Transcription for Q2 2024 Financial Results Webcast

September 18TH, 2024

Duygu Inceoz:

Dear Analysts and Investors, Welcome to Mavi webcast regarding the financial results for the second quarter of 2024. Our CEO, Cuneyt Yavuz, will be presenting the results followed by a Q&A session. We would like to remind you as always 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 Yavuz.

Cuneyt Yavuz:

Hello everyone!

Welcome to our webcast regarding the financial results for the second 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 Company's audited financial information 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 and are not audited.

I would like to start with a few words on the trading environment and its effects on the second quarter: (Slide 3)

Recall that in the first quarter, consumer demand trends largely continued from 2023, driven by substantial wage increases in January. By mid-June, when we reported on the first quarter, we had observed an initial normalization in consumer behavior. Following the Eid Holiday and the government's announcement of no minimum wage increase for the latter half of the year, consumer demand experienced a noticeable decline, affecting sales performance across various industries in Türkiye. The impact on our sales was also more significant than initially anticipated.

However, as we have consistently communicated to our investment community, Mavi remains exceptionally well-positioned to navigate these macroeconomic challenges. With our robust brand strategy, continuous communication, and dynamic product and pricing positioning, we achieved 200 basis points improvement in gross margins year-over-year in the second quarter. We reported a second-quarter EBITDA of 1.2 billion TL and a net income of 468 million TL. Our flexible supply chain and effective planning capabilities have ensured that our inventory levels remain optimal. Furthermore, efficient working capital management enabled us to generate over 1.3 billion TL in operational cash flow during this challenging quarter.

In Turkiye, retail operations demonstrated resilience, with a 1.8% increase in volumes on a high base. We acquired 359,000 new customers in the second quarter, in line with our annual goal of 1.3 million new customer acquisition. Online sales growth in Türkiye was driven by mavi.com, which effectively offset the weaker performance of marketplaces, resulting in a 4% volume increase for the quarter. We attribute this success to our superior marketing and CRM efforts, including personalized approaches, brand partnerships, strong communications, and data-driven methodologies that cater to diverse customer needs. Conversely, international sales were notably weak this quarter, contracting 12% year-over-year in constant currency terms. North America was the sole market delivering growth, while Russia also faces macroeconomic challenges, and Europe is experiencing significant structural changes.

Lets start with the key highlights of the quarter, moving on to Slide 5:

• Our consolidated sales reached 16 billion 399 million liras in H1 2024 growing 6% year on year
• Specifically, Turkiye retail sales grew 11% and Turkiye online sales grew 10% in the period
• EBITDA realized 3 billion 371 million TL, resulting with an EBITDA margin of 20.6%
• Our net income, growing 30% year on year, realized 1 billion 519 mn TL with 9.3% net income margin
• With a cash conversion rate of 99% in the first half of the year, our net cash position as of period end is 4.9 billion TL
• In line with our extended targets to reach 1.3 million customers annually, we acquired 768 thousand new customers in the first half of 2024. Recall that as of this year, because our customers' frequency and volume increased significantly, we are following and reporting on the active customers that have shopped with us in the last one year instead of two years. With this approach Turkiye active Kartuş card members who shopped with us in the last 12 months is 5.7 million as at the end of July.

Moving on to review our channel performance on Slide 7 :

All channels in Turkiye were impacted by the slowdown in consumer demand in the second quarter but showed resilience. Turkiye retail sales grew 1.8% in volume and contracted 2% in real TL terms when applying inflation accounting. Likewise, Turkiye online sales grew 4% in volume and was down 3.5% in real lira terms. As of the first half of the year Turkiye retail sales is up 11%, online sales is up 10% and wholesale is up 4% year on year.

International revenue declined by nearly 12% in constant currency during the second quarter, leading to a 7.5% contraction for the first half of the year. 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 marketplace sales operations in Europe. It is worth highlighting that our U.S. business continues to deliver positive results. As outlined in our first-quarter webcast, 2024 will serve as a foundational year focused on structural enhancements within our international operations. We are actively developing the strategic roadmap for our North America operations, while continuing to invest in talent and infrastructure. Simultaneously, we are addressing structural challenges in Europe, focusing on management restructuring, warehouse enhancements, and the SAP transformation. We anticipate that these initiatives will begin delivering positive outcomes from next year onward.

Looking into our Turkiye retail business in more detail:

In the first half of this year, we opened 6 stores and expanded sqm of 6 stores in Turkiye. This implies a 6% increase in sqm year over year, which will be supporting our sales targets in the coming months. We are now operating 342 stores with an average size of 524sqm as at the end of July.

On slide 10, lets elaborate on the like for like store performance:
In the second quarter, as the result of the weak trading environment, LFL sales contracted 4.4% in TL terms and was down 1% in volume. Reflecting effective pricing and increased units per transaction (UPT), basket size grew 1.4% (73.5% in nominal terms) in Q2.In the first half, LFL sales grew 6.6% in value and 10.5% in volumes.

Moving on to slide 11 to review category-based developments in Turkiye retail:
As of first half, reflecting the performance of our Spring Summer 2024 season, all categories grew in value and volume. Denim sales growth is seasonally limited at 4% and is balanced with the growth in non-denim bottoms category which grew 33% year on year. Our knits business constituting of t-shirt, sweatshirt and jersey offerings grew 9%, shirts grew 15%, accessories grew 12% and jackets grew 16% in real terms, adjusted for inflation.

Going forward to review our online sales performance on page 13:
As of the first half, 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 10% driven by the strong 20% growth of mavi.com. Online sales constitute 8.0% of total sales in Turkiye. International online contracted 17% in the first half. On a positive note, Mavi.com is still the most resilient channel here with 3% decline in sales year on year. Online business makes up 28.9% 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. I am also pleased to share some exciting news about our online operations: we have launched our MENA online store, mena.mavi.com, serving five countries (UAE, Bahrain, Saudi Arabia, Qatar, and Kuwait), with fulfillment from our Türkiye warehouse. Although it is still in the early stages the initial results are encouraging and 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 15:
Despite the slowing economy weighing on sales performance, with the right product / price positioning and an efficient sourcing model, our gross margin improved 200 basis points and realized 51.0% in the second quarter. There is 170 basis points negative impact of inflation adjustments due to higher inflation this quarter versus same quarter last year and 210 basis points positive impact

of increased imputed interest rate. In the first half of the year, our gross margin realized 51.8% improving 430 basis points year on year.

Moving on to slide 16 to review our EBITDA performance.
In Q2 2024, gross margin improvements were offset by a 440 basis point deterioration in the operating expense to sales ratio, primarily driven by employee costs and logistics expenses, both of which reflected significant wage increases exceeding 100% year-on-year. Consequently, our EBITDA margin declined by 260 basis points in Q2, landing at 16.4%. For the first six months, our IAS 29 EBITDA margin stands at 20.6%. EBITDA margins without inflation accounting and without IFRS16 adjustments are presented for information purposes. It is important to note here that EBITDA margins without IAS 29 adjustments are still slightly above our guidance as of first half results.

On Slide 17, we look into our net income margin performance:
Our net income in the second quarter is 468 mn TL which is 34% lower than same quarter last year. The impact of inflation accounting on net income is higher in Q2 compared to both last year and last quarter due to higher inflation rates and hence the significant monetary loss arising from the balance sheet. Without IAS 29 inflation accounting, our net income margin in the quarter would be 13% with an earnings growth of 49%.Our net income in the first half of the year is 1 billion 519 million TL, growing 30% year on year with a net income margin of 9.3%.

On slide 18, we will review our operational cash flow and working capital performance:
Thanks to our dynamic and flexible supply chain management, coupled with effective planning capabilities, our inventory remains at very healthy levels, consisting entirely of fresh, current, and upcoming season products. Working capital has been efficiently managed, representing 3.5% of sales over the last twelve months. In the first half of 2024, Mavi generated over 3.3 billion TL in operational cash, with an impressive 99% cash conversion rate.

Moving on to the next slide: (slide 19) In the first half of 2024, we invested 507 million TL in capital expenditures, resulting in a Capex-to-sales ratio of 3.1%. These expenditures were primarily focused on store openings and expansions, as well as digital investments and R&D. The Capex related to our new headquarters is not yet included in these figures. Despite a significant dividend payment in the second quarter, our strong operational cash generation has allowed us to reach a net cash position of 4.9 billion TL as of the end of July. 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.

On Slide 20,
A short note on the guidance for the year and trading update for the third quarter:
We anticipate that macroeconomic pressures will persist into the second half of the year. However, we believe our strong brand position, resilient business model, and solid balance sheet will enable us to navigate these challenges and emerge even stronger, as we have in the past. As a team, we remain committed to sustaining our profitable growth trajectory over the long term. At this stage, Mavi management aims to remain within our initial guidance ranges.
As of mid – Q3, the consumer demand trends have shown variability and is not easily predictable. The quarter commenced with weaker performance in August, marked by a year-over-year decline in sales volumes. IAS 29 excluded nominal figures show 53% growth in Türkiye retail and 63% growth in Türkiye online sales. The first 15 days of September is trailing slightly better than the last couple of months, delivering growth in volumes, delivering 57% sales growth in Turkiye retail and 64% sales growth in Turkiye online.
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 prefer to type your questions, you may use the chat screen. Okay, we already have questions on the platform. Oğuz Bıkmaz has the first question. Please go ahead.

Oğuz Bıkmaz:
Thank you very much for the presentation, Oğuz Bukmaz from Info Yatirim. My question is about this. I actually want to confirm what I think. We see a decline in EBITDA. Thinking the reason is being slower in the revenue top line part. But we see a remaining still gross margin. So the OPEX is remaining still, so the revenue is getting declined. So it makes sense to have a lower EBITDA. But my question is your volume and number of material sale remains still according to your numbers in the presentation. So I think there should be a decline in the prices. But also we don't see a decline in the gross margin. So can we link it to the decline in the cotton prices so that your COGS are getting declined as well in the gross margin side? Is my question clear?

Cüneyt Yavuz:
I'll try to shoot off obviously how we see and how we read the numbers. And if it's not clear, we can re-elaborate what I think is happening. As you just mentioned, what is happening is we have started seeing post-Bayram period, Eid period, a slowdown in consumer traffic. And also spending, appetite to spend. Especially a kick-in started when people realized that there was not going to be a minimum wage adjustment. So I think from a consumer perspective, we have witnessed a sort of adjustment period in terms of how do I plan and how do I behave and continue to shop as a behavior. To this extent, we are sort of relatively above water. I think performing very well, with strong balance sheet.

Although some amount of traffic and shopping appetite has come down, as you mentioned. And it came in a little sort of stronger than what we expected in terms of what we were guiding or feeling would happen. But if I look at the overall industry adjacencies, other food, condiments, and other fast-moving consumer goods. I think as always, you will recall that as Mavi, we consider ourselves quite resilient. And we observe that we are remaining vis-a-vis the market more resilient than ever. Now what has happened is overall top-line growth has come down vis-a-vis what we have expected. And then we had constant OPEX costs. So as a ratio, that chunk that we have been spending or have planned to spend has remained fixed. And therefore, mostly speaking, the EBITDA margin has been squeezed due to this. Now, looking forward down the road, also let me say a few words on COGS. COGS is already factored in. We don't see necessarily a lot of COGS that are coming in in terms of cotton price ups and downs, especially for this period of time. That would not be correct to say. Generally speaking, how we manage our COGS is through the product mix. So if you look at it on the one hand, we have denim, we have outerwear, we have accessory products, we have non-denim bottoms, T-shirts, shorts, etc. And in terms of our COGS management and product mix management and the product mix we have, we do our best to make sure, and we actually have done a very good job of playing with our product mix to maintain and even improve our gross margins, which have been the positive side. And in terms of competition, this sort of well-management of COGS gives us a great enabling margin of error or power to deal with competitive pricing and promotion and sentiments that might take place in the, let's say, retail environment. Now moving from here into the next couple of months, quarter three, quarter four, and the following quarter next year, we still have a lot of, although some of the costs are fixed, we do have a lot of retail-related costs which are more flexible. Meaning we have staffing which is more part-time, which is in and out, etc. Which we can adjust and use as a buffer to mitigate some of the operational costs. That's one thing. The second thing is, we also have, as one can imagine, as any company has, certain costs that we can cut along the line. So as Mavi, in terms of our team, people, staffing, we are not looking into any opportunities or opportunities when it comes to overheads, but we are looking into every single opportunity where costs can be deferred, payments can be deferred, and certain activities can be cancelled. So I think quarter three, quarter four, some of those actions that we have already taken will start to kick in, in an effort to protect our bottom line EBITDA margin. Again, having said that, I'll give a little even extra flavour. For quarter three, quarter four, not many industries have done it, but we have, as Mavi, both for the field staff and for the HQ staff, have done a 25% salary increase. So we have been proactive in protecting our employees and trusting on our strong balance sheet. We valued our employee satisfaction and retention of employees in these difficult times. This will have a positive impact, this will have initially a negative impact, but it will have a more positive impact on quarter one, when many of the companies who have not done minimum salary wage adaptations, they will have to deal with a higher ramp-up, whereas as Mavi, if you look at it from a base perspective, we will be looking into a less salary hike-up, which will also help us transition into a very high base Q1 we had, because we are already, as you know, we are trying to be a consistent and well-managed company, and we are also looking at quarter three, quarter four, and the first quarter of next year, so that we are consistently delivering results that are not moving up and down, left and right, with big margins, to the best that we can deal with. So, of course, externalities, interest rates, economic ups and downs, which are externalities, which we will deal with separately. I don't know if it's a bit, maybe a bit more information than you asked for, but if this helps you, I'll stop it at that. If not, please do ask a few questions, I'll leave it to you.

Oğuz Bıkmaz:
Thank you very much for the information, that's really helpful. One more follow-up then, if there is a salary increase in the HQ, what compensates the OPEX? Because OPEX seems to be constant, there has to be something diminished in place of personal costs.

Cuneyt Yavuz:
In this, when you look at the first half results, the salary increase has not been factored in, because the salary increase, as you know, our quarter is a little skewed, so the salary increases and they will stay with the next quarter, which is the quarter three, so that's why I was giving you a heads up of what is to come, so I'm trying to do forward thinking for you guys, because you like to sort of project out what's happening. So, I just wanted to give you a heads up that we have done a salary adjustment, effective August, salaries are being paid out, which in July was the end of our quarter two, and it will continue until all the way to the end of January, and it's February when we do the salary adjustment, in Mavi terms, for headquarters. The field team, of course, will follow in line with the government's decision on how they impact on January the minimum wages, but my whole point is we have done 25%, and let's say if the decision comes through to do 30, 35, 40% minimum wage adjustment, our increase over the current base will only be 5%, 10%, vis-a-vis doing one jump of 40% on Q1 2024, so that's the sort of heads up I was trying to give you guys.

Oğuz Bıkmaz:
Okay, thank you very much, I missed the time part, sorry.

Cuneyt Yavuz:
No problem, it's clear, I also mix it up sometimes, because our quarter can be sometimes confusing, and I'm also following others reporting their quarterly results, so it's not only you.

Duygu İnceöz:
Cemal, you can go ahead.

Cemal Demirtaş:
Thank you for the presentation. My question is related to July figures in particular. As we see in your

previous trading updates, we saw 74% in May and 120% in the first 12 days of June, so it was the trading update ahead of this quarter, and did anything happen specific to July so that your growth declined to 60-65% levels in the domestic market? That's my first question, and related to that, do you see any major change in the consumer behaviour recently? Thank you. Or for the future, do you have any sign of postponing the spending, etc.? Thank you.

Cüneyt Yavuz:
Overall, if you look at how we closed July, it was around, again, on average, roughly 65% growth. At the point when we were reporting the quarter 1 results with you guys, it was before the bayram period, which was pre-bayram, a lot of positive shopping that was going on, so it was a hyped-up period. So if you do a like-for-like, pre-bayram, post-bayram, and you do an average, it became normalised. I think what we have seen overall in terms of consumer sentiment, as I mentioned in my presentation, or as we were talking a while ago, post-bayram and with the non-increase of minimum wage, the economy or the shopping behaviour slowed down a little faster than what we had anticipated. Coming back to your question with regards to do we see any consumer behaviour trends, if you look at our customers and if you look at our stores and store clusters, we cluster them typically into A, B, C kind of store clusters, and depending on location and customer base, we see more of the, as one would expect, we see more of the impact being felt by C customers. So the lower income areas have been impacted more, whereas the A, B categories of stores and consumers are still continuing with their trend of normal Mavi shopping. C customers typically constitute about 35-40% of our sales, so we would have to, and we will of course, and that's why we still want to maintain our guidance for the rest of the year. We are very quickly adjusting product offering campaign and product availabilities for the C customers, considering their disposable income. As you know, we always start with the consumer in mind first, and we start with the mentality of understanding their capability to shop and come to Mavi, and make sure that they feel that their money's worth is taken at Mavi. And I think if you look at our balance sheet and positioning, we have that opportunity to continue to make offers and good positioning offers for this customer base. It is still going to be a challenge because, as we all know, the second half of the year is also, quote-unquote, a more expensive part of the year, with schools opening, heating bills coming in, and inflation continuing, and disposable income, therefore, coming under a lot more pressure. Having said that, I mean, this is a reality. It's not new. It's a like-for-like base. So, we will deal with that, and we will, as always, make sure that Mavi is, whether it's a growing market or a maintaining market, stable market, that we continue to gain market share. And regardless of the total market, we maintain our strong, trusted, best place to shop, best experience, best products, best quality mentality. So, we will not do anything crazy, meaning that we won't go and do crazy stuff in terms of doing crazy markdowns, or vice versa. We will not do crazy in terms of pricing things up because there is inflation. We haven't done it this way or that way. We will continue to be closely monitoring the consumer behavior. We are buying into a lot of Ipsos data, which comes in quarterly. We are working with other market research entities to understand the consumer behavior. We're actually ramping up, as we did in the

COVID area. We are ramping up our consumer communication. You will see, starting this quarter, a lot of rackets, billboards, TV advertisers, both with Kıvanc and Serenay. We are working with also digital platforms to focus on, again, customer groups that might be interested to buy more of the Mavi and make sure that we have a fair fight, let's say, a fair attitude in terms of making sure that consumers, when they come to shop, they come to shop with Mavi. But again, the short answer is, beyond what you would have expected, which is the lower end of the consumer spectrum, generally speaking, the other A, B socioeconomic groups, which we classify as our solid shoppers, they're still there, they're coming and buying Mavi products. As fall-winter kicks in, more of the jackets and heavywear products will kick in, which will also, hypothetically, probably help us in terms of growing the revenue. We started September, I gave you some numbers in terms of the quarter 3, but if you look at product categories, denim sales are really solid. We are very happy with how the denim sales are going through, which is always a good indicator, because denims are typically the more pricey ticket items that we are offering, and consumers are still coming and positively buying more of the Mavi jeans, which is very happy news for us all. Thank you.

Cemal Demrtaş:
Thank you. And another question is about the international revenue side, we see 27% decline in inflation-based numbers, real numbers, excluding the inflation impact. What was the rate of decline in the FX rates, FX base? What was the decline? And maybe you elaborate further on that. It's a small portion, but still, I wonder what was the real in the FX terms and the reasoning behind that.

Cüneyt Yavuz:
Thank you. So, I just was gathering the numbers for you, sorry for that. Now, when I look at what's happening in Europe, in Europe, let me go one by one. In Russia, things have slowed down a bit, similar to Turkey, it's a very small portion of our business and has slowed down, so it's more than 20% slowdown is what we are observing in the Russian market. In Europe, there is a bit of a structural adjustment, in the sense that we had a lot of econ business which was taking place via Zalando, which was seen direct wholesale versus direct-to-consumer sales, which we are recalibrating. So, that is sort of up and down in the adjustment period, which should normally kick in and normalize starting next year. We are also in Germany as we speak, as I mentioned in my presentation, we are in the midst of an ERP change, so hopefully we move on to SAP, which will also streamline and improve our EDS sales, which are linked up to the key department stores. And hopefully, we look forward to seeing more of our NOS sales, which is never out of stock sales, going up, which in this interim period, there is some, let's say, more externality, some of it caused by us, that is disrupting some of the numbers. So Europe is also down around 20% through this adjustment, but then when you look at the US, it is more like plus 5-6%. So, net-net, it comes down to a minus when you add it all up.

Duygu İnceöz:
Overall, in total, actually, overall, because they are all in different currencies, but if you want to look

at it in dollar terms, it is minus 14, by the way.
The next question is Erman, Erman Yildiz, please go ahead.

Erman Yıldız:
My question is about the stock levels. The stock level has increased about 1 billion in the second quarter compared to the first quarter. Is it because of weak demand or are you preferring to keep higher stock? Can you explain it, please? Also, I have one more question. It is about the weather. In the first 15 days of September, it was really, the temperature was really high compared to averages. Is it postponing your fall season demand?

Cüneyt Yavuz:
Yeah, two pieces, one on the inventory side, I think one part of the increase that, I mean, generally speaking, as I mentioned in our presentation, personally, inventory is my number one KPI that I follow. So and the last thing I want to hear is a deterioration in terms of our inventory and therefore a working capital negative impact. There is an increase, but it's mostly because of new product for the quarter three, new season fall winter coming into our warehouses that is bumping up the inventory levels. But if I look at, having said that, if I look at the total inventory cover, freshness, leftovers one season to another, we are in very good shape. And I think the, I keep reiterating this, the fact that more than 80% of what we produce is being produced in Turkey and the relationship with the manufacturers, the speed with which we can bring things into onto shelf and slow things, start things is phenomenally well and well run. Therefore I would read that one billion increase more as a part of the next season preparation and products coming in for fall, winter jackets, outerwear, et cetera. When it comes to weather, weather is always an element of what we sell. It is true, like believe it or not, when it rains, you sell rain jackets, when it's cold, you sell sweaters, and when it's snowing, you sell jackets and outerwear. So the weather does impact, but generally speaking, in my experience, these things wash out in the end. There is an overall tendency of global warming that is coming up. So we have to factor that in. And to that end, I think the critical thing over the last five, six years, especially on Mavi's side, has been the management of outerwear and jackets, how many we order and how many we sell. So the rest, like t-shirts, sweatshirts, jeans, are quite seasonless. They do slow down and pick up speed once the weather gets cold. So if it's a rainy day, for instance, a bit of a colder, more cloudy day, and we will automatically see the benefit of that. So I worry more about the jackets, and typically over the last four or five years, I think we have learned to sell what we buy and be, in a way, in a positive sense, to be out of stock at the end of the season, especially when it comes to the seasonal products like winter products. So that will be my worry, but that worry is not, at this point in time, I don't have any worries. And products are coming in on time, are planningwise, based on last year's, last many years of performance and future performance, we are prepared to deal with what we will sell. And inventory, maybe at the end of the year, might be up one, two days, but it's not going to be significantly deteriorating vis-a-vis the prior years. By the way, tomorrow, we are having one of the biggest supply days in our history. So we will have more than 400 people

attending our conference, where I was calculating at the back of the envelope, that's about 20% of Turkish textile industry will be under one roof, where we will celebrate the 30 plus years of Mavi's collaboration, and talk about the future plans. And I'm really happy to say that every single supplier that has joined our board, whether it's the new ones that have joined us or just over the one year, or those that have been working with us more than 30 years, and there are quite a few of those, will be one on under one roof talking about the future and the challenges we have. So it's another testament of Mavi's strength, not only from a consumer point of view, but it is also a testament with our business partners to plan for the future and the challenging times that are ahead of us and ahead of them. So we can listen to each other under one roof, one big family, supporting our brand and supporting our company. And I think it will be one of a kind conference, which hopefully will remind me to say a few words at the end of quarter three about how that went. And we are really excited to be holding this conference.

Erman Yıldız:
Thank you, Cüneyt Bey. I have one more question. It's about the Turkish Liras gaining value against the other currencies, dollar and euro. And are you expecting a competition from the foreign companies if this trend continues? Because there is inflation in dollar terms and euro terms in Turkey. Is it, will it change the view after this in terms of market share?

Cüneyt Yavuz:
This is a pendulum moment. I mean, in my 16 years with Mavi, it moves left and right. Sometimes for us, the bigger challenge comes from the local big players. And sometimes, as you mentioned, the competition comes from H&M, Zara, Mango and other imported goods because of the Turkish currency swings from up to down. We are, on a constant and weekly basis, on an SKU level basis, tracking and monitoring the pricing position of Mavi products vis-a-vis more than 20 plus competitors. And we believe with the stronger gross margin position we have, the manufacturing capabilities and the product mix management capabilities, you know, and choosing to make certain products or not to make certain products, we will be able to manage and deal with importing competitors. But your point is very valid over the next, probably at this rate, next nine months, not only for Mavi, for all local players, importing brands like Zara or H&M will have an advantage. And we as the local players have to adapt to that. But this in no way necessarily changes our outlook or activity, because this is for us business as usual to a certain extent, because there are times when we benefit and there are times when we lose. This will be a transition for the next, I think, six, nine months that we will have to deal with. And I think we have the capabilities and the tools to deal with it.

Erman Yıldız:
Thank you very much.

Duygu İnceöz :
Yavuz, you are next. Yavuz Birdal, go ahead, please.

Yavuz Birdal:
Thanks a lot. I hope you hear me well. In your presentation, you generally mentioned the outlook for the coming quarter. Thanks for that, first of all. Consistently, you are providing that. And when I look into the numbers, it seems that in August and since the beginning of August, which means half of the third quarter, somewhere around 60 percent revenue growth on a year-on-year basis in nominal terms. Is it possible to give a little bit more color regarding details of that, for example, how the school period started in terms of the quantities, volumes, and also the transaction? So if you divide this around 60 percent into detail, how much comes from price, how much comes from tickets, how much comes from quantities? This is my first question. I will have another question after your answer. It will be a very short one. Thanks a lot.

Cuneyt Yavuz
First of all, I should put it this way. Since the beginning of quarter and actually since July, one week to another has been quite unpredictable. So there have been weeks within like over the last 16, 17, 18 weeks where we had a very good week and then very slow week. Some of it weather-related, some of it maybe product-related, some of it sentiment-related in terms of people looking at dollar price, inflation price, politics, what's happening externally, etc. If you look at the August numbers, I mean, I can share with you two points. One, again, as I mentioned just a few minutes ago, we see a bit of weakness on the lower end, like the C-outlet areas, but we are in the midst to prepare products and product mix that will cater to that customer in our stores over the next couple of months. So I think I can ameliorate some of the gap that is coming there, as I also mentioned there. But A, B, customer base and the back to school, when it comes to especially kids coming in buying their blue jeans and buying their school-related products, I've been quite happy. And the volume was, if I'm not mistaken, roughly 4-5% above last year. So we had a positive volume growth, which is always great to see, especially in these challenging times. So that's the amount of information I can give at this point in time. We have post the Bayram period, I've been at Mavi sort of managing the business literally every week, gathering together, looking at competition, pricing, product we have, campaigns we have, channels that are performing, and being more vigilant than we normally are. I mean, we are typically busy bees, but we have extremely sort of elevated our vigilance. And also, as I also mentioned, we are not doing anything silly, but we are also looking into every single expense-related stuff when it comes to money being spent to get the biggest return. Today, we were having a big meeting, for instance, with the Meta team to discuss in terms of customer segments and to find new customers, how do we use influencers better, et cetera. So just to give you a sentiment, not in the minds of defensive, on the contrary, to find that extra customer who's out there shopping, spending money, and to make sure that they find what they're looking for at Mavi. And this will continue, and it's getting tougher, but we believe in terms of our attitude, our look for the future, as

always, is sunny side up. How do we make the most of what we have? And we have great plans, great contingency of Mavi brand supporters, customers, consumers, suppliers, and keep the business checking down. Thank you.

Yavuz Birdal:
Thanks a lot. Very short one, the second one. You said, if I hear properly, a 25% wage increase. And when did you do that? And after this increase, what is the total wage increase that you have done since the beginning of the year? Thanks. And is it like a wage increase, or just like fringe benefits that you provide at the second 25? Did you increase the wage?

Cuneyt Yavuz:
Okay. Yeah. At the beginning of the year, we started with a 50-55% salary increase, and then we did another 25% salary increase starting August. So it's not a fringe benefit. It's end of the month salary increase that people get.

Yavuz Birdal:
Okay. So it's just one shot wage increase starting. Will it affect the third quarter?

Cüneyt Yavuz:
Coming to third quarter, into the positive pockets of our employees, and also have an OPEX hit. Some of it will be managed and offset by the already actions we took during quarter two. And I do believe, I might be mistaken, but maybe you can give some color, Duygu, quarter three OPEX actually should come down in absolute terms vis-a-vis quarter two, despite the salary increase.

Duygu İnceöz :
OPEX to sales ratio? The ratio will continue to be lower than last year deteriorate versus last year, but not as much as what you saw in Q2.

Cuneyt Yavuz:
So this 25% salary increase should not intimidate you in terms of an OPEX bump. So I think we've taken the right measures to make sure that we deservedly can hand out this salary increase.

Yavuz Birdal :
And also you mentioned when the time comes in January, after this 25, are you able to reflect below the minimum wage?

Cuneyt Yavuz:
Yeah, I think the good news is when we do this 25, this is on the side, when the minimum wage comes in, let's say if there's 35%, we will have to do only 10. So base perspective, some companies,

in, let’s say if there’s 35%, we will have to do only 10. So base perspective, some companies, I don’t know how other companies have managed this, some companies may in January have all of a sudden 30, 40, 50%, depending on the minimum wage impact on their balance sheet, whereas our ladder of jump will be lower and a lot of the OPEX will be in the base. This upfront salary adjustment is also a great tool for us to tighten our belts in other areas and to see how we will manage the rest of the coming quarters in the right way. So I find it a win-win proposition for all of us. And we can afford to look into this.

Yavuz Birdal:
Okay. Thanks a lot.

Duygu İnceöz:
We also have some questions coming from the chat screen. A1 Capital, Mustafa says, hello all, the winter and autumn season delays puts pressure on finances, when do you think inflation accounting factors will end?

Cüneyt Yavuz:
There is talk about when inflation accounting factors will end, that’s not for me to say at this point in time, I cannot comment on that. We talked about the seasonality and ups and downs of sales, I think overall, you know, weather is an important factor, but in terms of our performance, I think that’s part of the challenge we will deal with and I worry less about that.

Duygu İnceöz:
Our next question is from Mihkel Valja, why is the employee cost increasing so much as there wasn’t a second minimum wage hike?

Cüneyt Yavuz:
There were not a second, you know, there wasn’t an employee cost increase, but there’s a percentage going up because the top line growth slowed down, so that’s probably what you’re referring to. But we did talk a lot about how this will play out, how it played out and how it will continue to play out all the way to spring, summer 2025.

Duygu İnceöz:
Mihkel, last year second half, we did 35% employee wage increase and then January we did 55% more. So, if you’re looking year over year, for the first half of this year compared to the first half of last year, this was in Mavi, but overall in Turkey, impacting all other costs, such as logistics, everyone did twice wage hikes, which were high. But that’s the general case in Turkey, that’s year over year, employee costs are much higher than top line inflation right now.

Another question from Erkan Edincik is, based on our observations, the economic slowdown is becoming more pronounced. If you decide to revise your guidance for 2024, how do you plan to communicate this? Will it be done in the third quarter results or beforehand?

Cüneyt Yavuz:
At this point in time, as Mavi team, as Mavi management team, we would like to maintain and stick to our guidance as there's a lot of uncertainty and we're almost within that. And what we are hoping that when it comes to quarter three, we will be in a position in terms of where we are heading to. So that's the regular communication that we do at every single quarterly meeting. We give you an update if there is an update needed. So that's our current plan, is that we do when we come together, when we finish the third quarter, that we will share with how we are tracking to finish the year and then our outlook for the next year.

Duygu İnceöz:
Probably a similar question from Alper Akalın. Given the company's unchanged full year 24 profitability guidance, despite contracting margins and wage hikes, could you explain if there has been any noticeable signs of improved profitability in August and September that will make you reach profitability targets?

Cüneyt Yavuz:
I mean, I shared the numbers, the top line growth and where we're heading, as well as OPEX. And you see where our numbers and you see where our guidance is. So that also gives you an indication of where we think the rest of the coming months we think will play out. So thank you.

Duygu İnceöz:
Yavuz, do you have your hand up again? Do you have another question? Yavuz Birdal? Maybe he left it up. There is one more question, I think, on the chat screen from Erkan Edincik. Are you considering a shift towards younger faces for Mavi's advertising campaigns? Personally, I believe that Kıvanc now appeals more to middle-aged consumers rather than younger generation.

Cüneyt Yavuz:
This is a very good question. This is something every season we track the value of our faces and celebrities. The great thing about Kıvanc is, yes, he is right now a middle-aged man. He's no longer the 20-something guy he used to be. But overall, he's adding a lot of value to us. So he's bringing a lot of premium look for us. I mean, Kıvanc remains our face for the company. And we will be capitalizing on Kıvanc's popularity. And all the research we do right now puts Kıvanc well ahead of any other celebrity across Turkey in terms of a male celebrity. So in line with what is right for Kıvanc, you might be aware, we've added, as you know, along the way, our pro line, black lines with Kıvanc. And most recently, we have added our Edition line with Kıvanc. So we will use Kıvanc to bring in

more premiumness in line with Kıvanc's equities. And Serenay, of course, will be the new young, aspirational woman, fashion-forward lady for us. Net-net, you have to understand that beyond these two very strong celebrities, we are using tons of influencers in TikTok, Instagram, Facebook, etc. We have a whole sub-segment and target audiences that are in line with that audience. So it is a 360 effort. The question is a valid one. But don't worry, we are really doing all the research, no matter what the celebrities, whether it's Serenay or no matter who the influencer is, that they fit the Mavi way of doing business. Thanks for that feedback.

Do we have any other questions?

At this point, I would like to thank each and every one of you for joining us in this webcast. We look forward to coming in with pretty good numbers in the end of quarter three. In the meantime, it seems like in these challenging times, I wish you all the best in whatever you are doing and that we deliver happy, healthy days. As always, stay in touch. We are here whenever and wherever you feel like you need more information. We will be as transparent and as sharing as we can be in terms of how our business is tracking. Thank you all for attending once again. Bye-bye.