



Transcription for Q4 2022 Financial Results Webcast

March 15th , 2023



DUYGU INCEOZ

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

CUNEYT YAVUZ- CEO

Hello everyone! Welcome to our webcast for the financial results of the fourth quarter and the financial year of 2022.

Before I start my presentation, I would like to briefly commemorate the earthquake that devastated eleven provinces of Turkey on February 6, 2023. I would like to extend our condolences to the grieving families who lost their loved ones, including those of our three beloved employees. As Mavi, we have taken action in cooperation with the state institutions and NGOs from day one to support the relief efforts. We will continue to stand in solidarity with our employees, business partners and communities in the effected regions. As a company that sources 80% of its products from Turkey, supporting our manufacturers in the effected regions and recovering together will remain our key commitment.

Moving on to review 2022.

It has been a very successful year for Mavi despite all the challenges and uncertainties. I want to thank my great team for their hard work and all our business partners, investors and customers for supporting us in delivering a successful performance in 2022. Each day we are guided by our brand values and corporate culture to drive Mavi into an even brighter future. As a people-oriented global company with sound financial management, we closed the year with solid top line growth and significant margin increase.

Sales growth was driven both by price and volume where all product categories grew in number of pieces. With an increase of 18% year on year, we sold over 12.5 mn denim items globally. Strong brand strategy and demand creating newness in product offer, supported by dynamic price planning resulted in 160 basis points gross margin expansion for the full year. Through effective cost management, we delivered 180 basis points improvement in opex to sales ratio. It was a record-breaking year in terms of operational cash generation, hence our net cash position as of year-end was 1 billion 762 million TLs.

Our Board of Directors decided to propose to the AGM the cash distribution of 4.32 TL gross dividends per share, coinciding to 30% of total distributable profit. It is planned to be paid on May 10, 2023. We have also decided to issue 100% bonus shares once again this year.

In Turkey retail, demand was robust throughout the year amid ongoing high inflation. With a right product - right price - high quality strategy we continued to gain market share in jeans, women and men lifestyle categories.



Following customer trends and preferences, casual lifestyle categories expanded with new product lines resulting with non-denim categories share in total surpassing 60%. Women's share in total sales increased to 36%.

We further elevated our brand positioning through creative collaborations, new product lines, celebrity campaigns, and influencer engagements. We are back on track with our all-time target of gaining 1 million new customers every year.

International sales recorded 12% constant currency growth in 2022 despite some macro-driven weakness in trading environment in the western markets in the second half of the year.

Online sales growth of 96% was equally driven by mavi.com and marketplace performance. Revenue share through all digital channels in 2022 realized 9.0% in Turkey and 12.8% globally.

On Slides 6 and 7, we wanted to remind the investment community of our strategic priorities that are the building blocks of our confident journey into the future. We summarized them under six pillars.

Our brand is our biggest asset, and it is in the heart of all our endeavors. You will iteratively hear from us that our major aim will continue to be gaining market share and growing with new customers. To do so, we are focusing on different customer segments with new products lines. In this fast-changing era, our digital data and category teams make sure we monitor price shifts and customer demand closely to always offer the right quality at a right price to our customers. On the other hand, we focus on elevating the brand positioning with premium product segments and aspirational marketing: offering the latest women trends with our Mavi Icon collection, premium men products with Mavi Black, Pro and Repeve collections. Growing our casual lifestyle product offering with sporty, logo and sweatshirt collections, we continue to take up greater place in wardrobes and acquire new customers with new product categories such as Mavi Pro Tech premium outerwear and active wear collections.

We enable strong customer engagement through genuine celebrity campaigns and extensive, effective use of influencers. Exclusive collaborations like Freedom of Space X Mavi and Esra Gülmen X Mavi help us reach young and new customers. Another good example is our Birlikte Çok Güzel Oluyoruz ("We Are So Beautiful Together") ad campaign launched in 2022 to highlight Mavi's brand and product positioning with women of all ages, sizes, preferences and lifestyles. This campaign not only proved effective in driving new customer acquisition and sales but also reinforced our position as a love brand.

The second pillar of our strategy is growing retail. We are establishing new retail concepts to improve the shopping experience to grow customer frequency and conversion. We are continuously working to upgrade the physical experience to be able to better present Mavi's growing lifestyle categories. We believe there is always room to improve customer conversion and inventory turns with a data driven approach, analyzing store clusters and managing availability. We are investing in customer experience to increase touchpoints with new and loyal customers.



Going hand in hand with our retail business is our online business. We launched a multi-team Omnichannel project this year allowing shared inventory availability across warehouse and stores which is a major development that increases our capabilities tremendously.

One of the first fruits of the project is the 2-hour last mile delivery we started in the largest 3 cities in Turkey. This year we enhanced our online shopping experience with AI-based customer review analysis tools, IVR voice response systems in customer services and return pick-up service at the customers' address. We will continue to integrate new marketplaces to our sales channels in order to increase our customer reach and localize international platforms by analysis of different market needs.

Apart from online business investments, digitalization and CRM are on the core of our strategy. We engage seamlessly with 5.7 million active customers and 3.5 million app members through our CRM. We are integrating AI supported analysis tools to better understand and respond to our customer and market expectations. We place great importance to data analytics investments that increase the efficiency of our day-to-day processes. Recall that our Turkey office had completed its ERP transformation to SAP in 2021. We completed the transformation of USA and Canada offices in 2022.

We continue to integrate our All-Blue global sustainability strategy into our corporate culture, vision and business practices to drive sustainable growth. A responsible supply chain management is a key element of our sustainability approach. All Blue product shares grew with product innovations in denim and non-denim in 2022. Our Natural Dye Collection that was launched globally this Fall was rewarded as the "Best Sustainable Collection" at the Rivet Awards, bringing this title to Mavi for the 4th time. We also launched the Mavi Hemp Denim collection this fall, our most sustainable product to date.

I am very happy to state that we are the first and only apparel brand from Turkey to make the CDP's Climate Change A List. Only 283 of the nearly 20 thousand companies worldwide that respond to CDP made the A List last year, becoming the climate leaders of 2022. Our emission reduction targets we set in line with the Paris Climate Agreement were approved by the Science Based Targets initiative in late 2022, and we are happy to be included in BIST 25 Sustainability Index. In line with our All-Blue goals, we are committed to becoming a climate-positive company by 2050.

The last but not least to say the most important building block for our future is our people. Embracing a people-oriented culture here at Mavi, we are fully committed to inclusiveness and diversity. We are focusing on social projects to empower women and youth and we are now a member of UN Target Gender Equality Program. In Mavi, women make up 58% of total employees, 52% of managers and 60% of top management. We will continue to work passionately for a better Mavi and a better world.

Having provided a long summary of where we stand, now lets look at the key highlights for the period, moving on to Slide 9: Our consolidated sales in 2022 realized at 10 billion 592 million liras growing 129% versus last year. Turkey retail sales grew 144% and Turkey online sales grew 88%. Our EBITDA, growing 140% year on year, realized 2 billion 491 million TL, resulting in an EBITDA margin of 23.5%. Our net income has more than tripled in 2022 to reach 1 billion 459 mn TL. Our balance sheet net cash position increased 185% vs last year to 1 billion 762 million liras as of the end of January. The total number of mono-brand stores globally, including franchisees stands at 459.



Lets review our channel performance: With the retail channel gaining significant pace this year, total revenue consists of 66% retail, 23% wholesale and 11% e-commerce sales. Fueled by the robust

performance of Turkey retail, 83% of total consolidated revenue was generated in Turkey. In Turkey, the inflationary environment drove consumers to shop and we made sure we had the newness and variety at the right price to respond to this demand and remain consumers' brand of choice. As a result, our sales in Turkey grew 143% in quarter four and 135% in 2022. In the second half of the year, we started witnessing some slowdown in international demand, mostly in Europe and we expect it to continue into the following couple of quarters. Nevertheless, total international revenue grew 13% in constant currency in Q4, resulting with a 12% constant currency growth in 2022. Retail and online channels were the drivers of growth internationally.

We may start to focus on Turkey retail business: We have been iterating that the store openings are restricted in the recent years mainly because of a shortage of available new space in Turkey due to the slowdown of construction. Nevertheless, retail is still at the heart of our growth strategy, and we continue to expand current stores in square meters while constantly taking new actions to make sure that consumers have a great shopping experience. In 2022, we opened 7 new stores, closed 5 stores while expanding 12 stores in Turkey. As of January-end, we have 329 own-operated stores totaling close to 168 thousand sqms of selling space in Turkey with an average store size of 510 sqms.

On slide 14, lets elaborate on the like for like store performance: Traffic growth of 21% in Q4 2022 on a high base and 38% overall in 2022 displays strong consumer demand in a high inflation environment. In the last quarter, like for like sales grew 139%, driven by 111% basket size growth and 13.4% transaction growth. In 2022 overall, like for like sales growth was 142% with 87% basket size growth and 29.5% transaction growth. Basket size growth was enabled not only by the dynamic pricing strategy but also the newness driven right product mix. Please recall that as Mavi management we review the success of our growth figures with actual volume growth in number of pieces sold. I am happy to see that, with all the market challenges, 21% volume growth achieved in 2022 is in-line with Mavi's all-time sustainable growth targets. We take this as a testament of Mavi's success in product, pricing, and branding strategies.

Moving on to slide 15 to review category-based developments in Turkey retail: We are happy to report strong growth across our product categories. All categories delivered significant growth in number of pieces. Our denim category, now constituting 39% of total retail sales in Turkey grew 137% in 2022. We are constantly following changing consumer preferences and enriching our product range especially in casual lifestyle categories. As a result, our lifestyle categories grew 153% in 2022 and their total share in Turkey retail sales exceeded 60%. In 2022, expanding our t-shirt, sweatshirt and jersey offerings resulted in robust sales performance in knits category. Knits business grew 153% year on year and now constitute 27% of our retail sales in Turkey. I would like to open a parenthesis here to note that our "Mavi logo" business is one of the main actors in the success of this category and is also a great traffic driver feeding all other categories. Capitalizing on the same trend, another significant category is non-denim bottoms. Growing 162% and bringing incremental revenue, non-denim bottoms now make up 6% of our total Turkey retail sales. Jackets were one of our focus categories in 2022, in an aim to gain market share and become the go-to brand for jackets in Turkey.



We introduced the new Mavi ProTech premium jacket collection and received great response from the consumers this fall-winter season. With a total growth of 158%, Jackets share in total sales reached 11%. Accessories grew 152% and continue to contribute significantly to our women's business. And lastly, growing 150% shirts make up 10% of our total Turkey retail revenue.

On slide 17, lets review our online sales performance: As always here we review the total online sales of Mavi including the sales to the third-party digital platforms to which we wholesale, in addition to our direct-to-consumer online sales made up of mavi.com and marketplace sales that are reported under e-commerce channel. Recall that our direct-to-consumer e-commerce share is now 11% of total consolidated sales. Including the wholesale e-com, our total online sales is 12.8% of total consolidated revenue. In Turkey, Mavi.com was relaunched with a new upgrade earlier in the year with enhanced online shopping experience, offering speed and ease to our customers. Online sales in Turkey picked up momentum in the second half of the year, bringing the total growth to 88%, driven by 96% growth of mavi.com and 83% growth of marketplace operations. Online sales now constitute 9% of total sales in Turkey. International online business grew 86% in 2022 largely driven by direct-to -consumer channels and constitutes close to 32% of total international sales. Our own platform mavi.com grew 91% and marketplace sales grew 219%. Mavi's strong digitalization and CRM infrastructure will continue to drive our growth trend in e-commerce and as I noted in previous quarterly updates, the shift towards online will positively impact our margins going forward being a full-price channel across all categories. As retail operations are back in the play, omni-channel capabilities are becoming more important for future growth and in improving the shopping experience for consumers.

Let's move on to review our consolidated financial results: On slide 19, we review our gross margin performance: In 2022, gross margin management was a major focus area with rising labor costs, energy prices, currency and raw material price fluctuations and high inflation in general. As guided several times throughout the year, the higher product costs started kicking-in in the second half of the year, and we started seeing a normalization in gross margins as expected and guided. On the other hand, with the cost of production in Turkey increasing, and the exchange rates remaining fairly stable, we started witnessing some deterioration in international gross margins as well. In Q4 Experiencing the highest product cost inflation in the year and also having a high base, gross margin realized 240 basis points below same period last year. Throughout the year, meeting high consumer demand with newness, variety and the right product/price positioning supported cost mitigation. Effective campaign and mark-down management resulted in significantly lower mark-down spending in 2022 leading to gross margin improvement of 160 basis points compared to last year.

On slide 20 we review our EBITDA and bottom-line performance. The significant opex inflation in the fourth quarter and in 2022 in general was leveraged by the strong top line growth. We continued to deliver improvements in our rent ratios and our employee cost to sales ratios in Turkey retail business. As a result, our EBITDA margin excluding the IFRS16 adjustments improved 130 basis points in Q4 and almost 300 basis points in 2022. With this performance, our EBITDA margin excluding IFRS16 reached 19.5%, realizing at the upper end of our guidance.



Recall that the IFRS16 impact on EBITDA has become lower in 2022 compared to previous years because of two developments: First: the ratio of performance-based rent contracts have increased, leaving the related rent costs on the P&L. Second: the total rent costs as percentage of revenue is decreasing, hence reducing the impact of IFRS16 on EBITDA. Therefore, the EBITDA margin including IFRS16 improved 100 basis points in 2023, realizing at 23.5%. The operational performance is mainly reflected to our bottom line. Our net income more than tripled in 2022 and the net income margin reached 13.8% which is 460 basis points higher than 2021.

On slide 21, we look into our operational cash flow and working capital performance: 2022 has been a year of significant operational cash generation for Mavi despite the increasing working capital requirements driven by higher product costs and actions to mitigate cost pressures. We have been taking several initiatives to mitigate product costs pressures such as cash payments, early booking, early production, advance payments for raw materials and so forth. Nevertheless, operational cash generation in 2022 is close to 2 billion TL with a cash conversion ratio of 92%. As of the end of January 2023, the increased level of inventory is largely driven by product cost inflation at record highs, 143% yoy. Inventory in number of pieces in Turkey is 39% higher compared to an extraordinary low base of 2021 year-end. Inventory comprises of all fresh, mainly SS23 season products and is in line with business plans.

Let's now move on to the next slide: (slide 22) We spent 295 mn TL in capital expenditures in the year resulting in a Capex to sales ratio of 2.8%. On the retail side we had a few store openings, sqm expansions and new store concept transformations taking place. Apart from retail, we have been investing predominantly on IT projects and digital investments. With strong cash generation in the third quarter, our net cash increased 185% compared to year end to 1 billion 762 mn TL. All of the foreign currency debt you see on our consolidated reports belong to our subsidiaries, all borrowing in their respective local currencies and hence does not pose a currency risk. We continue our approach of holding no foreign exchange position in our balance sheet. On the other hand, average cost of debt is increasing in Turkey, and we foresee higher rates going forward. Also, with the availability of funding being very restricted, in order to be prudent, we issued a 500 mn TL corporate bond with fixed interest rate, single coupon payment and with a maturity of 371 days to qualified domestic investors in January. We aim to keep an open line in this market.

(On Slide 23) I would like to elaborate on our management priorities in 2023. We will be able to provide our official guidance for 2023 along with our first quarter results in June. Therefore, until then we wanted to give you some insight on what we prioritize as we plan for 2023. As always, in 2023, all our brand, product innovation, category expansion and customer communication investments are targeted at gaining market share and elevating the brand positioning. Growing customer traffic, acquiring new customers and volume growth will be our major targets. New store openings, online investments and international growth initiatives will continue. We will continue investing in customer experience through new retail and online concepts, focusing on the 'happiness of our customers'. We expect margin pressures rising from a high base in Turkey and the stable currency internationally. Hence, we will prioritize focusing on supply chain capabilities and product engineering to mitigate these pressures. Efficient product planning and inventory management are as always key elements for continued success. Integrating All Blue strategy and sustainability targets globally is an all-time priority for Mavi. We will be continuing to embrace a people-oriented culture and aim at attracting and retaining the best people



Before I close my statements, as always, I would also like to give you some color on the current trading environment as of date. We continue to see high demand for our products and a positive pricing environment as of today. Turkey retail sales increased 98% in February and 154% yoy in the first 12 days of March. Online sales in Turkey grew 27% in February and 157% yoy in the first 12 days of March. February results reflect the earthquake impact on business. With this final great note, I am happy to take your questions now.

DUYGU INCEOZ

Ladies and Gentleman, if you wish to ask a question, please click on the “raise your hand” button which is the hand icon on your control panel. When I call your name, please open your microphone before you speak. If you prefer to type your questions you may use the chat screen or email me directly. For those of you who have dialed-in via audio, we will take your questions last, when there are no questions left on the platform.

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DUYGU INCEOZ

It seems there are no questions. Ladies and gentlemen, thank you for your contribution to our webcast. If you have any follow-up questions or comments, please don't hesitate to reach out to us. Have a great week and hope to see you again in three months with our first quarter results.

CUNEYT YAVUZ

Thank you Duygu. Thank you for joining our webcast and I wish you all the best and for the coming days and a happy New Year once again. We look forward to getting together with great results when the first quarter results come through. As always, I thank you for your contribution. I look forward to seeing you all in good health and spirit and our next webcast, all my best and have a great day.