



Transcription for Q3 2020 Financial Results Webcast
December 2nd 2020



Presentation

Duygu Inceoz

Ladies and gentlemen, welcome to Mavi third quarter 2020 financial results webcast. We are again using the Teams platform for our earnings call this quarter. We kindly ask you to keep your microphones muted throughout the presentation. Our CEO, Cuneyt Yavuz, will be presenting the results. We will be taking your questions after the presentation. Now, I will leave the floor to Cuneyt Yavuz.

Cuneyt Yavuz

Hello everyone. Welcome to our earnings call regarding the financial results for the third quarter of 2020, three months ending October 31.

Before going into the key highlights for the period I would like to provide a short summary of the current business status in the regions we operate regarding the Covid 19 measures. As you know, all retail and franchise stores are open since June 1, 2020 in Turkey. Since then there has been occasional business hour limitations in several mall locations. In Turkey, there is now a second wave of government restrictions effective as of December 1, 2020 which calls for some limitations on weekdays and weekend curfews implying that our stores will be closed on weekends going forward for an indefinite time. Mavi European markets re-opened in May and as Covid cases started rising, across the countries we operate in Europe, there are again certain Covid19 related restrictions since October. US and Canada also re-opened in May and are continuing operations uninterruptedly as of today. Recall that store openings in Russia were a bit more delayed; with all stores being operational at the end of August. They are still open and are performing well.

Mavi.com, marketplace and wholesale e-com channels remained open all along.

As Mavi management we are continuously focusing on P&L management, aiming to maintain stable gross margins and we remain diligent on managing our opex. As always, we prioritize efficient inventory management and effective sell through rates. Despite the challenging conditions that still prevail in the market, through our multi-functional planning efforts, we have managed to preserve our gross margins. Our ERP transformation project and digital investments continued as planned.

On slide 3, I would like to demonstrate the recovery trend with a focus on quarter three. We had no closures in the third quarter as opposed to the previous quarters, but business hour limitations and social distancing measures continued resulting in 37% lower traffic compared to the same quarter last year. Despite the prevailing challenging conditions, we have completed third quarter with a 2% growth in total revenue. Our Turkey business delivered 3% sales decline this quarter. With the lack of a proper back to school season, which is an important catalyzer for apparel retail, Turkey retail business in August and September came in weak; which was as per our expectations. During this quarter we continued with our marketing communications and launched three different campaigns this quarter, introducing new products in Mavi Icon and Mavi Black Pro collections targeting both women and men as well as expanding our sporty line with the collaboration of famous Turkish Juventus football player Merih Demiral. With the help of our extensive communication efforts, we are witnessing same store sales growth since October in Turkey. Despite the normalization trend, online demand continued to be very strong with 120% increase in sales from direct e-commerce channels, including the sales through our marketplace business partners. International sales performed better than our initial expectations in local currency terms and with the contribution of exchange rate levels, recorded 32% sales growth this quarter.



As a showcase of our strong brand equity and right pricing strategy, we managed to keep our gross margins stable not only this quarter but also year to date. Our cost control actions have paid off and we have managed to create 200 mn TL EBITDA with a margin of 24.2% in the third quarter, significantly above previous quarters. A well-executed collaboration across our category, product, sourcing and logistics teams resulted in efficient working capital management and in return yielded 85 mn TL of operating cash flow generation in the third quarter on top of the 171 mn generated in the second quarter.

Moving on to slide 4 with our key highlights for the nine months of 2020. Our consolidated sales in the nine months of 2020 realized at 1 billion 752 million liras. This is 18% below last year given the pandemic related store closures and traffic declines. Nominal EBITDA for the period is 301 mn TRY, resulting in 17.2% EBITDA margin. We have a net income of 26 million liras in the nine months of 2020. The total number of mono-brand stores globally, including franchisees, stand at 436. Turkey online sales grew by an exciting 161% in the nine months of 2020.

Lets move to slide 5 to review our channel performance. With improving sales performance, consolidated global revenue in the nine months resulted in 1 billion 752 mn TL, declining 18% compared to the same period last year. Total revenue is made up of 59% retail, 30% wholesale and 11% e-com. With stores being closed for a period of 2,5 months retail channel was most impacted with sales decreasing 26%. E-commerce channels on the other hand performed very strong throughout the period and has shown a 113% global sales growth in nine months with a solid 98% growth in Q3. Sales in Turkey were down 20% with 26% decline in retail and 21% decline in wholesale. Our e-commerce business in Turkey grew by 161% in nine months 2020. International sales, performing better than our expectations with 32% growth in Q3, were down only 11% in TL – terms in the nine months period. Europe and Russia have outperformed our estimates, especially in e-com channels which resulted in 57% sales growth in total international e-commerce.

On slide 6, let us focus on Turkey retail business. We opened 10 new stores, expanded 7 stores and closed 7 stores in the nine months of 2020, all of which were originally planned and scheduled for this period. As of October-end, we have 317 own-operated stores totaling 158 thousand sqms of selling space in Turkey with an average store size of 498 sqms.

On slide 7, we would like to elaborate on the same stores' performance after the store openings in June. As you know we normally share Turkey retail LFL figures in our earnings results. But with all stores being closed for a significant period, by definition, there is no meaningful LFL store set. On this slide, we are sharing the same stores sales performance from June 1st to October 31st. In this respect, same store sales have recorded 4.7% decline with 15.4% decline in number of transactions and 12.6% growth in basket size. Despite all stores being open the traffic was down 38% in the period. This softness was partially offset by 35% higher conversion rates and 14% increase in unit per transaction (UPT).

Looking into Q3 alone, the same stores sales were down 9.6%. The trend turned positive in October with a growth 6.4% and continued positive into November.

Moving on to slide 8 to review category-based developments. All our product category sales have performed better this quarter with t-shirts, accessories, skirts & dresses sales growing year over year bringing the total nine months sales declines to a range of 19% to 28% with the exception of the more formal wear "shirts category" performing weaker.



On slide 9, let's review our online sales performance. I would like to remind once again, that in addition to our direct to consumer sales that are reported under e-commerce channel, our customers can also buy Mavi products through third-party digital platforms to which we wholesale, therefore reported under wholesale. Including the wholesale e-com, our total online sales grew 65% globally and reached 264 mn TL and constituted 15% of total revenue in 9M 2020. Online sales in Turkey grew disproportionately higher compared to the rest of the world with 127%. Marketplace operators are performing extremely well in Turkey, through which Mavi achieved a significant 381% growth this period. Mavi.com also performed very strong and almost doubled its sales in the nine months of 2020. Online has constituted close to 9% of sales in Turkey. International online business is also on a growth trajectory especially driven by mavi.com and marketplaces which is good news in terms of margin contribution. In the nine months of 2020, close to 42% of total international sales were through online channels.

We are very happy to see the positive results of our continuous investments in digital systems, logistic operations and on our CRM platforms. Mavi is achieving its fair share in this changing and growing online environment. The ongoing shift towards e-commerce is only good news for Mavi given that our online business is a positive margin contributor with a full-price strategy across all categories. It has become more profitable than retail this year along with growing volumes and baskets sizes.

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. During the nine months period, our teams have worked rigorously to plan for the right product, right price, right calendar 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 year we were able to maintain our gross margins stable levels excluding the impact of imputed interest rates. Our gross margin in Q3 realized at 50.4% bringing the nine months gross margin to 49.1%.

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 three showed a significant improvement compared to the previous quarters and realized at 200 mn TL with 24.1% EBITDA margin. As a result, 9 months EBITDA is 301 mn TL with 17.2% margin.

Our net interest based financial expenses were significantly lower this period mainly due to two reasons: significantly lower interest rates and the rent discounts being recorded as financial income within the context of IFRS 16. We are also reducing our net debt level as we continue to generate operational cash flow. Consequently, we have recorded a net profit of 84 mn TL in Q3, 32% higher than the same quarter last year, exceeding the loss made in first half and bringing the total net profit to 26 mn TL in year to date. I would like to move on to slide 12 to take you through our working capital progress. Through our multifunctional planning efforts, we were able to deliver effective sell-through rates which yielded controlled inventory levels that mainly consist of seasonal lifestyle products and seasonless denim. There is a value increase in the inventory level due to close to 10% higher unit cost of products and currency exchange rate impact on international inventory. As a result, our working capital as a percentage of revenue increased to 8.0% at the end of October. Cash conversion continues its improving trend with positive operational cash flow generation in the third quarter.



Let's now move on to the next slide, slide 13. Given the scheduled store openings and expansions coupled with our uninterrupted digital investments, we have spent 83 mn TL of capital expenditure, resulting with Capex to sales ratio of 4.7%.

Recall that, in order to be prudent in terms of liquidity management, we used an increased amount of bank credit from mid-March to July; most of which are still held as cash. We 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 32 mn TL at the end of October. This implies a leverage multiple of 0.13 times of EBITDA. Our blended cost of debt as of end-October is 8.8%.

18% of our total consolidated debt belongs to our subsidiaries, all borrowing in their respective local currencies. As of end of October, only 8% of debt is in foreign currency and is totally covered with foreign currency assets and receivables from subsidiaries. We still target zero open fx positions on our balance sheet.

Slide 14, recall that we shared with you our best estimate outlook in September that assumed all stores continue to be open in all regions for the rest of the year. Including Q3 results, we are still within the range of that outlook. As the number of COVID cases are spiking here in Turkey and around the globe, more government restrictions are being imposed. New restrictions in Turkey announced recently includes weekend lockdowns effective as of December 1, 2020 and this will have significant impact on our revenue stream. The uncertainty continues as we don't know the timeline for the restrictions and hence it is difficult to quantify the financial impacts. We are well prepared for this second wave in terms of liquidity and balance sheet positioning. We will continue to focus on P&L management and efficient inventory planning. Health and safety of our employees and customers will remain our first and foremost priority. Before turning the call over to your questions, I want to thank all my team members across the many countries we operate in. It is setting out to be a long and difficult year, but I'm incredibly proud of my teams' hard work and the amazing results they are delivering. Thanks also to our many partners and their employees around the world who are going above and beyond to produce our products, often under the most trying of circumstances. Finally, thanks to our 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. When 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 via audio, we will take your questions last, when there are no questions left on the platform. Our first question is from Berna from BGC Partners. Berna please go ahead.



Berna Kurbay

Thank you for the presentation. I have a couple of questions. First one is about Turkey online. Your online revenue is still strong but seems to have decreased quarter over quarter. Is this related to retail stores being open and less demand for online or is there any other factor? My other question is what was November LFL growth at TR retail stores? And how do you see consumer sentiment in 4Q so far. Also, what is the impact of November promotions such as Black Friday, Cyber Monday on profitability of online and retail?

Cuneyt Yavuz

Thank you Berna. Let me first start answering with November performance. November started off very positive as a continuation of October which was also pretty strong. As the Covid figures have been growing every day, the government restrictions that started around mid-November did start to show some adverse impact on traffic and we saw declining sales. Overall we finished November at a slightly negative like for like, somewhere around 3-4% lower than last year in terms of same store sales. Overall, we were happy of the performance of our stores given the circumstances.

Online revenue is still growing very strong as you said but yes, the pace of growth compared to last quarter is a bit lower. This is as you stated, related to retail stores being open and operating well. But even with stores being open we are very ambitious about our online growth. We are well ahead of our original plans in terms of where online stands and we believe there is a shift in consumer habits and online will continue to outpace our retail growth in the years to come.

You know as Mavi we are not a discounting brand; we don't like to do unreasonable pricing and then do harsh discounts. This is generally well excepted by our consumer and they appreciate our sincerity. In this Black Friday again, as you may have followed from our web page or from our stores, again we were consistent with previous years and we only applied 15% and 20% discounts. These were real discounts and consumers know and understand that when Mavi does a campaign it is real and they reward and honor this. We had a very successful campaign and the sales were even higher than how we projected initially. So, a short answer to your question is no, we have been very consistent with previous years, and hence it does not have a negative impact on our margins.

Our inventory is fresh and seasonally relevant, casual products, suits the trends. Hence we haven't felt the need for very hard discounts. We are making sure the brand is vibrant, try to give people reason to buy, continue our good communication, make sure the products are relevant to trends, increasingly casual and sporty. This is our job.

With this result and even as of end November, we are in line to be within the vicinity of our outlook provided in September. With the new restrictions that will be effective as of December, we will probably take some hits on the revenue, top line. The total impact will depend on how long these measures will continue, but our sores will be closed for 2 days every week and those are important days where most of shopping takes place. Hence the impact on revenue should be significant. On the other hand, we will make sure our opex is controlled, take all immediate actions to cut costs, especially with the rents we still think we can keep our rent/revenue ratio stable. We are prepared in terms of liquidity and balance sheet position. We continue to believe that Mavi will be among the companies gaining strength and market position emerging out of this period.



Yavuz Birdal

Hi. Congratulations on strong results this quarter. I'm trying to understand how you see normalization steps going forward. Before the pandemic in 2019 Mavi had achieved a core EBIT of 360 mn TL and if it weren't for Covid, only by applying inflation this should be at around 450 mn TL next year. So what I'm trying to ask is when do you think the company will return to its 2019 operating levels? Are you able to achieve this in 2022 or 2023?

Cuneyt Yavuz

Fair question and a very hard one to answer. As I said we are facing now a second wave of restrictions which we don't know how long will last. We are making our 2021 plans and may need to go back and review considering the new restrictions taking place depending on the duration of this phase. But all in all we see the Covid environment to prevail for at least until May and we expect to see more normal operating environment after that. So maybe the second half of 2021, we could, we should be getting back to 2019 operating environment. In terms of the numbers, I can't say anything for sure right now. There are also other uncertainties regarding the consumer, the economy. So, we have yet to see. We are just making sure that we are prudent, well prepared financially and we will continue to invest in our brand, keep Mavi a loved brand, the preferred brand, the choice of the consumer.

Duygu Inceoz

We have no more questions. Cuneyt Bey would you like to make final closing comments.

Cuneyt Yavuz

Thank you all for joining us today. Until we meet again in a few months keep safe and healthy. As Mavi team we wish you and your families and loved ones a happy, prosperous new year. Hope to see you again soon.
