impacts of IFRS 16 on financial results is provided in the appendix section.

In the first quarter of 2019, total company revenue grew 21% year over year to 648 TRYm. Sales were realised with 47.3% gross margin, and 11.4% EBITDA margin.

Turkey sales increased by 19% as a result of;

- 15.5% LFL growth performance, driven by 25.3% basket growth despite the 7,8% contraction in the number of transactions
- 3 store openings, 3 closures and 4 retail store expansions
- 12% increase in wholesale channel sales
- as well as 100% increase in e-com sales

International sales increased by 32% to 125 TRYm in the reporting period. International e-commerce sales increase was 132%.

Global e-commerce sales was 27 TRYm and constituted 4.2% of total sales in the reporting period.

iii. Financial Overview of the Management

Within the first quarter of 2019 sales in Turkey realised slightly below the managements targets and expectations due to uncertain conditions, weak consumer confidence and the late transitioning of the season. As the sales performance was inconsistent throughout the three months in the first quarter, weather being very cold in April, impacting season sales and that sales in May has been very strong, management keeps its guidance disclosed on March 14, 2019, unchanged for FY 2019.

- Group's Consolidated Revenue increased by 21% in Q1 2019 to 648 TRYm compared to the same period of the previous year.
- Product costs have significantly increased due to raw material prices impacted by currency valuation and production costs impacted by inflation. Hence gross profit margin contracted by 260 bps corresponding to 47.3% .
- EBITDA grew 2,3% reaching 74 TRYm with a margin of 11.4%, contracting 210 bps compared to the same period previous year.
- Net Debt increased to 150 TRYm as at April 30, 2019 from 109 TRYm at the end of fiscal year 2018. As a result net debt/LTM EBITDA multiple stood at 0.4x.
- 20 TRYm capital expenditure was spent on mainly new store openings and store sqm expansions and renovations. CAPEX as percentage of sales in Q1 2019 was 3.1%.

3 – Economy and Industry Information

According to Turkstat, Turkey has a population of 82 mn with men constituting 50.2% and women 49.8% with 55% of the population under the age of 35 and 31.2% 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 a positive catalyst in realising its growth targets.

According to Euromonitor (2018), the total market for apparel and accessories in Turkey was approximately TL 70 billion in 2018 and is expected to reach TL 75 billion in 2023.

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 2018, 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.

Mavi has been named the most robust brand in the textiles and apparel industry in the “Robust Brands” survey of Marketing Turkey in February 2019. It was awarded the leader in the jeans category in “Turkeys Coolest Brands” survey by Marketing Turkey in 2017 and 2018. 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. In Turkey Youth Awards, Mavi was awarded “The Best Youth Brand” in Turkey in 2018.

Adding to its achievements in marketing, Kivanç Tatlıtuğ was named the Most Admired Brand Ambassador – Men’s with his Mavi commercial in the Most Admired and Preferred Brands in Shopping Malls survey (AYD, February 2019). Mavi was awarded Gold in the apparel category at the Social Media Awards Turkey Data Analytics Awards (Marketing Türkiye & BoomSonar& Deloitte , May 2019).

4 - Future Expectations

Mavi disclosed the management guidance for the financial year 2019 which covers the special accounting period of February 1, 2019 – January 31, 2020 on the Public Disclosure Platform on March 14, 2019. Accordingly; the guidance is as follows :

- 25% consolidated sales growth
- 15 new retail store openings and 10 store expansions in Turkey
- 18% Turkey retail like-for-like store revenue growth
- Consolidated EBITDA margin of 14.5%
- Net Debt / EBITDA below 1x
- Capex 4% of consolidated sales

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

5 - Other Developments

- CFO Tuba Toprakçı Yılmaz resigned as of 29 March 2019 and Bige İşcan Aksaray was appointed as her replacement effective as of the same date. Bige İşcan Aksaray holds a BA in Economics from Boğaziçi University and a graduate degree in Management from Boston University. Bige İşcan Aksaray started her professional career in 1993 at Gillette Company where she held various senior finance positions. She served as the CFO at Avon Turkey between 2005-2019.
- Ordinary General Assembly Meeting for the financial period of 1 February 2018 – 31 January 2019 were was held on April 30, 2019. The general assembly resolutions have been registered under the Istanbul Trade Registry on May 7, 2019 and published on the Turkish trade Registry Gazette dated May 13, 2019, numbered 9827.
- Independent board members Ahmet F. 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 F. Ashaboğlu and CFO Bige İşcan Aksaray has been appointed as members of the Early Identification of Risks Committee.

6 – Summary Financial Tables (Inc. IFRS 16)

Summary Balance Sheet

TRYm	31 January 2019	30 April 2019	Change (%)
Current Assets	985.3	1,196.9	21.5%
Non- Current Assets	358.6	838.8	133.9%
Total Assets	1,343.9	2,035.7	51.5%
Short Term Liabilities	896.9	1,229.8	37.1%
Long Term Liabilities	109.8	423.3	285.5%
Total Liabilities	1,006.7	1,653.1	64.2%
Shareholders Equity	337.2	382.5	13.5%
Total Liabilities and Shareholders Equity	1,343.9	2,035.7	51.5%
Liabilities / Total Assets	0.75	0.81	
Shareholders Equity / Total Assets	0.25	0.19	

Summary P&L

TRYm	Q1 2018	Q1 2019	Change (%)
Revenue	535.8	648.4	21.0%
Cost of Sales	(268.5)	(341.4)	7.1%
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Gross Margin	49.9%	47.3%	-2.6 p.
Profit	25.1	10.1	
Profit Margin	4.7%	1.6%	
EBITDA	72.3	132.6	
EBITDA Margin	13.5%	20.4%	
Earnings per Share (TL)	0.47	0.14	

Summary Cash Flow Statement

TRYm	Q1 2018	Q1 2019
Profit	25.1	10.1
D&A Expense	16.1	65.2
Net Finance Expense / (Income)	18.3	59.4
Tax Expense	7.6	2.1
Other Non-Cash Items	4.2	13.4
Cash Flow from Operating Activities	71.3	150.1
Δ in Net Working Capital	(33.1)	(67.7)
Income Tax Paid	(1.8)	(0.4)
Net Cash from Operating Activities	36.3	82.0
Cash Flows from Investing Activities		
Capex	(16.8)	(20.2)
Other Investing Cash Flow	0.1	0.8
Net Cash Flow Used in Investing Activities	(16.7)	(19.4)
Cash Flows from Financing Activities		
Debt Issued / (Repaid)	(66.8)	122.0
Payment of Contractual Lease Liabilities	-	(58.6)
Other Financial Payments	(11.2)	(21.5)
Interest Paid	(7.4)	(22.1)
Net Cash Flows Used in Financing Activities	(85.5)	19.9
Net Cash Flow	(65.9)	82.5
Cash and Cash Equivalents at the Beginning of the Period ⁵	262.5	262.0
Cash and Cash Equivalents at the End of the Period	196.6	344.5

IFRS 16 Impacts on Financial Statements

(TRY in millions)		Q1 2019 Effect	
RENT EXPENSE	↘	-58.6	Decrease as all non-performance leases are capitalized and are subjected to depreciation and interest expense
DEPRECIATION & AMORTIZATION	↗	+47.3	Increase due to depreciation of capitalized operating lease assets
OPERATING PROFIT	↗	+11.2	Higher as lease expense is replaced by depreciation and interest
FINANCIAL EXPENSE	↗	+18.1	Increase due to interest cost component of rents booked in financial expenses
INCOME TAX EXPENSE	↘	-1.5	Lower in the first years due to higher deferred tax assets rising from lower net income
NET INCOME	↘	-5.4	Lower due to higher interest expense in the first years; neutral over time
EBITDA	↗	+58.6	Higher as lease expense is replaced by depreciation and interest
TOTAL ASSETS	↗	+452.9	Increase as lease contracts are capitalised
TOTAL/NET DEBT	↗	+458.3	Increase as capitalised lease contracts assumed as financial debt

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