Transcription for Q2 2020 Financial Results Webcast

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Presentation

Duygu Inceoz
Hello Everyone. Welcome to Mavi second quarter 2020 financial results webcast. My name is Duygu, and I am the head of Investor Relations at Mavi. This quarter we are using the Teams platform for our earnings call for the first time. We kindly ask you to keep your microphones muted throughout the presentation. Our CEO, Cuneyt Yavuz, will be presenting the results. The slides will be shared by me. Make sure to switch to the right screen to follow the slides. We will be taking your questions after the presentation. Now, I will leave the floor to Cuneyt Yavuz.

Cüneyt Yavuz
Hello everyone. Welcome to our conference call regarding the financial results for the second quarter of 2020.

Before going into the key highlights for the period I would like to start off by providing a summary on the current business status after the normalization actions regarding the Covid 19 measures.

In Turkey, all retail and franchise stores are open since June 1, 2020. Stores in Germany and Canada re-opened in May. Store openings in Russia were a bit more delayed; openings started in June and all stores are operational since the end of August. Mavi.com, marketplace and wholesale e-com channels remained open all along.

We previously shared with you our business measures in order to minimize the impact of the pandemic on our operational and financial well-being.

We are happy to report that all our actions have proven to be very effective and yielded favorable results. Despite the challenging conditions that still prevail in the market, through our multi-functional planning efforts, we have achieved high sell-through rates and managed to preserve our gross margins.

In-season orders were managed more dynamically with shorter lead times and open-to-buy planning.

We continued to focus on cost saving this quarter and successfully negotiated rents to preserve our rent ratios. ERP (SAP) transformation project and all other digital investments continued as planned.

Moving on to slide 3 with our key highlights. With a better than expected performance in the second quarter, our consolidated sales in the first half of 2020 realized at 925 million liras. This is 31% below last year given the pandemic related store closure period of two and a half months. Nominal EBITDA for the period is 101 mn TRY, resulting in 10.9% EBITDA margin. We have a net income of minus 58 million liras in the first half of 2020. The total number of mono-brand stores globally, including franchisees, stand at 433. Turkey online sales grew by an exciting 189% in the first half of 2020.

Moving on to slide 4, I would like to elaborate a few minutes on the performance of business in the second quarter after the store openings. As you recall we had a 40% decline in our sales in quarter one, operating for only 46 days before the pandemic. This quarter was 61 days of full operations in which there were business hour limitations and traffic was on average 33% lower than the same period last year. Despite the challenging conditions, we have completed second quarter with only 22% decline in total revenue.

Considering only the open days and adjusting for the holiday calendar shifts we delivered a 13% growth in the same stores sales.

Online demand continued to be very strong even after the store openings and thanks to our previous investments we were well prepared and were able to respond to the continuing high demand. Online sales in Turkey grew by 333% in the second quarter including the sales through our marketplace business partners. Given the stronger than expected sales performance coupled with our effective cost saving measures, we were able to bring our opex to sales ratio down by 11 percentage points and hence increased our EBITDA margin from 5.2% in the first quarter to 15% in the second quarter. A well-executed collaboration across category, product, sourcing and logistics teams resulted in very successful sell-through rates which in return resulted in healthy inventory levels and 171 mn TL of operating cash flow generation in the second quarter.

Lets move to slide 5 to review our channel performance. With the improving performance in quarter two, consolidated global revenue in the first half resulted in 925 mn TL, declining 31% compared to the first half of last year. Due to periods of store closures, revenue channel split is distorted with 58% retail, 29% wholesale and 13% e-com as of H1 2020.

As mentioned in the previous slide, e-commerce channels remained solid throughout this period and has shown a 122% growth globally in the first half of 2020.

Sales in Turkey were down 30% with 38% decline in retail and 32% decline in wholesale. The difference in these channels are mainly related to the wholesale shipment calendar, meaning that most of the wholesale shipments of the season were completed before the pandemic broke and hence slightly better in Q1.

Our e-commerce business in Turkey grew by 189% in H1 2020.

International sales were down 33% in TL – terms, mainly due to weaker wholesale business in Europe and extended store closure periods in Russia.

On slide 6, let us focus on Turkey retail business. We opened 5 new stores, expanded 7 stores and closed 6 stores in the first half of 2020, all of which were originally planned and scheduled for this period. As of end July, we have 313 own-operated stores totaling 156 thousand sqms of selling space in Turkey with an average store size of 499 sqms.

On slide 7, we would like to elaborate on the same stores' performance after the store openings in quarter two. As you know we normally share Turkey retail LFL figures in our earnings results. But with all stores being closed for almost half of the period, by definition there is not a meaningful LFL set.

On this slide, the Q2 2020 data is same stores sales growth including only open days and adjusting for holiday calendar shifts. The second religious holiday which is generally a significant sales period for retail moved from August to July this year. Our adjustment excludes the positive impact of this move to the second quarter.

In this respect, we have seen a 13% growth in the same store sales in quarter two with 5.9% decline in number of transactions and 20.1% growth in the basket size.

33% lower traffic in the period was compensated with 41% higher conversion rates and 17% increase in unit per transaction (UPT).

Moving on to slide 8 to review category-based developments.Given that the stores were closed for two and a half months in the first half of 2020, all our product category sales declined around 30% to 40% with the exception of the more formal wear “shirts category” performing weaker with 48% decline.

On slide 9, lets review our online sales performance.Recall that in addition to our direct to consumer sales that are reported under e-commerce channel, including mavi.com and marketplace, our customers can also buy Mavi products through third-party digital platforms to which we wholesale.

Including the wholesale e-com, our total online sales grew 49% globally and reached 160 mn TL and constituted 17.6% of total revenue in H1 2020.

Online sales in Turkey grew disproportionately higher compared to the rest of the world with 133%. Marketplace operators are performing extremely well in Turkey, through which Mavi achieved a significant 486% growth in this period. Mavi.com also performed very strong and almost doubled its sales in the first half of 2020.

International online business is also on a growth trajectory. In the first half of 2020, 52% of total international sales were through online channels.

Let’s move on to review our margin performance on the next two slides.

On slide 10, we would like to focus on our gross margin, which was one of the most important KPIs we tracked throughout this period. It is an important kpi to help us understand the market conditions and one of the most questioned aspect of our business.

During the closed period, our teams have worked rigorously to plan for the right product, right price, right timing for the store openings, and managed in-season inventory with a very flexible and dynamic manner to ensure optimum sell-through and to preserve our gross margins. Despite all the challenges of the period, in the first half of 2020, we were able to maintain our gross margins stable excluding the impact of high imputed interest rates of 2019.

On slide 11, with the help of our immediate and effective actions on opex management and solid sales performance considering the circumstances, our EBITDA in quarter two showed a significant improvement compared to the first quarter. As a result, our EBITDA realized at 101 mn TL with 10.9% EBITDA margin in H1 2020.

Despite the higher net debt, our net interest based financial expenses were significantly lower this period mainly due to two reasons: significantly lower interest rates and the rent discounts we received as result of successful negotiations that were recorded as financial income within the context of IFRS 16.

Consequently, our net loss for the second quarter was only 7 mn TL bringing the total net loss to 58 mn TL in the first half.

I would like to move on to slide 12 to take you through our working capital progress. I would like to provide a short reminder, that we had started spring summer 2020 season and had received the initial product drops to stores when we closed all stores on March 18. We continued to receive most of the remaining season products that were manufactured. Hence our inventory levels at the end of first quarter was high. The good news was that the entire inventory consisted of seasonal spring-summer products, sellable through end of September with denim products being seasonless.

Through our successful planning initiative, we were able to deliver high sell-through rates and controlled inventory levels that still consists mainly of seasonal lifestyle products and seasonless denim.

Consequently, our working capital as a percentage of revenue, which was 8.8% at the end of April 2020 has improved to 5.1% as of the end of July.

Cash conversion is in an improving trend compared to the first quarter, with strong operational cash flow generation in the second quarter.

Let's now move on to the next slide. Given the scheduled store openings and expansions coupled with our uninterrupted digital investments, we have spent 61.7 mn TL of capital expenditure, resulting with Capex to sales ratio of 6.7%. Capex to sales ratio will be normalizing as the revenue stream resumes in the second half of the year and we are holding our initial plan of keeping it at 4% as of year-end.

In order to be prudent in terms of liquidity management, we used an increased amount of bank credit since mid-March; most of which are still held as cash. We have also used this opportunity to renew all our remaining high interest rate debt with lower rates.

Our net debt level which had increased to 209 mn TL at the end of April declined back to 84 mn TL at the end of July. This implies a leverage multiple of 0.34 times of EBITDA. Our blended cost of debt as of end-July is 7.9%.

Looking into the currency composition of our debt, 20% of total consolidated debt belongs to our subsidiaries who all borrow in their respective local currencies. As of end of July, only 10% of debt is in foreign currency and is totally covered with foreign currency assets and receivables from subsidiaries. Therefore, we still don't carry any open fx positions on our balance sheet as of today.

On Slide 14, I will provide a recent outlook for the financial year 2020. As you recall we have withdrawn our initial guidance in March and chose not to provide a new guidance earlier with all the uncertainty ahead of us.

Given the circumstances, we refrain from using the word guidance as the uncertainties regarding Covid19 prevail for the second half of the year. This is our best estimate outlook that assumes all stores continue to be open in all regions for the rest of the year. With this in mind, we are expecting to close the year with a consolidated sales decline of 11% within a plus or minus 2% range. We will have opened net 4 new stores and expanded a total of 10 stores by year-end. As there is no meaningful LFL set, we cannot provide a LFL outlook at this point. We target an EBITDA margin of 8% plus or minus 1% excluding IFRS16 and 16% plus or minus 1% including IFRS16. Hopefully we will close the year with a very low net debt, implying around 0.1 times net debt to EBITDA. We continue to target a capex to sales ratio of 4% for the whole year.

I would like end by saying a few more words and share with you how we view business in the world post – Covid. We believe that some key metrics have become even more important following this pandemic. Being able to plan more effectively and make informed decisions in this highly unpredictable environment is more vital than ever. Hence, we view becoming a more digital company as one of our top priorities. This covers both increasing the digital footprint through online sales and at the same time digitalizing all internal processes. We will continue to invest in our brand with product innovations, providing the consumer with new "reasons to buy", focusing on sustainability and building on our denim heritage. We aim to continue to win market share in the future with our seasonless denim, casual fashion attire and ever evolving effective marketing communication. The success of a retail brand lies on effective planning to ensure sell-through and efficient working capital management. I am very proud of my team who have performed phenomenally well in the face of challenges the pandemic brought forward. And lastly, we are keeping our aspiration to first become and then remain a net cash company.

With this final note, I would like to once again thank our employees, customers, business partners and shareholders for their continued support. At this time, I am happy to take your questions.

Question and Answer Session

Duygu Inceoz
Ladies and Gentlemen,

If you wish to ask a question, please click on the “raise your hand” button which is the hand icon on your control panel. Once I call your name, please open your microphone before you speak. If you prefer to type your questions you may use the chat screen or email me directly. For those of you who have dialed-in, we will take your questions last, when there are no questions left on the platform. Our first question comes from Esen Koray. Please go ahead.

Esen Koray Ulukartal
Hello Cuneyt Bey, congratulations for the strong financial results for this quarter. I'm sure it has been very challenging for you in this environment. I have one question for the net new stores part. So do you wish to open 4 new stores after this point of the year? Am I correct? And about the 10 store expansions as well? Thank you very much.

Cuneyt Yavuz
Yes. Thank you very much. From here on will be opening up five stores so there might be one more closure along the way, netting us to reach four stores. And yes, you correct from here on will be expanding 10 more stores. While I'm at it I'll just

add an extra bonus point in terms of CapEx and investment.

You know through this period we have been more diligent in terms of where we spend, and we are being a little more defensive in terms of opening new stores. But whenever and wherever we see the opportunity where there is like within a year or less ROI opportunity, we go for new store openings. So at the same time, our team is consciously chasing new opportunities moving forward.

Duygu Inceoz
Maybe I can just chip in a minute to clarify. We are right now at minus one actually, compared to last year and we will be at plus four at the end of the year. That means we will be opening five more stores. The 10 expansions will be total for the year, so we've already expanded seven, we have three more expansions left.

Esen Koray Ulukartal
Thank you very much. Have a nice day.

Paul Trejo
Hello. Sorry, this is Paul from Goldman Sachs. Couple of questions. First: In terms of the comment of making the company more digital, can you talk about just how? Is that kind of even more strategic shift? Obviously, the bulk of the store base, physical store base is in Turkey, but the international store base was already being revisited amongst most countries and the shift towards digital was increasing in emphasis. So should we expect that to be accelerated? Much less stores in countries outside of Turkey and much more investment behind the digital channel?

Cuneyt Yavuz
I'll take that. I mean, we view digital on two fronts. One, as you mentioned, is the digital business channels, which are the E Comm channels, whether it be wholesale market or our own mavi.com. Generally speaking, the momentum during the pandemic closed period and post opening, has remained quite

strong and it seems consumer spill over into EComm channels is being continuing and will continue.

Therefore we will continue as we've been doing to invest and improve the attributes of our Ecom business, both domestically and internationally. More than half of our total international business is derived from E Comm channels or digital channels already. Moving forward, you may recall or for those of you who may not be really following up in terms of new store openings our key focus geography outside of Turkey has been Russia. Anywhere else, meaning Europe, US and Canada we are predominantly focused on building our specialty and department store business along with digital business partners. So this will take precedence as well as also building our mavi.com presence. We are also observing with all the infrastructure investments, whether it's the warehousing, the shopping experience, the customer service setups that we're building in our international markets are paying off very well. Although Turkey numbers may come across even stronger, we are quite confident that also in the future our dotcom business will continue to grow disproportionately. Our first indicative numbers coming out of Russia and US is are extremely encouraging. So yes, I mean this digitalization and becoming Ecom and covering the whole world is going to continue to take precedence. With our casual wear and you know our great expertise in perfect fit, great quality jeans we do believe that there is a lot more ground we will be able to cover in digital arena. There is one more caveat when we internally talk about digital. It's not just the ecom business, but we also talk about the internal decision-making processes systems, whether it's inventory, markdown management, speed to shelf, all the product planning related stuff. We're doing a lot of great stuff in that perspective, coupled with our great CRM infrastructure to better understand the consumer and consumer behavior, what they like and what they don't like. So in that sense, there will be a continued effort and probably one could even talk once the ERP project is completed by the first quarter of next year that we will internally be looking really rigorously at our systems and internal processes to make sure that the good job of continued opex management, SG&A management and system efficiencies and overhead efficiencies will be continued to be captured. So that's how we view the whole digitalization discussion. I believe you had another question because I I sense that you said I have a couple of questions.

Paul Trejo
Yes, actually sort of in line with that. In terms of the international strategy, already more than half the businesses is digital. The US, correct me if I'm wrong, you only own 51% of that operation. Is there any scope in the short term or midterm where you would completely own that business?

Cuneyt Yavuz
Yes. That is an idea of like where we feel that the shareholder would be benefiting out of such an acquisition, we will go for it. It's a matter of you know: Remember, I mentioned us being cash positive and finding the right time to bring it into under our umbrella. We're not in any hurry, it has to be just right timing, right price negotiating with the other piece, the other half of the owners. Not in the near future. I mean, if you ask me today, it's very unlikely that we would be going for an acquisition, let's say the following year in 2021, but maybe down the road. Yeah, it's an option that's out there.

Paul Trejo
Understood thank you.

Duygu Inceoz
Here we have a written question. Do your guidance include any additional rent cuts to be recognized as financial income?

Cuneyt Yavuz
Our approach on rents is actually quite straightforward, meaning we go for maintaining our rent ratio and maintaining and improving our rent ratio year in year out. During or after the pandemic doesn't matter, as

a guiding principle as the leader of the company that is our guiding mantra. So, if you're trying to look into a projection of where you think the ratios will land, it would be directionally, my guidance would be same rent ratios, may be slightly improved, or maybe slightly goes off, but in the ballpark of not a deteriorating picture, in terms of rent ratios. You will recall that for the period when we were closed we were either able to not pay or get discounts moving forward because we're well paying and good performing tenants. We are consistently converting most of our contracts into rent ratio based deals and or making sure that the rent ratios are not deteriorating and getting the support from our landlords. So we feel quite confident in this cost element and how we manage it moving forward.

Duygu Inceoz
I have another question from Deniz Akturk Erdem written. So she has three questions. The first one is sustainability of this opex structure with rents and wages.

Cuneyt Yavuz
I'll take that immediately. So let's go one by one. Sustainsbility of opex structure, rents and wages. Yes, so what I'm trying to say is you will recall when we went public, before we were going public, during and from here on in terms of inventory management, markdown management, OpEx Management and rent ratio management, this company is committed to making sure that it brings in efficiencies year on year even in tough years we try to maintain. In better years, we make sure that there is a margin improvement and a bottom line improvement in these areas. The second one?

Duygu Inceoz
Second one is what novel ways to understand different customer segments. As demand fluctuates in different directions for different segments.

Cuneyt Yavuz
This is a phenomenally great question. This is true. There's a lot of behavioral change that is going on in terms of how consumers are shopping. We use a couple of different tools in this regard, but mainly two. One is our internal data. We have roughly 6 million shoppers data and on a daily basis of all those shoppers that shop, 85% use their loyalty cards so that we get a good feel of on a location, city, shopping mall, street location, which gender, who, how and with what frequency people are shopping and what products they're choosing over others. So therefore there is a lot of streamline data that is coming through. And we are observing certain shifts and shopping behaviors in terms of what they buy, how people buy etc. And we're adapting very quickly analyzing this data. The second area we utilize on is, we are working with a lot of sociologists and social data analyst and market research analysts. There are a couple of very good companies in Turkey that we team up with which is also giving us further insight in terms of where the total consumer sentiments are, what works from a marketing gimmick, perspective, etc. For instance, just from a product perspective, I can give you like these days as one would expect T-shirts are selling better than shirts. So what we call more woven products, Shirts, are not as strong as jerseys are performing. So there's definitely a switch towards more comfortable, where that's one example that I can point out and we adapt accordingly. So the product needs that consumers are demanding and changing. Yeah, so those are the two main pillars and we continue to be staying close to them and adapting both the product and execution as well as the consumer communication accordingly. We just yesterday started our above the line advertising campaign for the fall winter season and in this campaign, for instance, you will see five different what we call legendary jean categories that we are promoting. And the key reason why we have focused more on product is, at this point in time for instance, consumers need more reason to buy, so there is more nudging that has to come through to get them more interested and curious as to newness and innovation coming through. And as Mavi, as a company that has the cutting edge on denim, we will utilize our strength and make sure that our communication is strengthened in this direction, making sure that the whole interest and traffic and customer remains with Mavi.

Duygu Inceoz
Third question from Deniz. She's asking international growth ambition and advantage drivers?

Cuneyt Yavuz
Our international growth ambition has been focused diligently on the areas that we've chosen to play in. So North America's, central North Europe and Russia. We are, day by day getting very much encouraged with the results that are coming through Russia, whether they may be the retail stores or the digitalization that has been going on. So on both fronts, the last couple of years investments, even during this pandemic and post pandemic, I'm happy to report that after normalization the results are quite encouraging and we are quite confident of what more we can deliver there. There is a lot of effort, as I mentioned when we were talking with Paul, in terms of making sure that the digital coverage that we have both in the territories we play but also beyond the territories we play covering from Istanbul, Eastern Europe, Middle East etc through our.com site is also an important priority. But beyond that, Europe and US as such will continue to remain important and we believe with our great product and proposition we will consistently continue to grow. Our directional growth is for this western markets is typically around a high single digit low double digit like 8 to 12% year on year real growth and we believe this will be maintained for the coming quite a few more years in the future.

Duygu Inceoz
There is one more written question from Barış from Garanti, he is asking how much of quarter two revenue did come from stores at shopping malls?

I can answer that this is about 80% came from shopping mall locations and the performance of shopping malls versus the street locations did not vary as much. It was very similar.

Cuneyt Yavuz
Yes, the split of business before or during or after pandemic has been quite consistent. I think the gap for footfall as we mentioned in the presentation is being hugely compensated by conversion rates, units per transaction and appetite to buy more when they come to shop? That's what we see from consumers. So less impulse buying, but more planned buying taking place and people coming in to shop rather than to look around.

Duygu Inceoz
OK, we have no more questions here on the platform. We have five people that have connected through their mobile phones. Anyone from there have any question. Yes, Paul has one more question: please update on sales trends at stores in Turkey during Aug & Sept. Sales per store improving from July levels?

Cuneyt Yavuz
This is a bit of a tricky answer I have because the reality is we have the religious holidays moving 10-15 days, so there has been an overlap and crossover from one quarter to another. And religious holidays do deliver a lot of business. Normally in this webcast I would have already commented on how the quarter is progressing. I have consciously refrained from mentioning that because it has been a bit, Apple to Apple comparison has been quite difficult. Generally speaking, I can tell you that the aforementioned minus traffic remains reality, so the traffic has not resumed. Its still minus 30 - 40%. You know, footfall is behind what it used to be in normal times with transaction, Of course, compensating some of that. Having said that, we've also lost a bit of our sense of like for like, unfortunately. But generally speaking we, I would say are still from a like for like perspective in this minus territory or low minus territory for this first six weeks of this quarter. It will be more telling once we start this advertising campaign and also I think we will be in better territory in October to understand what's happening. There's also one more challenge which we will have to factor in to understand better. Which is this new back to school

mentality which is actually back to the Internet mentality. So the whole shopping behavior of back to school has been quite different than previous years. So we will have to also closely observe and understand how the consumer behavior is taking place, especially in terms of youth coming in and shopping during this period. So there's a lot of moving factors for the time being. Net net traffic is similar to the previous quarters 30-40% depending on the week and day you ask me lower than previous year and in terms of like for like growth we are in negative territory but it is not far off from directionally where we targeted. It's not far from where I guided or mentioned as an outlook for the rest of the year.

Paul Trejo
Sure, yeah, I raised my hand. Great. And in terms of inventory levels, you mentioned a little bit in the presentation remarks that you feel comfortable with the improving trend of full price sell out. That remains to be the case? Or it depends on kind of the sales performance of back to school season? And looking towards the end of the year to see where you're at at year end for the next seasons.

Cuneyt Yavuz
Generally speaking inventory, Paul, I mean 80% of with what we produce is in Turkey and we have a pretty good lead time and speed to shelf organization. Therefore, I mean everybody has their major focus areas. My CFO, Bige, has one area. My favorite topic is inventory. That's where I live and die everyday. And in terms of inventory, I feel relatively comfortable. So we make sure that open to buy, speed to shelf etc. measures have all been taken really good action. So you know moving forward inventory should not be a major issue. Our working capital should not be under that much of our pressure. Having said that, there is a bit of a fall winter factor, which is more imported goods, because some of the winter products we do import which are jackets, outerwear etc. So fall winter is generally, from an inventory perspective, well bit more one could say challenging than spring summer period where Turkey generally enjoys a warmer weather and what we sell in terms of jerseys and Jeans which makes our life easy. But generally speaking I feel OK in terms of where we are. And in terms of gross margin, thanks to having fresh inventory enabled us to come across as fresh also to do consumer which enticed them to shop more with us vis-a-vis the competition I believe. And also moving forward we do hope to maintain a similar gross margin and a prudent markdown strategy. You know, doing the right things, right promotions in the right times. But not necessarily selling the house you know to move the products through the warehouse.

Paul Trejo
Understood and just one follow up if I may, on the international side of the business. Specifically speaking, kind of US and Canada, can you talk about the trends you're seeing during this period in terms of kind of physical sales, wholesale sales, and then and then digital channels. Some of the store networks where you sell, I don't know like a Bloomingdale's etc. you know, rethinking their physical store footprint or some even, you know, considering bankruptcy or restructurings? How has it impacted Mavi's business and the digital sales in other channels? Stitch Fix the own.com or marketplaces is more than offsetting that kind of structural challenge on the physical side from wholesale partners.

Cuneyt Yavuz
Well, I mean the zztmain, I mean almost 60-70%, 60 plus percent of our business, luckily or not, is in digital in the US. So we are exposed as you mentioned in the more challenging channels of department stores, which is Bloomingdale's and Nordstroms. But it is only two key players and probably two key survivors in the US market. And we are also well distributed within their network. So we not distributed everywhere because there are also quote and quote, some dogs or less performing, you know doors that they have. So we do, you know, work with them in the right balance. So we do feel relatively comfortable having a business with them. In terms of specialty, the small mom and pop shops or the specialty shops that we work with: They seem to be in good shape both in US as well as Canada. I also look at Germany,

we are more than 1000 doors. The initial orders that we have taken for spring summer 2021 are in the positive territory, so that's encouraging me for what the future might look like. So it's I think important to be there serving the customers with the right product, right price, right quality, it pays off. And rightly so, as you mentioned, Stitch Fix is doing phenomenally well, and we're doing a very good job with them growing and teaming up with them. Our .com channel is doing pretty well. Some of the numbers are underrepresented actually. Let me chip in in this sense. Ee did have a few days of hiccups where we did transition our warehouse in New Jersey to a new warehouse, so there were a few days of suboptimal operations that were going on digital. So as we move on and on, well, we will see even higher numbers coming in from our ecom business also, but also other marketplace business partners are doing pretty well. So I mean I'm quite confident that some of what you mentioned specialty or Department store lacks are going to be more than compensated by digital channels.

Paul Trejo
Great, thank you.

Duygu Inceoz
I have two questions from Berna Kurbay from BGC Partners. The first one is, has there been a negative impact from the weakening Turkish lira on procurement for spring summer 21 season?

Cuneyt Yavuz
Thank you for the question. In terms of spring summer 21. We have finalized purchases for this year, so the foreign exchange rate will impact our cost of goods for the next season, of course. And at this point we are taking many actions to mitigate this impact as much as possible. These initiatives, as always, include mainly fabric planning, product engineering and working around product mix and making sure that we get in the best deals through low season purchasing. We continue to keep no open of foreign exchange position on our balance sheet, so I don't expect any impact from the balance sheet. But definitely the question is valid. Let's be realistic. SS21, with the softening of Turkish lira is going to put a lot of cost pressure on us. And as I mentioned, we're doing a lot of internal engineering to see how we can mitigate and offset some of that currently. I mean, I'll be probably in a better position to give you better guidance for the next year. But it's not anything new. It's something we've been accustomed to dealing with. I'm personally less worried about the foreign exchange rate, although it is a challenge, it's more the purchasing power parity, the pandemic, the sentiment of consumer, etc are areas where we will have to stay very close to and make sure that Mavi remains a brand where when people do choose to shop that we choose. Even if it's a shrinking market, we have to be gaining market share vis a vis the market, so that's our motto. And we have to make sure that the pricing, the quality, what Mavi stands for continues to win in the market. So far we've been delivering against this goal and I am quite confident that we will do so in becoming challenging days.

Duygu Inceoz
One more question. Do you foresee any decline in retail space availability, particularly due to slow down in shopping mall openings going forward?

Cuneyt Yavuz
The Turkish population if you talk about the post pandemic deadline, I mean we don't know when that's going to take place, but generally speaking, the shopping mall concept in Turkey has in theory has a long way to go. And if you look at the youth and the growing population, there will be a need for more space. And what we will continue to do is we do have a list shopping list of generally speaking 50-60 places, whether it's street or certain other shopping malls where we can continue to expand. Another option, of course, is the expansion of the stores themselves. So taking our 500 square meter on average store set and growing them into 7-8 hundred square meters. So this will be the values we will continue to go after.

In the meantime, you right with the current financial environment there will be a glut on shopping mall, new shopping malls emerging, and some of that hopefully we will be able to compensate if not all through a grown, growing digital business. By better performing in the digital channel, the speed with which and the quality with which we serve our customers an getting them into this new franchise. And you will also recall I haven't mentioned it in this prepared speech, but ecom channel for us is as profitable, if not more profitable than our other channels combined. Therefore I feel very privileged or and feel very comfortable of these current trends moving in the direction of digital. It will only make money more and be more profitable.

Duygu Inceoz
I guess there's no more questions left. Anyone wants to ask a question, you can raise your hand or write on the chat screen.

Cuneyt Yavuz
Thats all the questions that we received. Thank you Duygu for managing a great meeting. Thank you team. Thank you for being with us, my CFO. We're always here at your service, so for any further questions you might have, Duygu, Bige and myself will be at your service. Otherwise, I wish you very healthy happy good days and we look forward to catching up sooner than later.

All my Best.