



Transcription for Q3 2021 Financial Results Webcast
December 08TH, 2021



Duygu Inceoz:

Welcome to Mavi webcast for the third quarter 2021 financial results. Our CEO, Cuneyt Yavuz, will be presenting the results followed by a Q&A session. Please note that this webcast is being recorded. We kindly ask you to keep your microphones and cameras muted throughout the presentation. Now, I will leave the floor to Cuneyt Yavuz.

Cuneyt Yavuz:

Hello everyone! Welcome to our webcast for the financial results of the third quarter of 2021, ending October 31, 2021. I am very happy to announce another strong quarter with solid results. Mavi company continues to demonstrate its strength in the face of major external challenges. As always, I would like to provide a short business overview on the key developments and the trading environment of the quarter.

As you all know, in Q3 2021, pandemic related restrictions were largely lifted across the countries we operate in. In Turkey, we are operating in normal trading hours since the beginning of June with very strong demand for Mavi products. In Q3, our Turkey business grew 73% yoy on top of a strong base. Recall that Q3 last year was the only quarter we delivered sales growth. The customer traffic in our retail stores is already above pre-pandemic levels on a comparable basis. Meanwhile, conversion rates, units per transaction and the average basket size are higher compared to the same period of 2019. This is an important indication that the brick-and mortar retail business is here to stay and will continue to be our key trading and growing channel. Our international markets have also been operating under normal trading hours in the quarter. International sales grew 29% in TL terms and 11% on constant currency basis on a strong base mainly driven by the performance of North America business. In addition to the comeback of the retail business, online sales growth remains strong globally driven both by mavi.com business and marketplace performance. Revenue share of all digital channels year to date is 11% in Turkey and 15% globally. With controlled expense management and increasing revenue stream, Opex to sales ratio improved 180bps in Q3 2021 and 625bps in 9M 2021 year over year. I will re-iterate that our main pillars for continued success are dynamic supply chain management, efficient product planning and inventory management. Our best-in-class marketing communication is an indispensable enabler for our fast recovery and successful results. In line with our All Blue strategy, we continue to invest in our brand with product innovations focused on sustainability, make a difference through collaborative collections, and offer new reasons for our customers to choose Mavi.

Moving on to slide 3 with our key highlights for the quarter:

In order to mark the performance against pre-covid levels, throughout the presentation we include performance comparisons against same period 2019.



- Our consolidated sales in the first nine months of 2021 realized at 3 billion 191 million liras growing 82% versus same period last year and 49% versus same period 2019.
- Turkey retail sales grew 89% and Turkey online grew 122% year on year.
- Our EBITDA, growing 150%, realized 750 million TRY, resulting in an EBITDA margin of 23.5% as of nine months 2021
- We delivered our highest ever quarterly earnings, beating quarter two, and as a result our net income for the first nine months amounted to 301 mn liras.
- Strong sales performance led to high operational cash generation resulted with a balance sheet net cash position of 369 mn liras, strengthening our management commitment to stay a net cash company
- The total number of mono-brand stores globally, including franchisees, reached 453.

Lets move to slide 4 to review our channel performance:

Total revenue grew 64% in the third quarter on a relatively stronger base compared to last year and 68% compared to same quarter 2019. As stated earlier, alongside the brick and mortar retail business rebounding, our e-commerce channels continued to perform very strong throughout the quarter. Growing 86% in Q3 and 102% in nine months, global e-commerce sales share in total revenue stands at 12%. In the third quarter in which the operations continued uninterruptedly on normal trading hours, traffic in our stores exceeded pre-pandemic levels and the strong demand for Mavi products continued. While we continue to benefit from the preference towards casual wear, we also make sure to provide the consumers with reasons to shop at Mavi and remain their brand of choice. As a result, our sales in Turkey grew 73% in Q3 compared to last year and 67% compared to same quarter 2019. Our e-commerce business in Turkey, which constitutes of mavi.com and marketplace sales, grew 112% in the third quarter and 122% in the nine months of 2021, on top of a strong base. Recall that international operations had a significant recovery period in quarter three last year. Therefore, with a more normalized growth rate of 29% in the third quarter, international sales in nine months performed 73% growth compared to 2020 and 55% growth compared to 2019 in TL terms. In constant currency terms, total international sales grew 44% in nine months. With the recovery of the brick-and-mortar businesses, total revenue consists of 61% retail, 27% wholesale and 12% e-commerce as of nine months 2021. 82% of consolidated revenue is from Turkey.

On slide 5, we start to focus on Turkey retail business:

We opened 8 new stores, closed 3 stores, and expanded 6 stores in Turkey in the nine months of 2021.

As of October - end, we have 325 own-operated stores totaling close to 163 thousand sqms of selling space in Turkey with an average store size of 500 sqms.



On slide 6, let's elaborate on the same stores' performance in Q3 2021.

We have a strong same store sales comparison for quarter three as all our stores in Turkey were fully open both this year and last year. With traffic increasing 69% versus 2020 and surpassing pre-covid 2019 level by 6% in Q3, same stores sales have grown 75.2%. The number of transactions increased 43.8% and basket size grew 21.8% versus same quarter last year. It is important to note that same store sales in Q3 is 58% higher than quarter three of 2019 with both conversion rate and unit per transaction still realizing above pre pandemic levels.

Moving on to slide 7 to review category-based developments in Turkey retail:

Our denim category, which now constitute 42% of total retail sales in Turkey, grew 79% in 9 months 2021. As consumers shopping behaviors is changing towards more casual styles, we continuously enrich our product range to respond to this demand. Expanding our t-shirt, sweatshirt and jersey offerings continue to result in robust sales performance in knits category. As of nine months, our knits business grew 101% year on year and constitute 27% of our retail sales in Turkey. Capitalizing on the same trend, another significant category is non-denim bottoms. Growing 175% in nine months and bringing incremental revenue non-denim bottoms now make up 6% of our total Turkey retail sales. Accessories, contributing significantly to our women's business, grew 84% in nine months 2021. Our fall-winter jackets collection received great response from our consumers and printed a 115% growth this year, reaching 7% of our total Turkey retail sales. Shirts are also on a relative come-back growing 62% year over year.

On slide 8, let's review our online sales performance:

On this slide 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. Including the wholesale e-com, our total online sales grew 77% globally and reached 467 mn TL, constituting 14.6% of total revenue in 9M 2021. The evident move from wholesale e-com to direct to consumer channels globally provides us with more control over our offerings and has a positive contribution on profitability.

Online sales in Turkey grew 122% driven by 80% growth of mavi.com and 168% growth of marketplace operations and now constitutes close to 11% of total sales in Turkey. International online business growth is primarily driven by our own platform, mavi.com which grew 74% in nine months 2021. 32.5% of total international sales are through online channels. We continuously invest in digital systems, logistic operations and on our CRM platforms. Mavi is achieving its fair share in this changing and growing online environment. We believe that the customers acquired during this pandemic period are here to stay and that this strong sales momentum will not reverse. The ongoing shift towards e-commerce is only good news for Mavi given that our online business is an increasingly 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 9:

Gross margin is still and seemingly will continue to be, on top of our primary focus areas. Our teams have been working rigorously to plan for the right product, right price, right calendar and managing in-season inventory with a very flexible and dynamic manner to ensure optimum sell-throughs. I am proud to report the results of this hard work. With the strong demand for our Fall-Winter collection launched in quarter three, we were able to preserve our gross margins despite all cost pressures we have been talking about within the last year. Realizing at 51.2% in the first nine months of the year, gross margin improved 110 basis points vs last year and 160 basis points vs same period of 2019 normalized with current interest rates and one-offs.

On slide 10;

Similar to last quarter but only stronger, our EBITDA margin improved significantly and surpassed pre-covid 2019 levels in the third quarter. Including IFRS16, total EBITDA for the nine months amounted to 750 mn TL, growing 150% and resulting in 23.5% EBITDA margin. Consequently, we are reporting another quarter with record earnings. Our net income of 162 mn TL in the third quarter amounted to 301 mn TL net income for the nine months of 2021. Significantly higher than pre-pandemic 2019 levels, net income margin is 12.0% in Q3 and 9.4% in nine months of 2021.

On slide 11, we look into our operational cash flow and working capital performance:

The strong operational performance led to 625 mn TL of operational cash flow generation as of nine months. Very effective inventory management coordinated across our teams is an integral part of this success. As of the end of October 2021, the inventory level in number of pieces is 21% lower than same period last year, comprising mainly of new season products. Consequently, our working capital as a percentage of revenue is 4.3%, far better than both same period last year and the end of 2020.

Let's now move on to the next slide: (slide 12)

We have spent 95.4 mn TL in capital expenditure in the nine months of 2021 resulting in a Capex to sales ratio of 3%. In addition to store openings and expansions, we have been spending predominantly on IT projects and digital investments. To give you an update : our ERP transformation to SAP is largely completed and has been live since the beginning of third quarter. Along with the strong operational cash generation within the year, we are now at a net cash position of 369 mn TL as of the end of October 2021, excluding the IFRS16 adjustments. 21% of our total consolidated debt belongs to our subsidiaries, all borrowing in their respective local currencies and hence does not pose a currency risk. We are glad to be holding no balance sheet foreign exchange position.



On Slide 13, we would like to provide our updated outlook for the financial year 2021:

Driven by the strength of our brand, the better-than-expected third quarter results gives us all the confidence to increase our full-year outlook despite the external challenges that our industry continues to face. With the assumption that all stores in all regions stay open for the rest the year, we now expect to close the year with 80 to 85% consolidated sales growth compared to financial year 2020. We will have opened a total of 7 net new stores and expanded a total of 9 stores within the financial year 2021. We increase our EBITDA margin target by 50 basis points to 20.5 to 21.0 percent including IFRS16.

Having provided the full year expectations, as always, I would like to provide some insight on the current trading environment as of date. We continue to experience similar strong demand environment in quarter four as of today. Turkey retail same store sales increased 71% and Turkey online sales increased 100% yoy in November. I am happy to take your questions now.

Duygu Inceoz:

Ladies and gentlemen, if you wish to ask a question, please click 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 a 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. Alper Ozdemir has our first question. Please go ahead Alper.

Alper Ozdemir:

Hello. Thank you for the presentation. You know, most of the retailers, including your competitors, introduced significant interim price hikes in the past couple of weeks. So, what's been your response so far? Thank you.

Cuneyt Yavuz:

There are, predominantly what we observe in the marketplace is especially those companies and brands that have international pricing are really fast to adapt, as you mentioned, due to their global pricing strategies. So if they believe a certain item is 19 euros globally, and there has been a certain evaluation, as you know, in Turkish liras, they have been really quick to adapt and maintain those price hikes. Mavi across the years, not just in this interim economic change, but historically, what we are focused on is maintaining a transitionary approach in terms of pricing and consumer purchasing power behavior. Therefore from Mavi's perspective, our pricing strategy is, lean towards remaining very competitive, making sure that we have the optimum inventory, the maximum sell-through with minimum markdowns, which actually, as you can see in quarter three and also the beginning of quarter four, we are able to deliver.



Cuneyt Yavuz:

So while we maintain operational costs in a very disciplined way, we are also making sure that our pricing strategy is not hurt, especially capitalizing on minimizing markdown ratios that we are handing out with our relative competitive price positioning due to external price increases that certain competitors are taking. So for us, not just now, but for the next six, eight months that are ahead of us, there will be a very diligent way of observing where our margins are, where the consumer is, and then take necessary pricing adjustments along the way. And as you can see from our inventory levels, we have really come down in terms of turning the company over the last two years to be a very agile and just in time brand capitalizing on production in Turkey.

We are at this point in time, very much aligned with our manufacturing base, speed to shelf is there, all the product we have is fresh, therefore, when we have such high turnover with such great cash conversion rates, we are able to take pricing on an ongoing basis, but not necessarily on a abrupt knee jerk reaction within a given day or month, by going really up at one goal.

Cuneyt Yavuz:

So our approach is going to be, we will remain competitive, see where the consumer purchasing power is, capitalize on Turkey's speed to shelf, use our financial power and our strong relationship with our manufacturing business partners to minimize the external pricing pressures to the consumer along the way. I know I'm going a little deeper, but these are typical questions that are popping up, therefore I'm trying to give a more expanded perspective. The other thing is, as we are all aware in terms of how our cycle works, predominantly our product, planning, purchasing, cost base et cetera, for all the way to April, May is more or less within our control/completed.

Therefore, as things externally move up and down, Mavi is less affected with what is happening with exchange rates, interest rates or the competitive pricing rates today. So we think, I've been saying this since the beginning of this year and I continue my position. I think Mavi will be very competitive in terms of pricing, but also true to its origin, the quality, the innovation, the product offering while maintaining certain margin challenges. We think we will be able to offset some of those challenges through better markdown management, better OPEX management and even higher product terms to generate an absolute increased gross profit in the coming months. So short question, a long answer, but thank you for bringing this up.

Alper Ozdemir:

Thank you.

Cuneyt Yavuz:

You're welcome.



Duygu Inceoz:

Our next question is from Cemal, you had your hand up, but was it answered?

Cuneyt Yavuz:

Hi Cemal. Yeah, you are still on mute. So, if you can just turn on your mic there.

Cemal Demirtas :

Hold on. Okay. Now I think it's fine now.

Cuneyt Yavuz:

Yeah.

Cemal Demirtas :

Thank you for the presentation. My questions is about the current environment, when we look at our channel chanks, we see that the pricing environment is highly is strict and nobody really can make a planning for the following year. I would like to understand your perspective about the following year, assuming that the currency levels will stay at the current levels or a little bit lower. How do you see the dynamics on your side? And in November we see 71% growth. Could you give more details about the traffic side and the pricing side in that front. And again for the following year do you think the cost increases will lead you to some price increases or how do you see the consumption side for the following year? Thank you very much in advance.

Cuneyt Yavuz:

Thank you. I'll start from the very last, latter part of your question. Traffic is really solid and up in November. So we are extremely pleased with how the consumer is responding. Our basket size, unit for transaction is up. So what I have reported for quarter three, in the month of November is maintaining that momentum. In terms of pricing and basket size, roughly around 20% basket size increase again is holding true for November. Basket size does not necessarily mean that's the price we have taken, but it is a reflection of what year on year pricing, price increases that overall Mavi might have gone through. So it's an indicator. Moving down the line for next year, I will reiterate what I just said a few minutes ago. We will be very diligent in terms of how the minimum wage changes, how the inflation rates continue, how the disposable income of the Turkish consumer evolves and take our time in terms deciding vis a vis competition. Because we do also follow a certain matrix vis a vis competitors in terms of where we want to be in terms of brand positioning, and also from a business model perspective. Once we build the pricing structure in the right way, so that we have the top line gross margin or initial markups versus the EBITA margin protected. There, so it will be fluid dynamic, but the good news, what I'm trying to give you guys as a flavor is that the inventory is fresh, the turnover is really fast and our supply chain machine is not broken. It's working really nice.



So our strategic partners and business manufacturing business partners, and Mavi's very much aligned. So we have been preparing, I would say through the year, in terms of cotton, fabric, finished goods or non finished good as well as capacity to make sure that we capture the increasing demand visa towards Mavi, to get and come across the consumer with nice and new products. So capitalizing on Turkish textile environment and the strength we have with our manufacturing partners, we believe we'll be really fast, agile and adaptive in terms of maintaining the good result you see here. Clearly there will be a cost increase. And if you're asking me in terms of direction, it's really not easy to say, but we will definitely be taking, continuing to take price increases, but we will do it in sync with the market dynamics. And even, I would say to a certain extent, we will be in a more competitive position with vis a vis especially the imported brands. So I remain quite confident in terms of what more we can sell. One other point to add on in terms of our industry and consumer behavior. I think the consumers are out there. And as a brand, we are a discretionary product. I've been heading up Mavi for 14 years almost. And through this year, we've had many ups and downs, but in terms of consumer traffic and purchasing willingness, I've seen very little wavering. So I'm really confident despite a lot of the negative economic sentiment, in terms of people's willingness and appetite to come in and buy a pair of jeans and the T-shirt will be strong. And even if there are certain segments that are hit to a certain extent, Mavi with its competition, competitive situation, and the nationwide coverage will be capturing a lot of market share to at least maintain some of the headwind that might be happening in the market.

So from a volume, price, consumer franchise growth, new product innovation, the Mavi factories, or the team here in our office is very busy. And in terms of volume and real growth and franchise growth and market share growth, we are internally planning for a very strong 2022 spring summer. So we are not wavered or discouraged by what is happening externally in terms of economic uncertainties that are out there, which we have to deal with, you're right. But I think if any company is prepared to deal with it, it'll be us in the industry or one of us, one of them definitely will be us. I don't want to say we will be the one, but we will be one of the few that will deliver good results, continue good results in the coming months also.

Cemal Demirtas:

Thank you very much. And by the way, I am your loyal customer of Mavi. I look at my outfits, denim and my shirt, they are both Mavi and I'm happy with the products. Just a quick note, you need to be happy with the product. So I look at myself and say, "For my shirt and my denim Mavi and happy with that." Thank you very much.



Cuneyt Yavuz:

Thank you. I mean, that's the biggest compliment I can get. What I say to everybody is if you have any problems, call me immediately, if you're happy, spread the good news. So, we are here to give the best service and just building on what you just said, our number one priority through this is never to go back on quality. So we will have great products and what you buy today as a happy shirt or a happy pair of jeans, hopefully next year, we will be even delivering better quality, better design, better innovation in terms of what we are doing. And as you know, we are also, through this all, investing a lot in terms of sustainability. Let me take a minute there, that more and more of what we produce and how we produce is going in the right way and becoming more green. So not only are we growing our business, but also we're growing it in a significantly more earth friendly way, which is another point that makes me really proud. Anyway, I can get excited and carried away. So if there aren't any other questions, let's get back to business.

Duygu Inceoz:

If anyone else wishes to ask a question, you can please raise your hand. Alper, please go ahead.

Alper Ozdemir:

I have a question out of the third quarter context, but when you're going through the presentation, just the share of women wear, I mean caught my attention. I think it's low compared to your competitors. I don't know the exact figures of your competitors, but it seems to be that it's, I mean, 33%, maybe just common sense, but it's low. I mean, is it an area of potential growth or I don't know, or are you concerned about this phenomenon? I just wanted your view about it. Thanks.

Cuneyt Yavuz:

For those of you who might not have listened to me talk about the women's category, so it's a good opportunity to reiterate our position. First and foremost, let me start by saying that our share of women's category in this quarter has grown. So we are actually really happy in terms of the direction it's going. Building on what you just said actually, women's category is one of the growth opportunities and areas we do strive to go after. This is also an area where there is the biggest competition. So there are a lot of brands who are competing for women's category and having a blue jean heritage is on itself makes it a little more masculine than other brands. So where we are in terms of who we are, denim centric casual wear, as you will recall, we are now Turkey's second largest mens wear company. We used to be three before the pandemic, and we are now in a position of number two and we are growing really nicely. So on the one end, there is still a lot of opportunity and ground we can capture in terms of man's growth, but we have a very strong position and we will strive and continue to grow that. And at the same time, if we are able to, and we want to be able to expand our categories and appeal for women and grow with women. That is a definite growth opportunity, a growth area for us. If you look at big urban areas and A, A Plus



shopping malls, actually as the store size increases, the percentage of women's share in stores goes in favor of women. So if you go to İstinye Park store for instance, or Palladium store or Marmara Forum store, our share of women goes automatically above 50%, but then there are those stores where, which is more rural and east of Turkey, where we become more male dominated and denim dominated. So it is a journey. It is not a concern, on the contrary, it's an upside opportunity. And I think over the last, I would say three seasons, we are in the right track of capturing a percentage point more within Mavi's brand to continue to grow on womens. And actually that is why historically, where we had one celebrity only, and one celebrity, one season communication. Now we have two celebrities, Kivanç and Serenay, and we use them both twice within the season. And Serenay has more of the new feminine and female collection mindset. So hopefully, not only Serenay, but she's of course, the ambassador, but also with our bunch of influencers, we are doing our best to go beyond where we stand in terms of women's wear.

But again, to be fair, there are other brands with bigger square meters, where there is bigger offer in terms of dresses and other items, which they are known for. So it is a journey that we will go through, but I'm really confident that across the years, inch by inch or point by point, our share will become more balanced in terms of mens and womens. Thank you.

Alper Ozdemir:

Thank you.

Duygu Inceoz:

Ladies and gentlemen, if you have any more questions, you can raise your hands or write on the chat screen. So it seems that we don't have any more questions. Thank you all for attending. We are always here. If you have any follow up questions, please contact me at Investor Relations and meanwhile take care.

Cuneyt Yavuz:

Thank you, Duygu. Thank you everybody. I wish you all happy, healthy new year and look forward to seeing you at the end of this year or beginning of next year with our great fiscal year results and hopefully a good start to our next year. All my best, all our best from Mavi. Take care.