Transcrip on for MAVI
December 5th 2017

Corporate Participants

Cüneyt Yavuz
Mavi - CEO

Tuba Yilmaz
Mavi - CFO

Conference Call Participants

Anuj Mehrotra	**Charlemagne Capital**
Asli Tuncer	**Goldman Sachs**
Banu Guler	**HSBC**
Berna Kurbay	**BGC Partners**
Cem Oksan	**Goldman Sachs**
Cen Okay	**Unlo and Co**
Ece Mandaci	**Tacirler Menkul Değerler**
Emre Dilder	**Unlu and Co**
Hari Haran	**Goldman Sachs**
Kayahan Azmi Demirak	**IS INVEST**
Melis Pocar	**Oyak Yatirim**
Mete Ozbek	**Unlu and Co**
Mr Pulent	**HSBC**
Neerav Agarwal	**HSBC**
Ozgur Ucur	**QNB FinansInvest**
Seda Karsyt	**Bank of America**
Umut Cebir	**Ziraat Asset Management**
Yulian Agaradnikov	**Bank of America**

Presentation

Operator
Ladies and gentlemen, welcome to Mavi 2017 Nine Months Results conference call and webcast. I now hand over to Cüneyt Yavuz CEO and Tuba Yilmaz, CFO. Sir, Madame, please go ahead.

Cüneyt Yavuz
Thank you all for joining us. Today, I have 10 slides to go through. Afterwards, we will be more than happy to answer your questions.

Let me start with slide two and take you through the key highlights. As of year-to-date 2017, our consolidated revenue increased by 39% to TL 1.350 billion. At the same time, our EBITDA grew by 54% to TL 208 million, resulting in a healthy 15.4% EBITDA margin. Coupled with strong top line and EBITDA growth, our net profit grew by 60%, and reached TL 84 million. Store rollout continued in line with our plans and we opened 21 net new stores in Turkey and four in Russia, to each a total of 307 own operated stores. As of the end of quarter three 2017, Mavi has reached a total of 417 stores including our mono-brand franchise stores. Mavi Turkey Retail business delivered a like-for-like revenue growth of 22.4%, and our Kartuş cardholders reached 6.3 million, and in the first three quarters of this year, we added 1 million new customers.

Now, moving onto slide three, as you can see, our growth performance was very healthy across geographies and sales channels. Our total revenue grew by 39% and reached TL 1.350 billion, of which 64% was generated from retail, 34% from wholesale, and 2% from e-comm channels. Sales in Turkey, across channels, grew by 29% with 32% growth in retail, which, as you know, is our main business channel. Wholesale channel grew by 20% and e-comm continued to grow ahead of other channels with 40%. Mavi's international growth was also very strong with 112%, thanks to the consolidation of U.S. and Canada in our business. On a pro forma basis, international growth was at a very healthy 38%.

Moving onto chart four, let us focus on Turkey and Turkey retail business. We opened 10 new stores in the last quarter, making the total new store openings 21, per our plans. We are keeping our guidance of 26 net new stores for the whole year. As of end of quarter three, we have 282 own operated stores, and 136,000 square metres of selling space in Turkey. New stores accounted for almost 14,000 square metres of new selling space, at the same time; we carried on our strategy of expanding stores. As of end of quarter three, we have expanded 17 stores, adding another 5,000 square metres of selling space. As we continue to open larger stores, average store size increased from 447 square metres in the yearend of 2016, to 482 square metres end of quarter. This continued selling space expansion and backed by solid like-for-like growth, Turkey retail revenues grew by 32% to reach TL 831 million.

And now let's go the other chart to elaborate further on our like-for-like performance in Turkey and in retail sphere. We have delivered a very strong like-for-like growth of 22.4% in the nine months of 2017. This like-for-like growth is driven by 13.6% transaction growth, and 7.7% basket size growth. Mavi continues to be a key leader in the apparel industry, thanks to its strong brand positioning and top of mind awareness. Mavi is continuing to attract shoppers, as we continue to witness increases in traffic and conversion, driven mainly by customer loyalty and frequency, new customer acquisition, right product right price and superior service and quality. It is clear that we will exceed our like-for-like guidance of 16% for this year.

Now, let us take a closer look at our category-based performance and move to slide six. We are happy to report that both our denim and lifestyle categories are performing equally strong, and we have happy customers shopping across all the range of our product portfolio. Our denim category including jeans, shorts, dresses is growing at 32% in the reported nine months of 2017. Likewise, our denim bottoms business is continuing its momentum with 26% growth. Across the lifestyle category, we again delivered very strong results. In knits category, which consists of t-shirts and sweaters, constitutes 20% of sales, and has grown 25%; shirts with 40, jackets with 55 and accessories with 36% sales increase are clearly indicating that the appeal and demand for Mavi is on a solid continued growth trajectory.

Let's move on to review our margin performance on slide seven. We are on track to deliver top line growth for the year. What is as rewarding is that we are continuing to deliver productivity increases to deliver bottom line margin improvements. Our revenues and gross profit grew by 39%, while our EBITDA grew by 54%, and net income grew by 60%. As you know, we have been guiding for improving margins going forward, and that this will be through better planning and markdown management, better rent / sales ratios and operational productivity rising from economies of scale as we continue our like-for-like growth. I am glad to share with you that we have been able to deliver these improvements on the EBITDA and net income level.

Now, I would like to move onto page eight to take you through our cash and working capital management progress. We have seen a commendable improvement in our cash management this year. Our cash conversion increased from 75% last year to 102% in our first nine months of 2017. The drivers behind this performance have been a team effort to continue to improve our open to buy supply planning, efficient inventory management and very strong sell-through performance. The impact of all these initiatives reflected positively on our balance sheet, especially on the inventory level, which stands at 35% of COGS versus 43% of COGS at the end of last year. And our working capital is now standing at 6.1% of total sales.

Now, let's move onto slide nine, where we can analyse our Capex, and leverage ratios. We had TL 55 million of Capex spending year-to-date, and mainly behind new store openings and store expansions. Capex to sales ratio is now at 4.1%. We continue to guide for below 5% Capex to sales ratio. A few comments on our debt mix. As you know, majority of our euro credit is based on Exim credit for export financing that we have very favourable interest rates for. The total euro credit constitutes 21% of our debt. The U.S. dollar debt on our consolidated balance sheet is related to Mavi U.S. and Canada, and is totally covered by their own sales in U.S. dollar terms, resulting in zero U.S. dollar currency risk. Finally, 55% of our debt is in Turkish liras. With strong cash generation, our leverage multiple has declined to 0.5 as of the end of this October. As you will recall, as a principle, we work towards maintaining our debt ratio below 1.

Now, let me wrap up with final guidance notes, moving onto slide 10. In Turkey and in the markets where we are operating, we observe that our brand and products are benefitting from a positive trading environment. As guided, we plan to open 26 net new stores in Turkey. We will continue to deliver EBITDA margin improvements year-on-year through operational efficiencies. We will maintain our positive cash generation momentum and, as I just mentioned, our debt/EBITDA will remain below 1.

Thank you for listening in and at this point, I am more than happy to take any questions you might have.

Question and Answer Session

Operator
[Operator instructions]

Our first question comes from Ece Mandaci, Tacirler. Please go ahead.

Ece Mandaci
I have two questions, if I may. First of all, about the gross margin, on a year over year basis, we have seen a slight decline in the gross margin level. Is there any specific reason behind this decline, because when I look at the category breakdown on a year over year basis, it remains almost the same and like-for-like growth compared to second quarter growth is similar? So could you please elaborate more on the gross margin performance in the third quarter and going forward for the fourth quarter as well?

The second question is about the working capital performance, we have seen a substantial improvement in your working capital over sales ratio, so going forward, this 6% sales level, is this sustainable. Thank you very much.

Cüneyt Yavuz
Let me start off by addressing the gross margin questions. As you know, over the last couple of years, especially in emerging markets, there has been a lot of unpredictability in terms of currencies, and as a prudent management, what we have in Mavi, we have decided is that we hedge against our imports and last year when I look at this slight margin decline, we realised when we analysed is that this margin decline is predominantly coming from the hedging that we have done, meaning that we bought into U.S. dollars that have taken place much higher than actually the marketplace. But as, again, you know, and as I have been sharing through the IPO and through the investor meetings, as Mavi how we operate is that we take the hedged accounts, numbers, dollars into our budget process, and when we see a potential stretch, then we work really hard to make sure that we are protecting our bottom line margins. And as a theme, we were expecting this slight decline that would come to Turkey, and I am happy to say that we have been able to offset that by even further improvements in our markdowns, rent ratios and operational excellence areas in terms of overheads, so that is one piece of the bill. Moving forward, as we are in a volatile environment, what we are recommending and/or guiding is that we maintain our gross profit and potentially improve 0.1, 0.2 across the quarter as we move through, so as you can see also on page seven, we've been tracking around 50.8 to now 50.7, so these numbers should be at this level for the quarters to come ahead of us.

In terms of working capital, typically when we have been doing our three-year plans, we have guided for 7% and as you mentioned, we are delivering slightly better than that right now, and at this point in time, until we finalise the full year, I will not come back and renew our new guidance direction. Again, you may recall that I had shared with investors that we will do a one-year firm and a two-year directional strategy meeting in terms of reviewing our outlook, and we have yet to finalise this year and finalise the next year firm targets. Once those numbers come in, I will do my utmost to share with you what better numbers we can share. Thank you.

Operator
Our next question comes from Yulian Agaradnikov, Bank of America. Sir, please go ahead.

Yulian Agaradnikov
I have a few questions, please. You obviously reported further acceleration in like-for-like growth compared with the first half and in light of the recent softness and consumer sentiment, do you see any impact on your like-for-like performance quarter to date, and do you have any specific initiatives that would help you support momentum going forward? That's the first question. The second question, you've provided in your presentation a breakdown of your point of sales by different geographies and I wonder why we see such a big decline in the number of wholesale doors in Europe, so the number declined by over 20% year-to-date, so how should we think about this going forward? Thank you.

Cüneyt Yavuz
Let me start by answering the like-for-like and sustainability numbers. In terms of our like-for-like, as you know, I have just mentioned that we have very strong brand appeal, very high top of mind appeal, and very strong traffic that is coming in. As we see and as I've been sharing that we are expanding our stores and opening bigger stores, the consumer traffic is coming in. The consumers who are coming in, more of them are buying our products and the product portfolio we're putting on offer is coming in and appealing to the consumers, so in terms of trend, we have been planning around the 16%, but have been delivering over 20% performance, and we believe now it's obvious that we're going to exceed the 16% like-for-like performance for this year. Again, similar to what I said just previously in terms of working capital ratios, for the next year and onwards, we will review our like-for-like performance and come back to you.

In terms of the initiatives activities, it is more of the same. I think from great products, consumer communication, CRM, marketing, price positioning, being close to the customers, and being this data-driven company in terms of analysing who is shopping what and where, we are quite confident that this momentum of Mavi's winning formula will sustain for the quarters to come.

Now, coming back to the total Germany and/or European landscape in terms of number of stores, there has been a bit of consolidation that we have gone through in terms of cutting retail in Germany, Austria, Switzerland, and Holland. In terms of exact cutting detail and where those numbers are being cleaned up, I can come back to you later. I know we have gone through our minimum order shipments value and customer profitability analytics, and based on that, some of these smaller customers, which were buying a few hundred Euros in terms of service levels etc were fading out. Suffice to say, that overall our European business is as per our budget and the numbers and profitability is delivering against that, but this number of doors question you raised is a valid one. I will check back and come back to you with more specifics in terms of where retail is and what we are pruning out of the system.

Operator
Our following question comes from Berna Kurbay, BGC Partners. Please go ahead.

Berna Kurbay

I've got a couple of questions. The first one is about fourth quarter. In the fourth quarter of last year, we see lower top line compared to the third quarter and lower margins, and in fact a net loss. What are the expectations for the fourth quarter this year in that respect? Should we expect a lower revenue and also more pressure on margins? I think there is also a one-off sort of thing in the last quarter of 2016 with respect to financial expenses, but I was wondering if you could elaborate on that. My second question is about the current outstanding contingent consideration viability, what is the amount at the moment and when do you plan to make such an outflow because of that? My final question is about the remaining portion of Eflatun. Do you consider it as part of your plans for acquisitions next year? Thank you.

Cüneyt Yavuz
In terms of quarter four, in terms of the quarterly, how this company is running on a seasonality basis from our financial numbers perspective, you have a point in that the last quarter of the year is generally and seasonally a softer period. This is the part of the year where more of the markdowns are coming through and as you can also see from the previous year's quarterly performance and this year's third quarter, the quarter three happens to be the strongest quarter in the year in terms of delivering the numbers. Having said that, when we look into quarter four, we do expect, and as you know we have already completed one month of quarter four, it's behind us, we started off with very solid like-for-like growth. The consumer sentiment, traffic, and conversion rates are going in very well, therefore we are just as optimistic as we have been in terms of how we will deliver and close this year in terms of quarter four results.

When I look at the analyst expectations and analysing what eight analysts are tracking and forecasting for how Mavi will deliver, we believe that we are within the expectations of the range of what the analysts are saying when it comes to EBITDA and net income performance numbers. Therefore, just summarising to say that we are looking to continued good momentum; a softer quarter from a seasonality perspective, but definitely delivering a positive net income for the quarters that will also help us and enable us to come through with better numbers.

In terms of our liability, we still have one year to deliver against this one liability, so within the next one year, talking with our CFO and looking at our balance sheet, we will decide how much of that liability we will exercise within this year or the early part of next year to make sure that we have a smooth and healthy balance sheet coming through. But we have a one-year period to exercise this, so we will use our financial prudence to take the necessary action in terms of exercising this. In terms of acquiring the rest of Eflatun, this is not within our radar of discussion at this point in time. We have the option to proceed, but let me put it forth frankly that this is not something we will exercise in the coming year or years. If and when something like that should happen, you can be rest assured that we will definitely give the investment community a heads up of what we are thinking and when and why.

Operator
We have no other questions. Dear speakers, back to you for the conclusion.

Cüneyt Yavuz

In this case, I would like to thank all the participants who have taken part in this conversation. We are very happy to have very strong and solid numbers for this quarter. We look forward to coming together with our investors at the end of the year, at our own fiscal year, and I would like to take this opportunity to wish you all a happy Christmas and a very happy, prosperous new year. All the best from Mavi team, happy selling, happy business days, all the best, bye-bye.