



mavi

Mavi Giyim Sanayi ve Ticaret A.Ş.
Interim Report for the Nine Months Period
February 1 – October 31, 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 nine months of 2019, ended October 31, 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, Leipzig, Zürich, Salzburg, Prag, Brussels, Almere, Moskova, New York, New Jersey, Los Angeles, Atlanta, Dallas, 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 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, 2019. Authorized share capital limit is TRY 245,000,000.

Capital structure of the Group as of October 31, 2019 is as follows;

| | % | Oct. 31, 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 are held by Blue International Holding B.V. and are attributed with special rights by the Articles of Association of the Company. The effect of Akarlılar family members on the management of the Company remains unchanged through indirect shareholding.

iii. Direct and Indirect Subsidiaries

Direct and indirect subsidiaries of the Company as at October 31, 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 October 31, 2019 the Board of Directors is as follows:

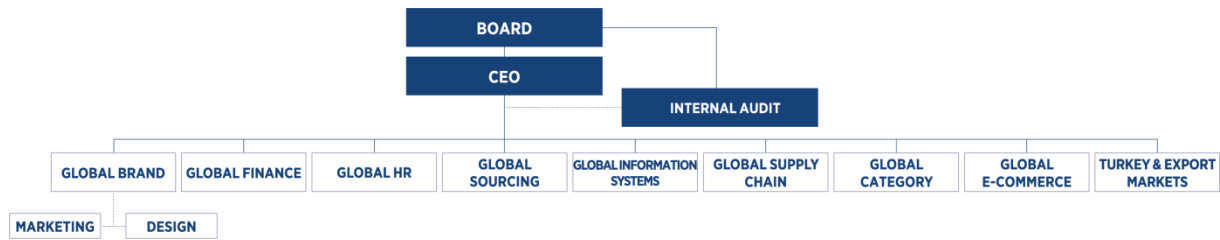
| Director | Role | Executive/Independent |
|-----------------------|---------------|-----------------------|
| Ragıp Ersin Akarlılar | Chairman | Non-Executive |
| Seymur Tarı | Vice Chairman | Non-Executive |
| Fatma Elif Akarlılar | Member | Executive |
| Ahmet Cüneyt Yavuz | Member | Executive |
| 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 İřcan Aksaray are members of the Early Identification of Risks Committee.

v. Organization Structure and Management

As of October 31, 2019 Group's total number of employees is 4,135 (3,803 in Turkey, 332 in International offices) Following charts show the Company's organisation structure and management team.



| | Position | Starting Date |
|--------------------|---------------------|----------------------|
| Cüneyt Yavuz | CEO | 2008 |
| Bige İřcan Aksaray | CFO | 2019 |
| Elif Akarlılar | Chief Brand Officer | 1991 |

2 – Operational and Financial Information

i. Operational Developments

As of October 31, 2019 Mavi generates its sales through retail, wholesale and online channels and 83% from Turkey and 17% from international operations.

- Retail channel represents the sales to consumers at mono-brand stores that are operated by Mavi and constitutes 65% of total sales in 9M 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 31% of revenue in 9M 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 nine months 2019 the group generated 4% of its revenue through e-commerce.

During the nine months of 2019 fiscal year, Mavi opened 14 stores, closed 6 stores and expanded 10 stores in Turkey, meeting its customers in 308 mono-brand retail stores and 154K sqms selling space.

Within the wholesale channel Mavi continues operations through 67 monobrand franchise stores in Turkey, 36 monobrand stores internationally and more than 5.000 sales points globally.

Mavi gained 983K new retail customers in 9M 2019 as the total number of its loyalty card members (Kartuş Card Holders) increased to 8.0 mn and active number of members reached 5.7 mn as of October 31, 2019.

ii. Financial Developments

| TRYm | 9M 2018 | 9M 2019 | Change (%) | 9M 2019 (IFRS 16) |
|---------------|---------|-----------|------------|----------------------|
| Revenue | 1,777.7 | 2,148.3 | 20.8% | 2,148.3 |
| Cost of Sales | (846.5) | (1,079.2) | 27.5% | (1,079.2) |
| Gross Profit | 931.3 | 1,069.1 | 14.8% | 1,069.1 |
| Gross Margin | 52.4% | 49.8% | | 49.8% |
| Profit | 101.2 | 115.2 | 13.8% | 95.0 |
| Profit Margin | 5.7% | 5.4% | | 4.4% |
| EBITDA | 304.3 | 329.9 | 8.4% | 510.2 |
| EBITDA Margin | 17.1% | 15.4% | | 23.7% |

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 nine months of 2019, total company revenue grew 21% year over year to 2 billion 148 million TRYm. Sales were realised with 49.8% gross margin, and 15.4% EBITDA margin.

Turkey sales increased by 22% as a result of;

- 20.5% LFL growth performance, driven by 21.0% basket growth despite the 0.4% contraction in the number of transactions
- 14 store openings, 6 closures and 10 retail store expansions
- 13% increase in wholesale channel sales
- as well as 95% increase in e-com sales

International sales increased by 14% to 375 TRYm in the reporting period. International e-commerce sales increase was 99%.

Global e-commerce sales was 89 TRYm and constituted 4.2% of total sales in the reporting period.

iii. Financial Overview of the Management

The first quarter of 2019 had realised below management targets and expectations parallel to the macro environment, followed by a strong 32% growth in sales performance in the second quarter coupled by traffic growth. Given the high base and the currency levels that reverse the international sales contribution, the third quarter sales growth was only 13%. As of the nine months ending 31 October, 2019 sales growth and EBITDA margin from the fiscal year is projected to stay slightly below the management expectations. On a positive note, cash generation capability and working capital of the company has improved and leverage levels have declined as at the end of nine months period.

- Group's Consolidated Revenue increased by 21% in 9M 2019 to 2 billion 148 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 49.8% .
- EBITDA grew 8% reaching 330 TRYm with a margin of 15.4%, contracting 170 bps compared to the same period previous year.
- Net Debt declined by 56% and stood at 48 TRYm as at October 31, 2019 . As a result net debt/LTM EBITDA multiple stood at 0.1x.
- 74 TRYm capital expenditure was spent on mainly new store openings and store sqm expansions and renovations. CAPEX as percentage of sales in 9M 2019 was 3.4%.

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 2018 Turkey Apparel report, Mavi is among the top four apparel brands in both men and women.

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 the number one “top of mind” Jeans brand in Turkey with 60+% according to the 2019 brand perception study of Future Bright.

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 apperal 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. Given the current results as of the nine months ending 31 October, 2019, management has updated their full year 2019 expectations as follows:

- 21% consolidated sales growth
- 15 new retail store openings and 10 store expansions in Turkey
- 20% Turkey retail like-for-like store revenue growth
- Consolidated EBITDA margin of 14.0%
- Net Debt / EBITDA 0.1x
- Capex 4% of consolidated sales

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 | 31 October 2019 |
|--|-----------------|-----------------|
| Current Assets | 985.3 | 1,209.1 |
| Non- Current Assets | 358.6 | 790.9 |
| Total Assets | 1,343.9 | 2,000.1 |
| Short Term Liabilities | 896.9 | 1,192.9 |
| Long Term Liabilities | 109.8 | 351.2 |
| Total Liabilities | 1,006.7 | 1,544.1 |
| Shareholders Equity | 337.2 | 456.0 |
| Total Liabilities and Shareholders Equity | 1,343.9 | 2,000.1 |
| Liabilities / Total Assets | 0.75 | 0.77 |
| Shareholders Equity / Total Assets | 0.25 | 0.23 |

Summary P&L

| TRYm | 9M 2018 | 9M 2019 |
|--------------------------------|--------------|----------------|
| Revenue | 1,777.7 | 2,148.3 |
| Cost of Sales | (846.5) | (1,079.2) |
| Gross Profit | 931.3 | 1,069.1 |
| Gross Margin | 52.4% | 49.8% |
| Profit | 101.2 | 95.0 |
| Profit Margin | 5.7% | 4.4% |
| EBITDA | 304.3 | 510.2 |
| EBITDA Margin | 17.1% | 23.7% |
| Earnings per Share (TL) | 1.89 | 1.73 |

Summary Cash Flow Statement

| TRYm | 9M 2018 | 9M 2019 |
|---|----------------|----------------|
| Profit | 101.2 | 95.0 |
| D&A Expense | 52.1 | 206.3 |
| Net Finance Expense / (Income) | 75.0 | 175.6 |
| Tax Expense | 29.5 | 27.7 |
| Other Non-Cash Items | 36.8 | 23.8 |
| Cash Flow from Operating Activities | 294.6 | 528.3 |
| Δ in Net Working Capital | (74.8) | (67.8) |
| Income Tax Paid | (25.6) | (12.0) |
| Net Cash from Operating Activities | 194.2 | 448.5 |
| Cash Flows from Investing Activities | | |
| Capex | (43.0) | (73.8) |
| Other Investing Cash Flow | (10.4) | (5.6) |
| Net Cash Flow Used in Investing Activities | (53.4) | (79.3) |
| Cash Flows from Financing Activities | | |
| Debt Issued / (Repaid) | (21.2) | 21.4 |
| Payment of Contractual Lease Liabilities | - | (180.3) |
| Other Financial Payments | (51.0) | (65.2) |
| Dividends Paid | (25.9) | - |
| Interest Paid | (26.4) | (67.4) |
| Net Cash Flows Used in Financing Activities | (124.5) | (291.5) |
| Net Cash Flow | 16.2 | 77.7 |
| Cash and Cash Equivalents at the Beginning of the Period | 262.5 | 262.0 |
| Cash and Cash Equivalents at the End of the Period | 278.7 | 339.7 |

IFRS 16 Impacts on Financial Statements

| (TRY in millions) | 9M 2019 Impact | |
|-----------------------------|---------------------------|---|
| RENT EXPENSE | -180.3 | Decrease as all non-performance leases are capitalized and are subjected to depreciation and interest expense |
| DEPRECIATION & AMORTIZATION | +151.7 | Increase due to depreciation of capitalized operating lease assets |
| OPERATING PROFIT | +28.6 | Higher as lease expense is replaced by depreciation and interest |
| FINANCIAL EXPENSE | +54.6 | Increase due to interest cost component of rents booked in financial expenses |
| INCOME TAX EXPENSE | -5.8 | Lower in the first years due to higher deferred tax assets rising from lower net income |
| NET INCOME | -20.2 | Lower due to higher interest expense in the first years; neutral over time |
| EBITDA | +180.3 | Higher as lease expense is replaced by depreciation and interest |
| TOTAL ASSETS | +393.5 | Increase as lease contracts are capitalised |
| TOTAL NET DEBT | +419.1 | 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