



**Transcription for Q4 2020 Financial Results Webcast**  
March 15<sup>th</sup> 2021



## Presentation

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### **Duygu Inceoz, Investor Relations Director**

Good afternoon, ladies and gentlemen. Welcome to Mavi's Full Year 2020 Financial Results Webcast. We kindly ask you to keep your microphones muted throughout the presentation. Our CEO, Cüneyt Yavuz will be presenting the results. We will be taking your questions after the presentation. Now, I will leave the floor for Cüneyt Yavuz.

### **Cüneyt Yavuz, Chief Executive Officer**

Thank you, Duygu. Hello, everyone and welcome to our earnings call for the financial results for full year 2020 ending January 31, 2021.

As you all know, this has been a year marked by the COVID-19 pandemic. Throughout 2020, our priority as a leading and responsible Company has been to protect the health of our employees, customers, business partners and the public. On behalf of Mavi team, I would like to express our solidarity with the people affected. As the leader of Mavi, I would like to take this opportunity to thank the entire Mavi team for standing in unity and working with great energy and dynamism in these challenging times. I am more than thankful for their enduring support and great commitments.

Throughout the year, various COVID-19-related restrictions were imposed across the countries we operate. Turkey operations which constitute more than 80% of our revenue experienced 92 days of store closures and a total of 40% decline in trading hours in 2020. In the face of closures, consolidated sales declined only 16% versus 2019.

This year we experienced a leap in e-commerce operations world-wide. Online sales of Mavi performed very strong with 110% growth globally and 152% growth in Turkey.

Through rigorous supply chain management and product planning, gross margin levels were preserved as targeted. With dynamic control measures our operational expenses decreased 6%. The rent to revenue ratio was held stable as guided within the year.

Agile inventory and sell-through management capabilities enabled us to maintain year-end inventory levels flat in pieces while increasing only 13% in value.

We closed the year with a commendable strong balance sheet position with a leverage ratio close to zero, still on track to becoming a net cash company.

Moving on to slide 3, throughout this year we continued to work hard to make Mavi a healthy and future ready company.

We place digitalization and CRM at the core of our long-term strategy of winning. As you may recall, this implies not only improving our e-commerce channels and customer experience, but also targeting to make all our internal operational processes smarter, more data driven and optimized. Our ERP transformation project that started as we entered 2020 is moving right on track and is planned to go live in June 2021. On the e-commerce end, all the investments we made for our mavi.com shopping website has paid off this year. It is a great platform that attracts new customers and has world class capabilities.



As a love brand in Turkey, we made sure that we deserved our heart and mind share of the consumer by increasing our customer engagement throughout the year. We have expanded our celebrity endorsed men's collection Mavi Black Pro and women collection Mavi Icon with new technological fabrics and casual jean fits. At the same time, we've teamed up with Turkish National Football and Juventus Football Team player Merih Demiral to promote our sporty line that brought a huge new and young attention to Mavi. We have also grown our sweatshirt and sweatpants business. In addition to celebrity campaigns, we have increased our customer engagement through diversified use of influencers. We have done many collaborations to create excitement and to drive new and young customers.

In 2020, with a global brand strategy built on 'sustainable growth through quality' we demonstrated our ambition to work toward a more sustainable world. After becoming a signatory of UN Global Compact, Mavi also became the first Turkish apparel brand to disclose its carbon footprint transparently to CDP. The report submitted to the Climate Change Program received a score of 'B' in environmental performance.

The "All Blue" collection which we launched in 2019, made with sustainable fibers, innovative techniques, using less water and energy, more than doubled in product offering in 2020. Also, in this period, Mavi's first eco-store opened in Istanbul Zorlu Shopping Mall.

Moving on to slide 4 with our key highlights for the year of 2020. Our consolidated sales in 2020 realized at 2 billion TRY 402 million. This is 16% below last year. Turkey retail revenue is down 26%. Nominal EBITDA for the period is TRY 392 million, resulting in 16.3% EBITDA margin. We have closed the year with a net income of TRY 8 million. The total number of mono-brand stores globally, including franchisees, stand at 439. Turkey online sales grew by an exciting 152% in 2020.

On slide 5 let's take a look at our channel performance. Our total revenue of TRY 2 billion 402 million in 2020 is made up of 58% retail, 29% wholesale and 13% e-com. With the store trading hours being 40% lower this year the retail channel was most impacted with sales decreasing 26%. E-commerce channels on the other hand performed very strong throughout the period and has shown a 110% global sales growth in 2020.

Sales in Turkey were down 18% with 26% decline in retail and 18% decline in wholesale. The better performance of wholesale could be explained largely by the nature of the franchise stores in Turkey which are mainly in more secondary cities and street locations less impacted by the pandemic. Our e-commerce business in Turkey grew by 152% in the year 2020.

International sales, being more digital, performed relatively better and were down only 6% in TL-terms in 2020. Europe and Russia have outperformed our estimates especially in e-com channels which resulted in 56% sales growth in total international e-commerce.

On slide 6, let us focus on Turkey retail business. We opened 15 new stores, expanded 7 stores and closed 9 stores in 2020. As of January-end, we have 320 own-operated stores totaling 159 thousand square meters of selling space in Turkey with an average store size of 498 square meters.



We wanted to provide you with a deeper understanding into our Turkey retail business on Slide 7. Here you can see the monthly and quarterly sales performance of Turkey retail compared to 2019. As you can see from the top row of the table, we have lost a significant amount of our total trading hours this year. Even in the third quarter when all the stores were open, total trading hours was down 25% due to work-hour restrictions.

Notice that when the stores were open, the traffic in our stores was also significantly lower compared to last year. Thankfully, as a showcase of our strong brand equity and our customers dedication to Mavi, the corresponding revenue decline in each quarter was much more limited.

On slide 8, I will try to elaborate on the same stores' performance in 2020. As you know, we define a store to be in the like for like set if it has been open and operational without any disruptions in the last 12 months. Hence in 2020, given all the COVID-related disruptions, by definition, there is no meaningful like for like store set.

We still wanted to provide you with a meaningful metric for the retail store performance in Turkey. Excluding the new openings, the same stores sales has declined 27.3% in 2020. Considering only the trading days of 2020, this figure becomes minus 11%. In the open days, overall traffic was down 40% and was largely compensated by high conversion and unit per transaction. In 2020, the basket size grew 13.6%.

Looking into quarter 4 with only trading days under consideration, it is encouraging to see that same store sales have increased 17.3% with a positive transaction number growth of 2.1% and basket size growth of 14.9%.

Moving on to slide 9 to review category-based developments in Turkey retail. Our denim category sales declined 30% in 2020 resulting with 42% share in total Turkey retail sales. Our passion for creating the best jeans in terms of quality, fashion, and innovation remains at an all-time high.

Being the most preferred brand in casual wear further increased the consumers' interest in Mavi at a time when shopping behaviors changed toward more casual styles. We enriched our product range to respond to this demand expanding our t-shirt and sweatshirt offering within the year which resulted in stronger sales performance in knits category. Our knits business is now 25% of our retail sales in Turkey. We believe that this trend is here to stay and as Mavi we will continue to invest and win in this category.

Another winning category of 2020 is jackets, which continue to perform strong both in men and women. Jackets now constitute 11% of our retail sales. The relatively more formal "shirts category" performed the weakest this year as one would expect.

On slide 10, let's review our online sales performance. In addition to our direct to consumer sales made up of mavi.com and marketplace sales that are reported under e-commerce channel, our customers can also buy Mavi products through third-party digital platforms to which we wholesale.

Including the wholesale e-com, our total online sales grew 73% globally and reached TRY 412 million and constituted 17.2% of total revenue in 2020.



Online sales in Turkey grew disproportionately higher compared to the rest of the world with 132%. Marketplace operators are performing extremely well in Turkey, through which Mavi achieved a significant 270% growth this year. Mavi.com also performed very strong and almost doubled its sales with 94% growth in the year. Online constitutes close to 11% of sales in Turkey.

International online business is also on a growth trajectory especially driven by mavi.com and marketplaces which is good news in terms of margin contribution. In 2020, 44.2% of total international sales were through online channels.

We are very happy to see the positive results of our continuous investments in digital systems, logistic operations and on our CRM platforms. Mavi is achieving its fair share in this changing and growing online environment. The ongoing shift towards e-commerce is only good news for Mavi given that our online business is a positive margin contributor with a full-price strategy across all categories.

Let's move on to review our margin performance on the next two slides. On slide 11, gross margin was one of the most important metrics we tracked throughout this year. During the period, our teams have worked rigorously to plan for the right product, right price, right calendar and managed in-season inventory with a very flexible and dynamic manner to ensure optimum sell-through and to preserve our gross margins. Realizing at 48.3%, we were able to keep our gross margins stable, excluding the impact of imputed interest rates as a showcase to our brand equity.

On slide 12, with the help of our immediate and effective cost control actions we have managed to bring our total OPEX down 6% in 2020. Rent costs declining 27% and employee costs decreasing more than 10% in Turkey were the two main contributors in this result.

Total EBITDA for the year amounted to TRY 392 million with 16.3% EBITDA margin. Our net interest based financial expenses were significantly lower this period mainly due to three reasons: significantly lower interest rates, receiving interest income on the excessive borrowing in the first half of the year and the rent discounts being recorded as financial income within the context of IFRS 16.

Consequently, we have recorded a net profit of TRY 8 million in 2020.

I would like to move on to slide 13 to take you through our working capital progress. A well-executed collaboration across our category, product, sourcing and logistics teams resulted in effective sell-through rates which yielded healthy inventory levels that mainly consist of fresh new season lifestyle products and seasonless denim. Despite all challenges, the value increase in the inventory level is only 13% as of the end of the year and largely flat in the number of pieces. As a result, our working capital as a percentage of revenue declined to 6.9% at the end of the year from 8.0% at the end of October.

Cash conversion is favorable at 83% with TRY 176 million operational cash flow generation in the year, of which TRY 78 million was generated in the last quarter.

Let's now move on to the next slide, slide 14. Given the scheduled store openings and expansions coupled with our uninterrupted IT investments, we have spent TRY 101 million of capital expenditure, resulting with CAPEX to sales ratio of 4.2%.



Recall that, to be prudent in terms of liquidity management, we used an excessive amount of bank credit from mid-March to July; some of which are still held as cash. We used this opportunity to renew all our remaining high interest rate debt with lower rates and with exceptional developments to our advantage, we have been able to earn higher interest on the cash.

Our net debt level which had increased to TRY 209 million at the end of April declined back to TRY 37 million at the end of January 2021. This implies a leverage multiple of 0.17x of EBITDA. Our blended cost of debt as of end-January is 9.9%.

16% of our total consolidated debt belongs to our subsidiaries, all borrowing in their respective local currencies. As of end of January, only 7% of debt is in foreign currency and is totally covered with foreign currency assets and receivables from subsidiaries. We still target zero open FX positions on our balance sheet.

To elaborate on how we see 2021 on slide 15. As you all know, COVID-19-related restrictions continue across the countries we operate, and the timeline is still uncertain. Therefore, we refrain from providing a guidance for 2021 at this time.

I'd like to provide some insight into the first quarter so far with a Turkey retail performance update. There was a total lock-down on the weekends and weekday evenings in February. This resulted with 49% decline in traffic and 23% decline in same stores sales in February.

Gradual normalization started in March with weekend curfews either fully lifted or limited to Sundays. Early closing short weekdays continue. It is encouraging to report that in the first two weeks of March, same stores sales grew by 37%.

Before turning the call over to your questions, I want to say a few words on our management priorities for 2021. Although not fully normalized from the pandemic conditions, we believe 2021 will be a year for Mavi to get back to its sustainable and profitable growth business model. As always, we still have more store openings planned and we expect online investments to speed up. Newness in design and product supported by efficient inventory management will continue to be key, focusing on responsiveness and speed to shelf. Branding and customer communication investments will be as always targeted at improving our already leading position in the market. We aim to identify our long-term sustainability strategy and roadmap and hopefully start sustainability reporting this year.

With this final note, I am happy to take any questions you may have. Thank you very much.



## Questions & Answers

### **Duygu Inceoz, Investor Relations Director**

[Operator Instructions]. Berna, go ahead please.

### **Berna Kurbay, BGC Partners**

Good afternoon. I have two questions. I was wondering if you can comment on the online revenue growth you observed so far this year in February and March to date. And my second question is about store openings that you said you're planning for this year. How many stores are you planning and what are the criteria that you are looking at for opening new stores? Have that criteria changed at all, and what are the dynamics between physical growth versus online in Turkey and abroad? Thank you.

### **Cüneyt Yavuz, Chief Executive Officer**

Thank you, Berna. In terms of online sales, February and March to date, businesses are as usual. So, our business is tracking in similar sync to what I've shared with you for the total year 2020. Even now, in the first couple of weeks of March when stores have opened up and there has been a bit of easing in Turkey, the e-com sales growth has not slowed down. So, there is a good coupling impact of where the store sales as I mentioned for the first two weeks of March have grown by 37% versus last year. But at the same time, we are happy to report that e-com business is also growing or continue to double, and it remains to do so. The one more thing, while we are at e-com, that I just want to add is that through this year, we are going to be putting in a lot more investment behind our warehousing and service quality levels behind e-com, further to what we have both in Turkey and in Russia as well as in North America.

So, I do expect that this momentum will continue to grow. But even in the second half of the year through better inventory management and service levels, even if there is a full opening up, we do believe that the operational excellence will help us maintain the growth levels on the e-com channels, both in Turkey and globally.

In terms of store openings, we see the potential we have quote unquote a shopping list of more than 30 stores that we can open up across the country, through this year. So, the number one criterion is that our willingness to continue to open up new stores when the opportunity arises is still there, so the appetite is there. It's all a matter of timing when the feasibility and return of investments is in our favour. So, whenever we can get the support of CAPEX investments or OPEX investments or marketing support or a favourable rent break free period, then we will go for it.

So far, we've seen a lot of this on the stores that we have opened up, we've been able to attain that. Historically just to remind the whole audience that typically our store openings formally means less than two years of ROI. So, whenever the criteria meet that parameter, then our willingness to open a new store remain. So, we have a mindset of, we have the cash, we have the balance sheet and we can move forward to open up new stores as well as the contract itself is there. The slow or the time to time sporadic openings and closures demonstrate the willingness of the consumer to go out and shop. Therefore, as we keep saying, that retail appetite is there. Of course, the pandemic slows down or if a cure or the vaccination rolls out in a decent rate, that's the big uncertainty. But we still remain positive in terms of what the retail, physical retail would offer to our business and balance sheet in the years and months to come. Thank you.



**Berna**

Thank you very much.

**Duygu Inceoz, Investor Relations Director**

The second question is from Can Oguz. Please go ahead.

**Can Olger, Unlu Co**

Hi. You spoke about new store openings in 2021. Do you see any change in store formats going forward? We see that there is a trend in the retail industry globally that physical store space can decrease. So, do you have any projections about new store openings, maybe smaller physical spaces or new formats in stores? Thank you.

**Cüneyt Yavuz, Chief Executive Officer**

Thank you, Can. In terms of store format, I think for the past couple of years, Mavi has reached a plateau of what it is able to manage which is between 500 to 800 square meters of stores, depending on the location and traffic. And stores that are between 500 to 800 square meters is what we can accommodate also, from a product portfolio, what we want to showcase as product categories both for women, men and both on denim and lifestyle.

At this point in time in terms of square meters and format, not much is changing. What is changing is two things. One, we are putting more emphasis on what is relevant in terms of categories and what kind of products we sell in the stores, which I mentioned in the presentation will be more geared towards sporty lines, knits, t-shirts, etc., which are complementary and within the bounds of Mavi's capability and strength. So, we will continue to win in these categories.

The second thing is I know it was just a bullet point, but we had a major breakthrough with the Zorlu shop where the new store was a fully sustainable eco-friendly shop. So, both from sustainability energy, but also in terms of shelving and the material we use in the stores, from here on, gradually as we renovate and open up new stores, those stores that come in will be more in sync with sustainability measures and our commitment to be a more environmentally friendly sustainable company.

So, those are the two elements that are changing, rather than size, format, etc. It's more the category and the make of the store. Thank you.

**Duygu Inceoz, Investor Relations Director**

Can, do you have any follow-up?

**Can Olger, Unlu Co**

No, thank you very much.

**Duygu Inceoz, Investor Relations Director**

Thank you.

Anyone from the audience who wants to ask a question right now?



**Cüneyt Yavuz, Chief Executive Officer**

So, at this point if it's all okay with you, I'd like to wrap up this 2020 presentation that we have made. I think despite a lot of the headwinds and challenges we came through very strong and as a very strong performing brand and company.

Our willingness and commitment to be a future ready company with a spirit of to continue to grow and do it in a profitable and sustainable way is there. As a team within the Mavi house we are still extremely motivated to continue to win with young customers and to make sure that the new and up and coming generations, as well as the current customer base continues to wear and live in Mavi.

And I look forward to meeting you guys with the quarter one results. And I wish you all health and happiness through this year, taking this opportunity. Should you have any questions, we are always here 24/7 to reach out. Please do reach out. You can reach us at [investor.relations@mavi.com](mailto:investor.relations@mavi.com) or Duygu and myself via mail. We are here to help with any further questions you might have.

Thank you all and all the best. Bye-bye.

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