Transcription for Q3 2022 Financial Results Webcast

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DUYGU INCEOZ
Ladies and Gentlemen Welcome to Mavi webcast regarding the financial results for the third quarter of 2022. Our CEO, Cuneyt Yavuz, will be presenting the results followed by a Q&A session. We would like to inform you that this presentation is being recorded and we kindly ask you to keep your microphones muted throughout the presentation. Now, I will leave the floor to Cuneyt Yavuz.

CUNEYT YAVUZ - CEO
Hello everyone! Welcome to our webcast for the financial results of the third quarter of 2022.
We are happy to announce another strong quarter with global sales growing 136% and earnings increasing. As you know the third quarter is the start of our Fall Winter season and it is our strongest quarter seasonally including back to school sales. 143% growth in Turkey retail sales on top of a very high base highlights a well-executed collection supported by loyal Mavi shoppers. Demand remained robust throughout the quarter amid ongoing high inflation in Turkey. Sales growth was driven both by price and volume. Almost all product categories grew in number of pieces in Turkey. During this season, we launched the Serenay-Mavi Icon collection offering the latest women trends and the Mavi Black and Pro collections with Kıvanç offering premium men products. On the other hand, Freedom of Space with Mavi collaboration drove the acquisition of young and new customers. In addition, we continued to take up greater place in wardrobes and acquire new customers with new product categories through Mavi Pro Tech premium outerwear and active wear collections. We continue to expand our product categories and expand our customer reach with relevant and successful collaborations while maintaining strong brand communication, helping Mavi grow in non-denim lifestyle categories especially with a focus on growing women's share.
In our international operations, we started witnessing macro driven demand weaknesses, especially in the European market. Nevertheless, international sales recorded positive constant currency growth in the third quarter. Online sales also picked-up momentum and grew 97% in Turkey and 108% globally in Q3 2022.
Positive trading environment allowed for high sell through rates which continued to help offset significant product cost pressures. On the other hand, as we have been iterating since the beginning of the year, the gross margin levels started to normalize in the second half as inflationary product costs began kicking in. We are now witnessing this normalization in all our markets. As always, dynamic and adaptive supply chain management, efficient product planning and inventory management are the key elements for our continued success. We continue our investments on brand and customer, and we are happy to share that we acquired 767K new customers in 2022, in line with our pre-pandemic target of acquiring one million new customers every year. On the other hand, we continue to integrate sustainability into our corporate culture, vision and business practices and we are designing innovative products in line with our All-Blue strategy. Our Natural Dye Collection that was launched globally this Fall was rewarded as the "Best Sustainable Collection" at the Rivet Awards, bringing this title to Mavi for the 4th time. We also launched the Mavi Hemp Denim collection this

fall, our most sustainable product to date. I am pleased to share that as a result of our sustainability efforts, we recently became the only apparel brand to be included in the BIST Sustainability 25 index, which was created this November comprising of high sustainability performance, high market capitalization and market value companies. I am proud of my whole team for fully embracing and driving forward our sustainability agenda.

Now lets look at the key highlights for the period, moving on to Slide 3:
Our consolidated sales as of the first nine months of 2022 realized at 7 billion 325 million liras growing 130% versus same period last year. Turkey retail sales grew 146% and Turkey online sales grew 71%. Our EBITDA, growing 2.5 times year on year, realized 1 billion 860 million TL, resulting in an EBITDA margin of 25.4%. We continue to deliver increasing quarterly earnings. The net income for 9 months 2022 is 1 billion 158 mn TL. Our balance sheet net cash position increased 83% vs year end to 1 bn 134 mn TL as of the end of October. The total number of mono-brand stores globally, including franchisees, reached 459.

Lets move to slide 4 to review our channel performance:
With the retail channel gaining significant pace this year, total revenue consists of 66% retail, 24% wholesale and 10% e-commerce sales as of nine months. Fueled by the robust performance of Turkey retail, 83% of total consolidated revenue was generated in Turkey. The inflationary environment continues to drive consumers to shop and as Mavi we are making sure we have the newness and variety at the right price to respond to this demand and remain consumers' brand of choice. As a result, our sales in Turkey grew 138% in quarter three. All channels contributed to this strong growth with retail growing 143%, wholesale business mainly comprising of franchise stores growing 135% and e-commerce growing 97% in the quarter. As of nine months, the growth in Turkey is 132%. In the face of the global macro-economic conditions, we started witnessing some slowdown in international demand, mostly in Europe and we expect it to continue into the following quarters. Nevertheless, total international revenue grew 8% in constant currency and 126% in TL terms in the third quarter compared to same period last year.

On slide 5, we start to focus on Turkey retail business:

Retail will continue to be at the heart of our growth strategy. Although there is a shortage of available new space in Turkey due to the slowdown of construction in the recent years, we continue to expand current stores in square meters while constantly taking new actions to make sure that consumers have a great shopping experience. In the first nine months of the year, we opened 5 new stores, closed 3 stores while expanding 11 stores in Turkey. As of October-end, we have 329 own-operated stores totaling 167.3 thousand sqms of selling space in Turkey with an average store size of 509 sqms.

On slide 6, lets elaborate on the like for like store performance in Q3 2022.
In quarter three, traffic in our stores was 19% higher than the same period last year which was already a very strong period. Same store sales grew 140% this quarter with number of transactions increasing 19% and basket size growing 101%. Although there are significant price increases due to the inflationary environment, there was still 17% volume growth in the quarter. We believe these figures to be better than industry average and take it as a testament of Mavi's success in product, pricing, and branding strategies.

Moving on to slide 7 to review category-based developments in Turkey retail:
We are happy to report strong growth across our product categories in the nine months. All categories delivered significant growth in number of pieces. We are constantly following changing consumer preferences and enriching our product range, offering newness, variety, and innovation in response. Our denim category grew 135% year on year, now constituting 40% of total retail sales in Turkey as of nine months. The knits business including our growing t-shirt, sweatshirt and jersey categories is now 28% of our total Turkey retail sales and continue to deliver robust performance growing 162%. I would like to open a parenthesis here to note that our "Mavi logo" business is one of the main actors in the success of this category and is also a great traffic driver feeding all other categories. Our rising category non-denim bottoms grew 166%, constituting 6% of our total Turkey retail sales. Shirts sales is recovering from the pandemic disruption. Growing 151% and making up 11% of our total Turkey retail revenue.

Jackets, seasonally being a fall-winter product grew significantly this quarter bringing the total growth in the category to 155% and the share in total sales to 7%. Accessories grew 166% and continue to contribute significantly to our women's business. Overall, our lifestyle categories grew 158% year on year as of nine months.

On slide 8, lets review our online sales performance:
On this slide we review the total online sales of Mavi including the sales to the third-party digital platforms to which we wholesale, in addition to our direct-to-consumer online sales made up of mavi.com and marketplace sales that are reported under e-commerce channel. Recall that our direct-to-consumer e-commerce share is now 10% of total consolidated sales. Including the wholesale e-com, which only exists in our international business, our total online sales grew 80% globally and is now 11.4% of total revenue. In Turkey, with Mavi.com, which was relaunched with a new upgrade earlier this year, we enhanced the online shopping experience, offering speed and ease to our customers. Online sales in Turkey picked up momentum in the third quarter bringing the total growth in nine months to 71%, driven by 81% growth of mavi.com and 63% growth of marketplace operations and now constitutes close to 8% of total sales in Turkey.

International online business growth is on track with 93% in the first nine months of 2022 and now constitutes 28.4% of total international sales. The fact that this growth is largely driven by our direct-to-consumer channels is promising. Our own platform mavi.com grew 108% and marketplace sales grew 189%. Mavi's strong digitalization and CRM infrastructure will continue to drive our growth trend in e-commerce and as I noted in previous quarterly updates, the shift towards online will positively impact our margins going forward being a full-price channel across all categories. As retail operations are back in the play, omni-channel capabilities are becoming more important for future growth and in improving the shopping experience for consumers.

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

On slide 9:
With rising labor costs, energy prices, currency and raw material price fluctuations and high inflation in general, gross margin management is a major focus area. As guided several times throughout the year, the higher product costs started kicking-in as of the third quarter and we are seeing a normalization in gross margins as expected and guided. On the other hand, with the cost of production in Turkey increasing, and the exchange rates remaining fairly stable, we start witnessing some deterioration in international gross margins as well. Nevertheless, our strong brand strategy, dynamic product-price planning, the newness, and variety we bring in response to high consumer demand resulted with high sell-through rates this quarter and we managed to mitigate cost pressures. As a result, gross margin improved 120 basis points in the third quarter year on year bringing the nine months improvement to 330 basis points. As the product cost increase is even higher in the last quarter, we expect the gross margin level to trim back some more by year end.

On slide 10 we review our bottom-line performance.
The significant opex inflation in the third quarter was mostly leveraged by the strong top line growth. We continued to deliver improvements in our rent ratios and our employee cost to sales ratios in Turkey retail business despite the high inflation. On the other hand, inflation on international opex started to factor in impacting overall EBITDA margins. As a result, our EBITDA margin excluding the IFRS16 adjustments is stable year on year at 20.1% in quarter three. Recall that the IFRS16 impact on EBITDA has become lower compared to previous years because of two developments: First: the ratio of performance-based rent contracts has increased, leaving the related rent costs on the P&L. Second: the total rent costs as percentage of revenue is decreasing, hence reducing the impact of IFRS16 on EBITDA. Therefore, the EBITDA margin including IFRS16 seems to have contracted 200 basis points in the quarter. As of the nine months of 2022, we achieved a record high reported EBITDA of 1 billion 860 million TL including IFRS16 adjustments with a margin of 25.4% improving 190 basis points.

The operational performance is mainly reflected to our bottom line. Net income margin in the nine months of 2022 is 15.8% which is a significantly higher than last year or any other period pre-covid.

On slide 11, we look into our operational cash flow and working capital performance:
The average cost of inventory is 128% higher than that of same time last year and we are taking several initiatives to mitigate product costs pressures such as cash payments, early booking, early production, advance payments for raw materials and so forth. As of the end of October 2022, the inventory level in number of pieces in Turkey is only 19% higher compared to same time last year, reflecting sales volume growth and the inventory on hand comprises of all fresh season products. Net working capital is still close to our targeted strategic levels of five percent of sales at 5.5%. We continued to generate significant operational cash in the third quarter despite the increasing working capital requirements. Operational cash generation in the nine months is 1 billion 52 mn TL with a cash conversion ratio of 67%.

Let's now move on to the next slide: (slide 12)
We spent 192 mn TL in capital expenditures in the first nine months of the year resulting in a Capex to sales ratio of 2.6%. On the retail side we had a few store openings, sqm expansions and new store concept transformations taking place. Apart from retail, we have been investing predominantly on IT projects and digital investments. With strong cash generation in the third quarter, our net cash increased 83% compared to year end to 1 billion 134 mn TL. All of the foreign currency debt you see on our consolidated reports belong to our subsidiaries, all borrowing in their respective local currencies and hence does not pose a currency risk. We continue our approach of holding no foreign exchange position in our balance sheet. On the other hand, average cost of debt is increasing in Turkey, and we foresee higher rates going forward. Also, the availability of funding is very restricted

nowadays. In order to be prudent and make sure we have access to liquidity, we have received an approval from the capital markets board for debt instrument issuance and we are keeping it as an option.

(On Slide 13) We are confirming our full year guidance provided in September.
We expect to complete the year with 120% sales growth, EBITDA margin excluding IFRS16 to be 19% plus minus 0.5% and including IFRS16 to be 24% plus minus 0.5%. This implies a contraction in margins in the last quarter which is in line with our expectations and our guidance since the beginning of the year. The stronger than expected Turkish lira also plays an important role in international margins as stated earlier. As always, I would also like to give you some color on the current trading environment as of date. We continue to see great demand for our products and a positive pricing environment. Turkey retail same store sales increased 143% in November and 120% in the first week of December year on year. Happy to report that, online sales in Turkey have also performed well including Black Friday sales and grew 124% in November.

Before I end my presentation and open the floor to your questions, I would like to share with you some great news that just came in today. We have been informed this morning that Mavi is included in the CDP's Climate Change Global "A List" with our reporting in 2022. Among the nearly 20 thousand companies that reported to CDP this year, only 283 were included in the A List, becoming 2022 Climate Leaders. Once again, I would like to thank my whole team for their serious efforts. Mavi will continue to be a leader in sustainability practices with the mantra that a better world is possible with a better Mavi. With this final great note, I am happy to take your questions now.

DUYGU INCEOZ
Ladies and gentlemen, if you wish to ask a question, please click the raise your hand button, which is the hand icon on your control panel. When I call your name, please open your microphones 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 the audio, we will take your questions last when there are no questions left on the platform. Our first question comes from Yavuz Birdal, Yavuz go ahead.
Yavuz, we can't hear you. Is your microphone open?

CUNEYT YAVUZ - CEO
Unfortunately, your voice doesn't come through. If any chance, if you can pose the question in a written order, I'll do my best to answer them. I see you've written that there is a technical problem, so if you can pose the question written, I'll read through and give you an answer. So if there are any other questions, let's proceed.

DUYGU INCEOZ
Meanwhile, does anyone else have any questions? Okay, Mustafa Gorkem Göker, go ahead please.

GÖRKEM GÖKER
Thank you. My question is about your year-end guidance. You already mentioned there is a margin pressure as well as maybe normalization of revenue growth, but for your yearend guidance you should achieve only a hundred percent growth in the last quarter, if I'm not mistaken. Can we say there is a clear upside potential on that front or is there something that we might be missing when comparing it with last year? And next question after that.

CUNEYT YAVUZ - CEO
Please you can go ahead and pose the second question and I'll answer them both simultaneous.

GÖRKEM GÖKER
Okay, can you please give us an update about the ratio of your rent expenses in terms of turnover based and a fixed based? And should we expect a change on that front going forward and the implications on your financials? Thank you.

CUNEYT YAVUZ - CEO
In terms of the year end closing, I guess the critical message as a team, what we've been trying to share with the investment community has been mostly focused on the margin side. So you are right in the sense that if you look at the current trading environment in terms of top line growth, we might be more or less, we have the capability to deliver a bit more for the year end. We are being prudent on that end because these numbers are also new in terms of inflation and there has been uncertainty. I mean as you can hear from my presentation, we're talking about 100%, 150% growth. So, it is a bit sort of a moving target. So the key message I would say, or the key takeaway that we've been trying to guide you guys, has been more focused on is that we had an early run in terms of product at hand and then inflation kicking in, hence delivering good gross margins, which then is starting to normalize with cost increasing and our pricing capability also normalizing, let's say. Therefore, that's the sort of main message.

In terms of modeling, again, also some weakness in Europe due to soft sales, so that might also come in a bit negative. We are still relatively bullish about what we can do in terms of top line growth in Turkey. We are almost halfway through the fourth quarter, so far so good. So you might have a point there, but again, we are being cautiously optimistic let's say in terms of the top line growth.
When it comes to the rent piece, in terms of rents, we have 100 stores that have total revenue-based contracts and there are also 166 stores with contracts where we pay the higher of the turnover or the rent base. So when sales go up, there are times we have to pay turnover rent amount, so that's

about 266 stores. So roughly about two thirds of our total rent bill become variable at any given point in time in a given month.

In terms of rent ratios, traditionally and typically our guidance has been we will be growing in real terms higher than the rent increase ratios delivering OPEX improvements. So I would hope that this good momentum as we continue to grow the square meter of sizes, open up new stores in this direction, our rent ratio as a ratio of sales and OPEX would improve.
Our journey, since becoming a public company we have been able to semester to semester deliver rent ratio improvements. I remain again cautiously optimistic that also over the next couple of years we still have margin improvement areas in terms of rent, especially as we find more spaces to expand stores which brings in a good negotiated rent. It also has a side impact of SG&A improvement as the store square meter increases the ratio of also overheads to sales is, as a percentage, becoming more efficient and delivering economies of scale. So those are my two sort of feedback in this area. Thank you.

DUYGU INCEOZ
We have Yavuz's question written. He's asking about the normalized EBITDA margin going forward.

CUNEYT YAVUZ - CEO
In terms of normalized EBITDA margin, I think I will be in or we, not only me, but as a team, we'll be in a position to give you a much clearer guidance as we close the year and finish and finalize our next year plans. So at this point we will close this year in a more normalized sense but in a higher than normal. I mean if you recall, we became public at 13-14% of EBITDA. We've always guided for 17-18% as our prime target. We are now far away from that number. I wouldn't be surprised on a normal run rate that this company delivers around 18 to 20% EBITDA margin.
So the biggest challenge next year is, as we are all witnessing, the Turkish lira went through a phase where it went through a devaluation, now it's coming through a position where the inflation and devaluation ratios are going in opposite directions, which is putting in TL cost increases and also real income increases in TL terms for consumers to buy. This is for Turkey and also for export markets. We still have to see, because it's still a big unknown, of where the minimum wage increase and energy price coefficients will materialize for the coming year, which will also impact our margin design. And then make decisions on how much pricing we can take, what our cost base will be, which will have both domestic also international impact because if the exchange rate doesn't move much local production, Turkey, as you know 80 plus percent of what we produce is being made in Turkey. So local production costs in dollar terms or in Euro terms will start to go up, which will European and US markets are a bit more inelastic in terms of pricing flexibility. We will definitely look into product mix and some price product mix margin opportunities, but that will also put forth a bit of a challenge for us in terms of managing about 20% of our business.

So right now I would probably zoom out from the daily concerns, but generally on a macro level, say that this company under normal circumstances again is operating to deliver around 18% of EBITDA margin. Next year there's quite a bit of uncertainty of what might or might not happen. And again, to reiterate, I think we will have more clarity once we come to January and see the minimum wage impact and also potentially through the year in terms of when the elections are taking place and what the macro financial take and measures that the government will follow. So unfortunately, I cannot guide anything more specific than that at this point in time.

DUYGU INCEOZ
Just to clarify that 18 to 20% EBITDA he's mentioning is excluding IFRS16.

CUNEYT YAVUZ - CEO
Yes, yes, yes. Thank you Duygu.

DUYGU INCEOZ
Yavuz, do you have any follow ups or anyone else has any questions?

CUNEYT YAVUZ - CEO
Thank you Yavuz. You are most welcome. I'd love to see you soon. Okay, one more question from Görkem, please go ahead.

GÖRKEM GÖKER
Thank you again. I mean we see strong demand from your results, but can we extrapolate this to the overall market, and can you make some comments about the competitive environment? Especially after this TL USD stability, does it work in favor of local retailers and as well as foreign retailers? Can you comment on that front?

CUNEYT YAVUZ - CEO
I think depending on who your audience and target audience is, this year overall and I'll also give you a bit of a flavor about the future, this year has been a different sort of levels of success for different brands. Mavi overall is more masstige, we are not extra premium, we are not also with good quality, good value proposition and we will remain I think, not for now but also for the future, we are in a great position where we can capture from both brands that are above us and also below us and we will continue to benefit, I think moving forward.
This year, probably maybe the early part of the year, the more entry point brands might have had a harder time in terms of volume growth. Although they have taken prices, this is what we hear from the market, so don't quote me on this as an official guidance. Having said that, on the premium brands or Mavi and above brands, certain brands, especially something we didn't necessarily talk

today, but especially with the help of strong tourism have benefited in terms of good retail sales. So moving on, taking what we know for now, moving on to next year, I think some of the local advantage in terms of costing and producing in Turkey will evaporate in favor of the international brands as cost of manufacturing in Turkey go up. So there will be a bit of a normalization, and when I mentioned this I'm thinking more as H&M, Zara kind of brands, vis-a-vis as they are the bigger sort of price and volume competitors. So that's one thing.

And the second coefficient, besides the minimum of wage inflationary pricing exchange rate ratios, another thing that will be interesting to watch that it will be the tourism coefficient because generally speaking tourism and also that has been a bit of migration, which we also see people have moved into Istanbul, Antalya and certain cities and they're using their credit card. So that's how we can track whether they're tourists or they're residing in Turkey looking at their consistent shopping with us. So that will also come into a new base and we will have to see how that will impact also for the following years. So let's hope altogether that we have a similar strong tourism here next year, which will also I think continue to benefit both the locals and internationals.

Generally speaking on Mavi, I don't want to sound arrogant, but in terms of volume and wardrobe growths and consumer traffic, I'm bullish on Mavi. I think the challenge is going to be more on gross margin and this was an exceptional year where we had a really high up and also normalized closing to the year with a lot of margin pressures for next year. But as Mavi, as you will recall, over this last five, six years we've been together, our focus has been capturing new consumers, grow the wardrobe, make sure our franchise is growing. So we'll do our best to continue to invest behind the brand and the products and the innovation and the shopping experience to make sure that we don't lose any market share.

So that's going to be as always top of mind because once you lose consumers then you are also hurting. It becomes more expensive later down the road to reinvite them back into your franchise. And going back to Yavuz, I'm just to close the circle then goes back to what Yavuz was mentioning, so it's early to see what big of a challenge we have. I'm quite confident that once we come together, once I close the year and we have more clear clarity on how this year is unfolding in terms of cost structure, we can give you more guidance in terms of how we will proceed.

Generally speaking, Mavi is good. We had some advantage at the internationals through the year. Some of this is going to be washed away is my opinion to a certain extent. Tourism will be a key coefficient and also the capability of how much more pricing as there's also government and also social pressure and spending power pressure coming in the second, this part of the year, let's say in the second, let's say well first and second quarters of next year. So a lot of challenges definitely. So a lot of hard work ahead of us and we are willing to take it full head on and give it our best is what I can say.

EMIN ZUMRUT
How many months/years needed to cover all costs of sqm expansion in any store? in terms of cash flow.

CUNEYT YAVUZ - CEO
In terms of Emin's question, in terms of months, years needed to cover all costs of square meter expansion, the good news is once we do an expansion, the ratios in terms of square meter sales et cetera is immediately impacting. So typically, our investment payback periods on expansions is less than a year or around one year. So it is just a bit of a CapEx and inventory that goes in, but immediately traffic shoots up and whatever new merchandise we put on shop floor is selling and there is demand.

And typically, what happens is more women customers are coming as bigger stores are more alluring and more appealing to women consumers as they're able to see more choice on the shop floor. So, in terms of growth, growth is the easy peasy game. So wherever and whenever we have the opportunity we are, at the snap of a finger, willing to take that opportunity and grow the square meters size up to a thousand square meters in the shopping malls.
Cemal I think has a question.

DUYGU INCEOZ
Cemal, you can go ahead if you like

CEMAL DEMIRTAS
Do you hear me now?

CUNEYT YAVUZ - CEO
Yes, yes, yes.

CEMAL DEMIRTAS
Okay, thank you for the presentation. My first question is related to financial expense side in third quarter I see increase in that front, how do you see the financing environment for you? Could we assume that your working capital needs increase or what are the reasons behind that? And do we expect any asset revaluation in the following quarter? Most of the companies did in third quarter and some others will do in the fourth quarter. I want to understand that.

And the last question is about the cost base compared to fourth quarter in fiscal quarter, not in your quarter, but if with the current prices, the cost basis you have and the expectations for the first quarter of the next year, 2023, do we have any calculations in terms of potential cost increases? Putting the minimum wage aside, do you still see some increase in cost going forward in February, March or even into June or are we close to the ending of the cost increases? It's just related to your budgeting issues because we are hearing some increases in other sources in the sector in the non-listed area, but I want to understand how do you see the picture in terms of cost in the following quarters? Thank you.

CUNEYT YAVUZ - CEO

Okay, thank you for your questions. A lot of questions and if I miss something you can come back. In terms of financing cost, yes, financing costs are increasing as you can observe under the current sort of relatively liquidity crunch as Mavi, we are being extremely defensive and making sure that we remain as liquid as possible and to avoid our hits in terms of financing costs and to minimize the need for cash or borrowing over the next period. At this point in time we have quite a bit of visibility not to the year end, but in terms of how we are working, we have quite a bit of visibility I would say until the end of quarter two as to how we will be able to manage our cash situation. We have a plan B plan as I also mentioned, if we need more cash, we have also applied for a bond issuance and if necessary, we can also use that.

Clearly from this day on, if and when we should choose to borrow more money, it's going to be more costly. So there is going to be a negative impact of borrowing and hopefully we'll do our best to sort of borrow as little as possible and to push it as further down the road as possible with our good cash conversion maintenance. So right now we are not "stressed out" and we feel quite relaxed. Our credit lines are okay and we have a B, C plan in terms of bond issue and what we may have to do in terms of borrowing more money.

In terms of asset revaluation, both in quarter two and quarter three, we have done that and we will continue to do that whenever it's necessary and whenever we have space to do it. In terms of cost basis, we typically review our cost basis on a quarter to quarter, like for like basis. So your question was more like from quarter four to quarter three, is the cost increasing? There is a bit of cost increasing. That's going to definitely come, although you said putting aside, but that's part of the question that is going to come because of minimum wage increase.

There is also another cost element that will come on top because of energy price increases that have taken place throughout the year. A bit of good news is coming from cotton prices, which has normalized, so that will also help us and give some breathing space in terms of the raw material costing and we'll take it from there.

And I think you were also asking from quarter one to quarter two, where does it settle down? Right now as we look at things, I would say if there's going to be any normalizing that's going to be more like quarter three, quarter four, when we come to a more like for like basis. But between you and me then the challenge is going to be what is the exchange rate going to be at that point in time. So a lot of unknown from that perspective. And I mentioned the exchange rate more in terms of again, energy and raw material, PL cost implication.

Right now, again as I mentioned or as we try to guide you guys in terms of where it's heading, we do see a normalized trading environment, carryover costs on a like for like basis becoming sort of normalized. And the question we have, we will be answering across the next six months, how much of pricing, how much of consumer appetite, and how much of volume growth will we be able to deliver over the next six months? So there's a lot of uncertainty in that area.

What we are more confident is we will keep our company agile, we will capitalize on the fact that we produce in Turkey. So our response to inventory will be as best as one can do and then take it with the flow and manage our both cash situation, inventory and see the consumer sentiment alongside the margin pressure. So a lot of challenges are ahead, which Mavi typically is good in managing and I'm quite confident as a team we will pass with. But it'll be, it's fair to say, it'll be a bumpy ride next couple of months. So I hope that gives you at least a context of where our mind and energy is.

CEMAL DEMIRTAS
Thank you. Thank you very much.

DUYGU INCEOZ
Ladies and gentleman, does anyone else have any other questions? Well, we think we have no questions coming. Thank you for your contribution to our webcast. If you have any follow-up questions or comments, please don't hesitate to reach out to us. Have a great week. Then we'll you again in the next three months.

CUNEYT YAVUZ - CEO
Thank you Duygu. Thank you everybody. All my best for a happy, healthy, prosperous New Year and take care. Bye-bye.