Transcription for Q3 2024 Financial Results Webcast

December 9TH, 2024

Duygu Inceoz:
Dear Analysts and Investors, Welcome to Mavi webcast regarding the financial results for the third quarter of 2024. As you all know, pursuant to the Capital Markets Board of Türkiye, our financial statements are prepared in accordance with IAS 29 inflationary accounting provisions and this presentation reflects the financial results including inflationary accounting. To enable investors and analysts to conduct a full-fledged analysis, supplementary historical information for selected key performance indicators are also provided. Please note that such supplementary information is made available only for information purposes. Our CEO, Cuneyt Yavuz, will be presenting the results now followed by a Q&A session. We would like to remind you that this presentation is being recorded. Please make sure to keep your microphones muted throughout the presentation. Now, I will leave the floor to Cuneyt Bey.

Cuneyt Yavuz:
Hello and welcome everyone! Thank you for being here with us as we present our third quarter results. Before I start on taking you through the results of the third quarter, I would like to share with you great news that has made us very happy and proud. Some of you might have already heard that on TIME's "World's Best Companies – Sustainable Growth 2025" list, Mavi ranked 8Th among 500 companies worldwide and is also the leader in the global Apparel, Footwear & Sporting Goods industry. The ranking, developed by TIME and Statista, names 500 companies pairing growth with environmental stewardship. The survey evaluated companies that disclosed their environmental data transparently and scored them according to their revenue growth, financial stability, and environmental impact. As a company committed to sustainable and profitable growth, we are thrilled and honored that our pioneering role in the industry and our sustainability efforts have been recognized on a global scale. This is a great source of motivation for our future initiatives. I would like to take this opportunity to extend my thanks to my Mavi team for their hard work and dedication. This recognition is also a testimonial for the great work we will continue to deliver in the coming years.

Moving on to slide 4 to provide the highlights of the third quarter. Recall that in the second quarter, following the Eid Holiday and the government's announcement of no minimum wage increase for the second half of the year, consumer demand had started to experience a noticeable decline, affecting sales performance across various industries in Türkiye including Mavi. As the government's anti-inflationary measures continue, the cooling down of the economy is resulting in lower purchasing power and softer consumer demand. This coupled with heightened manufacturing costs has also started putting pressure on margins.

As we have consistently communicated to our investment community, Mavi remains exceptionally well-positioned to navigate these macroeconomic challenges. Despite the economic slowdown, the ready-to-wear market in Turkiye continues to grow. Through our strong brand positioning, reliable pricing strategy, high-quality standards, ability to consistently introduce innovations, and positive customer experiences, we are continuing to expand our market share in both mens and womens, jeans and lifestyle categories. We are observing that customer interest and demand for Mavi remains vibrant even under these challenging circumstances.

Turkiye retail operations demonstrated resilience, with a 3.6% growth in volume on the very high base of last year. We acquired over 400 thousand new customers in the third quarter. Online sales growth in Türkiye was driven by the strong performance of mavi.com which grew 7% on inflation adjusted real TRY terms and 12% in volume. We attribute this success to our superior marketing and CRM efforts, including personalized campaigns, brand partnerships, strong communications, and data-driven methodologies that cater to diverse customer needs.

International sales showed a slight improvement in the third quarter compared to second quarter with 0.5% growth in constant currency terms mainly lead by the North America market and the export markets.

Lets look at our year to date performance, moving on to Slide 6: Our consolidated sales reached 27 billion 72 million liras in 9M 2024 growing 4% year on year. Specifically, Turkiye retail sales grew 7% and Turkiye online sales grew 9% in the period. EBITDA realized 5 billion 450 million TL, resulting with an EBITDA margin of 20.1% year to date. Our net income, growing 4% year on year, realized 2 billion 390 mn TL with 8.8% net income margin. With 1.2 million new customers acquired already, Turkiye active Kartuş card members who shopped with us in the last 12 months is 5.8 million as of the end of October.

Moving on to review our channel performance on Slide 8 : All channels in Turkiye are impacted by the slowdown in consumer demand but are proving to be resilient. In the third quarter Turkiye retail sales grew 3.6% in volume and was flat year on year in real TL terms when applying inflation accounting. Turkiye online sales grew 12% in volume and 7% real lira terms. As of the first nine months of the year Turkiye retail sales is up 7%, online sales is up 9% and wholesale is up 10% year on year. International revenue grew 0.5% in constant currency during the third quarter, leading to a 4.6% contraction in nine months. This decrease was primarily driven by macroeconomic demand weaknesses across most of our international markets, the cessation of operations by some wholesale customers, and transitionary issues in online and marketplace sales operations in Europe. It is worth highlighting that our North America business including Canada continues to deliver positive results.

Export markets also contributed positively this quarter. As you all know, we are in the midst of developing the strategic roadmap for our North America operations, while continuously investing in talent and infrastructure. We plan to be sharing with you a mid-term outlook before the end of Q2 2025. Simultaneously, we are focusing on management restructuring, warehouse enhancements and SAP transformation in Europe. We anticipate that these initiatives will start delivering positive outcomes from next year onward.

Looking into our Turkiye retail business in more detail: In the nine months of this year, we opened 10 stores, closed one store and expanded sqm of 10 stores in Turkiye reaching 345 stores and 183 thousand sqms as of end- October. This implies a 5% increase in sales area compared to year end, which will be supporting our sales targets in 2025. Also, as a positive side information, we opened 5 more stores and expanded 4 more stores after October 31st to this date, on our way to exceeding our initial expansion targets. Despite the economic slowdown, the retail sector continues to benefit from increased retail space driven by population shifts, the development of new urban areas, and the addition of new shopping malls. We take a disciplined approach to store openings, focusing on robust feasibility studies and short payback periods. I am pleased to share that all the new stores opened over the past year have already delivered positive store contributions.

On slide 11, lets elaborate on the like for like store performance: In Q3, due to the slowdown in traffic, LFL sales contracted 2.5% year on year in TL terms while growing 1% in volume. Including the contribution of new store sales, 3.6% volume growth was achieved in Turkiye retail operations. Basket size grew 2.4%, 55.4% in nominal terms in the quarter reflecting effective pricing and increased units per transaction. Our strategic T-shirt campaign responding to warmer than expected weather and an increase in women's accessory sales contributed to the UPT increase in third quarter. In 9 months, LFL sales grew 3.4% in real TL terms and 7.1% in volume. Again, including the new stores' contribution nine-month volume growth is 11%.

Moving on to slide 12 to review category-based developments in Turkiye retail: As of nine months, all categories grew in number of pieces except jackets, which is experiencing a weaker season mainly due to relatively warmer weather. In the third quarter, denim, shirts, accessories and non-denim bottoms categories were the drivers of growth, all showing an increase in volume. Denim sales growth for nine months is at 3% balanced with the growth in non-denim bottoms category which grew 28% year on year. Our knits business constituting of t-shirt, sweatshirt and jersey offerings grew 5% and this is balanced with the shirts category which grew 11%. We are pleased to share that our new women's accessory offerings, including a wide range of handbags, were received very well and contributed positively to our accessories category growth of 13%. With these performances, we continued to deliver market share gains in the third quarter both online and offline, in men's and women's total apparel and jeans categories and strengthened our position among the top three players in the apparel market in Turkiye.

Going forward to review our online sales performance on page 14: As of the first nine months, our global online sales including the wholesale business partners, constitute 10.1% of total consolidated revenue. Online sales in Turkiye consist of only direct-to-consumer channels and grew 9% driven by the strong 17% growth of mavi.com. Although marketplace sales have been somewhat softer this year due to reduced traffic and some regulatory restrictions, it is important to highlight that Mavi continues to solidify its position among the top five players in the jeans, t-shirt, and sweatshirt categories.

Online sales constitute 7.9% of total sales in Turkiye. International online contracted 20% in inflation adjusted TL figures in the first nine months. On a positive note, Mavi.com is still the most resilient channel here with 4.2% growth on a constant currency basis. Online business makes up 28.6% of total international sales. At Mavi, we remain committed to enhancing our omni-channel capabilities and elevating the Mavi shopping experience for consumers. We will continue investing in CRM and data analytics to drive omni-channel growth, ensuring that our online business remains a positive contributor to margins. A quick update on our newly launched MENA online operation serving five countries in the region (UAE, Bahrain, Saudi Arabia, Qatar, and Kuwait) has exceeded 1 mn dollars in sales year to date. As these sales are fulfilled from our Türkiye warehouse, they are accounted under Turkiye online sales. We look forward to providing more updates in the coming quarters.

Let's move on to review our consolidated financial results: Reviewing our gross margin performance on slide 16: Due to lower consumer demand, decline in purchasing power and increased mark down communication in the overall market to stimulate shopping appetite, the gross margins have started to slide down as expected. Our gross margin declines 140 basis points from a strong base this quarter and realized at 50.7%. There is 230 basis points lower impact of inflation adjustments due to lower inflation this quarter versus same quarter last year and 90 basis points positive impact of increased imputed interest rate. As of nine months, our gross margin stands at 51.4%, improving 230 basis points year on year.

Moving on to slide 17 to review our EBITDA performance. In quarter three, EBITDA margin deteriorated by 560 basis points year on year. This decline was mainly driven by 140 basis points decline in gross margin and 380 bps increase in opex/sales ratio resulting mainly from high employee costs including the midyear 25% salary increase and relatively weak sales performance. EBITDA margin includes 90 bps positive impact of imputed interest in Q3 and 180 bps in nine months this year compared to same periods last year.

On Slide 18, we look into our net income margin performance: Our net income in the third quarter came in higher than market expectations at 741 mn TL. The impact of inflation accounting on net income started to slow down as of this quarter but still has a significant negative impact as of nine months due to monetary losses rising from the balance sheet.
Our net income in the first nine months of the year is 2 billion 390 million TL, growing 4% year on year with a net income margin of 8.8%.

On slide 19, we will review our operational cash flow and working capital performance:
Despite the weakness and more importantly uncertainty of day-to-day sales performance requires more dynamic and flexible inventory management. Thanks to our effective product planning and flexible sourcing capabilities, our inventory levels are under control and consist of only seasonally fresh products. The increase in working capital to 11.7% is a temporary outcome, driven by mid-season product drops and the impact of weather-related sales timing. Cash conversion for nine months is similar to last year's levels.

Moving on to the next slide: (slide 20) In the nine months to October 31, we invested 827 million TL in capital expenditures, resulting in a Capex-to-sales ratio of 3.1%. These expenditures were primarily focused on store openings and expansion, as well as digital investments and R&D. Capex related to our new headquarters is still not included in these figures yet and hence is short of our 5% annual target. Our net cash position as at the end of nine months is 3.3 billion TL . As always, the foreign currency debt reflected in our consolidated reports pertains solely to our subsidiaries, which borrow in their respective local currencies, thereby eliminating currency risk. We maintain our policy of holding no foreign exchange exposure on our balance sheet.

Finally Slide 21: We are revising our year-end guidance given the realizations in the nine months. The macroeconomic pressures we had anticipated for Turkiye in 2024 started earlier and were slightly more pronounced than our initial expectations. The Turkish lira also performed stronger than our forecasts lowering the contribution of international operations and negatively impacting margins. Therefore, we are revising our guidance for 2024 accordingly as follows:
The figures are still in nominal terms, not including the impact of IAS29 inflationary accounting.
Consolidated revenue growth of 60% plus, and a corresponding EBITDA margin of 18.5% plus excluding IFRS 16 and 22% plus including IFRS 16. We have already reached our initial targets for new space, and we plan to finalize the year with 17 new stores and 15 sqm expansions. Including some portion of headquarters building investments, the annual capex spending will be around 4% of sales. We target to deliver a nominal year-on-year increase in our net cash position. We are confident that our strong brand position, resilient business model, and solid balance sheet will enable us to navigate these challenges by outperforming the industry and continue to be a strong player in the

market. My whole team and I are committed to sustaining our profitable growth trajectory over the long term.

Before I finish my part of the presentation, as always let me give you some color on the last quarter. In November, IAS 29 excluded nominal figures show 45% growth in Türkiye retail and 46% growth in Türkiye online sales. In the first retail week of December, we delivered 48% sales growth in Turkiye retail. Due to the year-end markdown campaign starting in the beginning of December this year as opposed to mid-December last year, Turkiye online sales growth is 122% but should normalize by the end of the month. With this final note, I am happy to take your questions now.

Duygu Inceoz:
Ladies and gentlemen, if you wish to ask a question, please raise your hand and we will call your name. If you wish to type your questions, you may use the chat screen.

Hande Akguner:
Do you have investment plans at countries which has lower interest rates compared to other countries?

Cuneyt Yavuz:
I heard you. I'll be quick. In terms of investment strategies, we are — we feel we are very privileged to be in Turkey. So, as you know, strategically speaking, we are committed to being a great leader in speed to shelf, quality, sustainability, traceability, and for all these good reasons. Having said that, there are within the sourcing team strategies to expand our near-shoring activities, meaning Georgia, Egypt, Balkans, etc., where we can continue to source similar quality products at a better margin. You may be aware or not. I'm not sure. We already do source from Egypt, Georgia, and Balkans, depending on the product categories from time to time, and of course, as long as it fits our strategy and sourcing capabilities and quality expectations, we will continue to do so. So, yes, the short answer is yes, but the long answer is a bit more complicated in terms of balancing out and making sure that we get the right partnership that will be sustainable for the future of Mavi. Thank you.

Hande Akguner:
Thank you.

Duygu Inceoz:
Cemal, you can go ahead.

Cemal Demirtas:
Thank you for the presentation. My first question is regarding the net working capital side. We see an increase in third quarter. I think it’s a significant amount, partially attributed to maybe the seasonality, but could you further elaborate whether it was a normal thing or a little bit impact of some other factors on the working capital side? That’s my first question. And the second question is about the market conditions. In the fields, we are hearing that smaller retail stores are having big problems in Turkey, the smaller ones, and you are rather competitive compared to others. But would you tell us, do we expect any change in the sentiment going forward? Or when do you think the markets will come back from your side? Thank you.

Cuneyt Yavuz:
Just one question, Cemal, just to be clear. When you mention the small, you mean brand-wise small, company-wise small, or format-wise small, just so that we are on the same page?

Cemal Demirtas:
Uh, you know, in the field, not your format, but overall, you know, in the apparel market and in the wholesale market, we are hearing that the many companies who are also exporting are having some difficulties. It’s a, you know, general market thing we are pursuing. And we are hearing that you are even very competitive compared to many, you know, the players. But I would like to understand the general market or the traditional side. How, you know, do you see the picture?

Cuneyt Yavuz:
I mean, it is also to a certain extent, I’ll take it from here, goes back to what Hande was asking. I guess Hande was asking that question because she wants to better understand whether we are able to mitigate some of the strong Turkish lira and the rising costs here in Turkey, which is putting a bit of a pressure on the gross margins and the pricing capability here in Turkey, especially vis-a-vis big importers like Zara team, Inditex, H&M, Mango, etc. From our perspective, going back to what I was answering to Hande, I mean, strategically speaking, we are not in a big swing kind of mindset. We are looking at selected choices of decision-making to take some of our manufacturing out of Turkey and put it into right places. But what is most important is being able to serve the customer with the great product and the sustainable product and the quality product that we want. So it is not an easy journey. So we will not be rushing into sort of mega changes. But you are right in the sense that especially those manufacturers, textile managers who are export dependent, are having a hard time. And it’s also good for them to have brands like Mavi and also other local strong brands that they can sustain their business. And we will collaborate with them in the coming years. And there will be some headwinds, obviously. But we believe we can tackle that together, working together. In terms of the inventory situation, I mean, overall, the inventory, I mean, I take a look every month with my team. In terms of covers, you can see the volume and value increase there. But I also take a look at what

cover we have. So looking at past 12 months, 6 months, 3 months sellouts, what sort of inventory on hand do we have? We typically aim in an annual year to be around 90 days. Today, we are at 92 days. So it gives me an indication that we are one or two days off. And when I calculate where that offness is coming from, off meaning we are in a negative territory or worse than where we would like to be. But when I look at it, it's predominantly coming from the warm weather and the jackets product categories. And we are confident that in the coming months, we will be able to sell these jackets January, February, March. Although it might hurt us maybe margin-wise. And that's also what I'm alluding to. Because timing-wise, we may have to give a little more higher markdowns to move the products out. But I'm confident that winter, quote-unquote, I'll say it with a smile on my face, I'm confident that winter will come and we will sell. And what we are able to do also is when we have such a negative impact on a certain category like the jackets, we have also many other categories. We are offsetting some of the inventory or just-in-time management of other inventory to make sure that we come back at 90 days. Today, I was talking with the category and planning team. I'm quite confident that we will close the following quarter in a more normalized sense despite worse off sales than we expected, despite some headwinds. Mavi, building on its capability to source in Turkey and have the agility, I think from a working capital management perspective, I mean, we've gone through even worse situations when we had COVID. I think this is sort of a blip in a point in time. And I'm quite confident that we can manage the upcoming situation. One more point vis-a-vis the international competition, because since I mentioned it in terms of pricing gross margin, I mentioned Zara or you mentioned the small ones having a hard time. We are following almost all the competitors' price points. And as Mavi, we're using a lot of data points and consumer points to decide at what price we should be able to price our products. And in terms of these indexes vis-a-vis competition, all the data I have indicates that we are in a competitive situation and we will maintain that competitive situation as always, as I keep mentioning every quarter, in favor of the Turkish consumer, because we don't want the consumer to walk away from our brand. On the contrary, we want to remain the consumer's choice in terms of shopping. And again, in my presentation, I mentioned it, but I'll explicitly mention it again. I'm happy to say that Ipsos data that came in also testifies the fact that we are continuing to win market share and strengthen our position in the market. So it's also good to see that regardless of where the market is, up or down or flat, that we as Mavi are holding, if not improving, our position in the market share, which I'm happy to say that we are on the positive side of things. And we will continue to remain in this mindset and be competitive and be the top choice of the consumers in the Turkish market. I hope, Cemal, that answers the questions you might have.

Cemal Demirtas:
Thank you. Thank you. It's clear. And one last point about financing side. You know, when you need high net working capital, it's a problem for everybody. But how do you expect that to go going forward? And in third quarter, I see a little bit higher needs of working capital. How do you expect to manage next year? Do you expect any relief next year when we see the rate cuts come? Thank you.

Cuneyt Yavuz:
I mean, I'll leave Duygu to maybe comment on this. Do you want to take this, Duygu?

Duygu Inceoz:
Cemal, yeah, we did look into the working capital and it seems like it's going to get better about the end of the year because this is the mid-season, meaning the fall-winter season is six months for us. End of October is mid-season where it is very important that you sell, you know, full price and also, you know, the phasing of the weather and the timing of the drops of products. So it's all very seasonal, actually. It will get better by the end of the year. And as we guided, our net cash position will have increased compared to last year. So that means, actually, it's going to be by the end of fourth quarter will be higher than it is right now. So if you're asking about financing, we don't see ourselves in need of financing for a while. For 2025, we haven't finalized plans and we can't share anything right now, unfortunately.

Cemal Demirtas:
Thank you. Thank you. Thank you very much.

Cuneyt Yavuz:
Hande, do you want to follow up on where we left off?

Hande Akguner:
I can ask. Economic data shows us that general cost level on abroad has increased due to the increase of the interest rates. Did you take any specific precaution about that increase? Or do you think that this increase is like a one-off case?

Cuneyt Yavuz:
I'm not 100% clear. But in terms of that situation, we are a cash-positive company. And in terms of current short-term perspective, meaning like next six months to nine months, I see, including our investment plans and CapEx plans, I see no reason why we would be narrowing any cash for any reason. Generally speaking, you may recall in the other quarters when we had this kind of discussion, because we also get a question in terms of the cash position we have and how we are going to utilize that cash. We typically use the strong cash position, strong balance sheet position we have in terms of capacity booking, raw material buying, and using our cash power to get favorable price terms in terms of getting the products. And we are building a plan, let's say, in terms of working in tandem with the economic slowdown so that we're managing our net cash position to a normalized situation where hopefully the inflation rate slows down to more reasonable rates. And hence, the borrowing costs also come down. And until that time, we as a team will do everything to make sure that our working capital position, our balance sheet remains strong and that we don't fall into a need to borrow money from institutions. Thank you.

Barış?

Barış Şenol :
Hello, thank you for taking my question. It looks like margins are normalized, but do you see any further margin contraction for Q4 or 2025, because you also have a lot of inventory, as mentioned before, and you said January, February, March, you will make some markdowns to decrease the inventory. So should we expect further margin pressure in terms of the EBITDA margins? And if so, how much?

Cuneyt Yavuz:
Yeah, I mean, I think once we close the year, I will have a much better feel and a presentation for you guys to guide you for the next year in terms of what we expect. But we are, I mean, what you see is what you see, also what we see is the same. Meaning, cost pressures are there on the one hand. The economy is cooling off. Therefore, consumers' choice of spending their valuable money is slowing down. And also the competitive environment is increasing. As Mavi, we will do our best to continue to track the consumer sentiments, continue to build great products and offer great innovations and good quality products to the consumer at a reasonable and very reasonable price point. That's priority number one. We want to make sure that for the disposable income that is available for the Turkish consumer, that Mavi remains an important choice. That will definitely, and is still, as I mentioned in my presentation, is putting pressure on margins. We have come to a more normalised, we had a very happy period, let's say the past 18 months or so, but we are now coming into a more normalised period. So around the 50s numbers. And of course, we will do our best to maintain those 50s. (refering to GM) So at this point in time, for me to say that 50 will be something lower or higher is too early to make a call. We also have to see in terms of how the minimum wage adjustment comes in. So there are still other data points that have to come in for me to get a better clear understanding of guidance. So we are building our plans, generally speaking, to maintain this kind of balance sheet. But are we under pressure? Yes, we are under pressure in terms of margins. Costs are going up, consumer footfall or municipal transaction is slowing down. So there are some challenges in that sense. I think Duygu also wants to add something.

Duygu Inceoz:
I just want to add something. This is the first time, in the third quarter that we are seeing gross margin decline, which is actually a normalisation, as you said. So we do have a high base. And this is the first quarter that we're seeing it. And so we will continue to have the high base for at least two more quarters, at least the fourth quarter and the first quarter. So you should expect gross margins to continue to normalise in the next two quarters in that sense. But if you're asking apart from that, when we reach that normalised basis, is there going to be anything further? That is something we need to see and work on for next year. So in the short term, yes, because we still have a high base in terms of gross margins.

Barış Şenol:

Thank you. Just a quick follow-up. When you said gross margins will be going down in Q4, did you see it on quarter over quarter or year over year basis?

Duygu Inceoz:

It's year over year. We always talk year over year. Quarters are totally separate from each other because we have a very high seasonality where the products that we sell and the gross margins of the products are very different each quarter. So it's very important to note that we never talk quarter to quarter.

Barış Şenol:

OK, thank you very much.

Cuneyt Yavuz:

You're welcome. Next, Baris.

Duygu Inceoz:

Amir

Cuneyt Yavuz:

OK, sorry. Amir

Amir Chomaev:

I had a question related to the next two quarters of 2025, the first and the second one. As we know, there will be salary increase probably, and also the economic situation will improve not as fast as we expect. So do you expect a relative weak performance in the first two quarters of 2025, related to the previous years?

Cuneyt Yavuz:

For us, from where we sit, and I'll give you more color when we finish the year, but from where we sit, we've mentioned this, so therefore I will mention it again. For next year, first quarter, it will be a challenging quarter for Mavi, not because of salary increases or slowdown in economy, because we had a very strong quarter one, if you look at our numbers. So we will be tackling with a very strong basis on quarter one. Therefore, for the first half of the year, it will be a more neutral year for us, quarter one being a bit of an uphill battle, and quarter two, hopefully, being a better time. On the other side, I mean, I cannot fully agree or disagree with what you're saying, whether the economy will be slow or bad. The thing is, when there is a salary adjustment, actually, that will give a breathing space, and it will come back. So our experience has been, salary adjustments have been better in the previous years. They have been beneficial to consumer brands like Mavi, and there has been, as you know, one year since there has been a salary adjustment, so it is biting into people's purchasing power and pockets as we speak. Hopefully, they get a 25, 30, 35, I don't know the percentage. Salary increase, that will be determined in a couple of weeks. That typically trickles down in a positive way to our sales. That's why we need to see what the adjustment rate is, and how the consumer behaves following that adjustment. It's still a bit of uncertainty for us. But generally speaking, when we talk about the margin, there will be a challenge, as I'll just reiterate. It will be a margin under pressure kind of a year, which as Mavi, it's not something new. It's every year that we have to tackle with, which will be another year that we will have to deal with that. We will always favor the consumer vis-a-vis our point or two-point margins for the company, because we want the footfall and the franchise to remain at Mavi umbrella. We are here for the long run, and market share, and wardrobe share. And that is our firm commitment to the consumers and to the investment community. And in terms of our a bit deterioration on OPEX, as I mentioned in my presentation, we are also in favor of our employees. We had not budgeted a salary adjustment in our OPEX, but we did do a 25% salary increase upon this high inflation environment. Therefore, the second half of this year, there was an OPEX bump, more than what we planned for. But this will also hopefully normalize, because we will be doing the salary adjustments based on the current 25% adjustment that we made. So there won't be as much a huge jump semester to semester in terms of salary adjustments, hopefully normalizing a bit of our OPEX transition for the first half of next year. So these are my, sort of what's on my mind, transparent agenda points that I can currently share with you. Thank you.

Amir Chomaev:
Thank you. And I have one more question. In case of the end of this military conflict in Russia and Ukraine. In case of the end of this military conflict between Russia and Ukraine, do you think it will give you some advantage in the profitability? And what do you think, generally, about this area of the sales, let's say, this geographical area?

Cuneyt Yavuz:
You will recall, I'll reiterate our strategy for Russia. It's quite clear, actually. We have a small business there, a retail business there, retail operations of around 16, 17 stores that we are maintaining. Clearly, if there is a bit more peace coming into the region, on the normal services, we have aspirations to expand those stores up to 50, 60 stores, locations identified and CAPEX identified. But at this point in time, we have chosen, since the start of the conflict, we have made it public that we will maintain our position and not expand our business in Russia until this conflict is resolved. So to a point, like if there is a bit of a normalization coming in and peace coming in, and which will benefit Russia and Russian consumers, we would definitely take advantage of that and see what more we can do and what more new stores we can open up in the Russian market. Our office is up and running. Our stores are up and running. Our products are going back and forth. Our businesses currently, we are not growing it. As a percentage of sales, as you can see, over the last three, four years, our international

business, unfortunately, has shrunk. One of the key reasons is because the Russia business has been stable or flat in the last couple of years. So as a percentage, the international portion of our business has come down. I would love to see, if the environment enables, to see us continue to grow our Russia business. It is a natural geography for us, and it's a retail business. Consumers know the brand. They are good tourists coming in and know us, know the brand. So there is a big upside in the Russian market for many years to come. Thank you.

Amir Chomaev:
Okay, thank you. That was all my questions. Thank you for the presentation.

Duygu Inceoz:
We have some questions on the chat screen. Mehmet Gerz is asking, is your guidance revision for the upcoming quarter or the whole of 2024 fiscal year? No, this is the guidance update for the whole year.

Cuneyt Yavuz:
Yes.

Duygu Inceoz:
Hüseyin Sert has a question. As we know that either IMF or government advise to increase minimum wage according to targeted inflation, considering the fact that targeted inflation will not hold, it is extremely clear that a significant portion of households will lose real purchasing power. Therefore, is there any risk in terms of trade-off between sales and margins of Mavi? How will you manage the risk?

Cuneyt Yavuz:
I think we talked more or less about this. So let's go step by step with our approach. First, let's see what the adjustment is. And then we take it from there. I mean, of course, in terms of managing the balance sheet, we talked about it, working capital, inventory management, speed to shelf, operational efficiency, OPEX management, cost management is going to be critical. Having said that, on the other side, it will be also as critical to continue to be great quality, great service, very competitive price positioning for Mavi with great new products where the consumer feels that they get the best out of their every single Turkish lira. I think we have that base. We have that service element. We have those omni-channel platforms, whether it's e-com, online or all the other channels, whether it's wholesale or franchise stores. Therefore, we will be, I mean, we wake up every day, come to work and see how we can gain new customers and continue to build our business. I also mentioned there were some hints within my presentation where we are exceeding a few of our new store openings and expansions. We are still investing in new stores and expansions and upgrades in terms

of shopping experience. Therefore, that will also help mitigate some of the negative push for next year as the base of reach of Mavi products for the consumer's increase. So, yes, it will not be an easy year. We are building, as always, a defensive, you know, with a defensive mindset, a strong balance sheet, which protects the balance sheet, but also protects the consumer. So, we're trying to walk that tightrope, keeping the customers happy as always. The other question?

Duygu Inceoz:
Okay. Now we have Emre who asked, do you have any growth expectations for next five years? Is 10% real growth per year a rational goal?

Cuneyt Yavuz:
That's a big question and a very good question. My ambition, again, I made a point about it specifically in my presentation. My current plan, I mean, I'm also talking with my lead team, my CFO and the other C-suite members and also head of heads of international business. We want to close the year and then it makes sense for me, I think in April, May, before the end of quarter two, let me put it that way, to give you guys a more elaborate next strategy. I had mentioned almost within the early times of this year, talking about the Mavi next strategy, but we have also, of course, upgraded and revised our next plans, including domestic and international plans, as well as sourcing, nearshoring, gross margin protection, market share, new categories, the whole package. So I do expect that we will be ready to share with you a more longer view of what we think we can continue to do and continue to win in Turkey, as well as in the international markets. So I have to ask for your patience. We are working day and night to put together our strategies to take Mavi to new heights in the coming years. Thank you.

Duygu Inceoz:
We have one last question from Mehmet Gerz. Where is the new headquarters and how much is that going to cost?

Cuneyt Yavuz:
The new offices, it's a rental office. It's being built, I mean, as we speak, so the whole, you know, new tables, whatever the whole thing is being done. It's in Maslak area again, so we are not moving far away from where we are right now. And in terms of the money, it's a ballpark figure. I don't know. It's not huge, but it's six, seven million dollars, but depends on as we go on a run rate, it can go a million up, million down. So a bit of that, we will reflect it in quarter four, because I know the construction has started. So some of it we will start spending now. Originally, we had built it into our CapEx spending that we would spend all of it this year, but as per the design and so on, took a bit longer than our original plan. In a way, it's good because then we can phase from one year to another the

CapEx spent and the money spent. So it shouldn't be that much of a significant impact on our cash flow and overall CapEx. And hopefully we spent more of our valuable money on building new stores and continue to invest behind the brand in the coming years. Thank you. No, the old HQ is not our own property. Actually, we don't own anything as Mavi. It's all rental. And this all current property is also a rental property. I don't know what will happen to it. I guess the owners will have to find new tenants. We have to talk with them and see how it goes. Thank you very much.

Any other questions that I can oblige? Yes, that's it for now. As always, Duygu, my IR head, Bige, our CFO, who's also with us, myself, Cuneyt, we are here to help answer any questions you might have down the road. Although the numbers are not the best in class that we would have wanted to be, but we, generally speaking, are quite confident of Mavi and Mavi's balance sheet and the brand strength. And with these thoughts, I would like to extend our warm feelings for Seasons Holidays and wish you all a healthy, happy end of this year and even a happier and healthier and more prosperous 2025. And look forward to being together with you in the closing of the year numbers. And then following that, hopefully going on a roadshow to talk with you face to face physically to share with you our longer-term plans of how we think we will continue to build the Mavi brand and grow our business. Thank you all and take care. Bye-bye.