



Transcription for MAVI September 13th 2017

Corporate Participants

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Mavi - CEO

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Conference Call Participants

Paul Steegers
Bank of America Merrill Lynch

Sedak Singh
Concorde International

Cem Oksan
Goldman Sachs

Paras Mavani
Neuberger Berman

Ilya Ogorodnikov
Bank of America

Burak Isyar
ICBC

Presentation

Cüneyt Yavuz

I am extremely pleased to be talking to each and every one of you today. We will be spending almost an hour together, going over the first half 2017 financial results. I am quite confident that you have the presentation in front of you and I will jump straight in with chart two, to take you through the financial results of this first half of 2017.

The first half of this year versus last year, we have grown 42% in top line. The good news is we have also outperformed on the bottom line, growing 71% on the EBITDA growth level, delivering 13.5% of EBITDA margin, and though all of this, our total net debt to last 12 months EBITDA ratio is now standing at 0.7. As of the end of the first half of the year, as Mavi, we have 405 mono-brand stores globally. In the first half of this year, we opened up 11 stores in Turkey, and three in Russia, and now as a company, we have 297 own operated stores. As Turkey retail is an important part of our business, let me say a few words on the Turkey retail operational highlights.



Turkey retail constitutes 63% of our total revenue, and in the first half of this year, we were able to continue our solid growth with 21.5% like-for-like growth in our retail operations. From a product category split perspective, almost 56% of our total sales is generated through our Lifestyle products, whereas 44% is coming out of Denim Bottoms, and in terms of our female/male split, we have a 37% female and 63% male split. Further good news is that through this first half of the year, we have continued our new customer acquisition in a very solid pace. In this first half of the year, we gained 636,000 new customers, and at this point in time, we have 6.1 million Kartuş loyalty card member holders, which is a great enabler for our sustained business growth for coming weeks and months that are ahead of us.

If you take a look at our second quarter performance on chart three, you will note that in quarter two 2017 versus quarter two 2016, we have grown our business 46%, and on our first half comparison, we have grown 42%. And from a global revenue breakdown perspective, today, as a company, of our total business, 66% of our revenue is being generated via retail, 32% from wholesale and 2% from e-com, and we stand at TL 829 million of total revenue.

Focusing on Turkey and international separately, if you look at Turkey, we were able to grow in the quarter-to-quarter from 2016-2017 33%, while from first half to first half, 2016-2017, we grew 29%, and our retail business grew at 31% in Turkey, 21% in wholesale and 38% on e-com Turkey. From an international perspective, where we delivered TL 152 million of revenue, we grew 149% versus last year's first half of 2016, with retail growing at 35%, wholesale growing at 37% and e-comm growing 101%.

Going a bit deeper in terms of Turkey and Turkey retail performance, this first half of the year we opened up 11 stores, which enabled us to add on another 7,900 square metres of selling space, and at the same time, through the same period, we were able to expand 13 of our stores, adding on another 3,500 square metres of selling space in the Turkey environment. As some of you will recall, as a company not only are we adding new stores, but we are also expanding our stores, therefore, our total square metre store average has been and will continue to be in an increasing trend. As of this first half, we stand at 471 square metres, vis-à-vis 432 square metres, which was the case a year ago.

In terms of Turkey retail revenue, if you look at the growth coefficients of the 31%, a significant portion is coming from our like-for-like growth, coupled with new stores and expansions that have helped us in the journey of taking up TL 399 million revenue up to TL 525 million of revenue.



At this point in time, we stand in a position where we are selling – we have a total selling space of 128,000 square metres across Turkey, and our like-for-like growth stands at 21.5%, and in the same period of first half to first half, our selling space has grown 17.5% versus last year same period.

As you will recall, as a retailing and a great growth company, we are very much focused on delivering consistent and sustainable like-for-like growth performance. Across the years, we have typically averaged around 16% like-for-like, and I am confident to see and to share with you that this performance has been exceeded in the first half of the year, and we maintain our position that the 16% like-for-like performance will continue in the coming months and quarters for our company. The two coefficients of this like-for-like growth is coming from transaction and basket size, and the transaction growth, at this point in time, stands at 13.7%. As I shared with you, we are very much in a very positive mood in terms of the new traffic (increased traffic) and new customer acquisition, which is enabling our continued healthy transaction growth. At the same time, we are also able to maintain a good inflationary offsetting of pricing position and units per transaction and basket size that is taking place on our store level, which stands, as of the first half of this year, at 6.9%.

Not only are we growing on a like-for-like on the top line, but let me just elaborate a bit more in terms of the category healthiness and how we are faring in that area. In terms of blue jeans, our Denim Bottoms, we have grown 25% first half to first half, which constitutes 44% of our business. And our Lifestyle products, be it in t-shirts which grew at 24% or shorts at 40%, jackets at 71%, and accessories at 40%, is also a testament of us being able to deliver to the customers great products at the right price, where they are coming and buying and cherishing, and therefore, also, increasing our positive outlook for many months to come for repeat customers, to come and continue to shop at Mavi.

One of the key elements of our growth is not only the revenue growth, but we have a management team very much focused on making sure that month-in/month-out, we are putting all our efforts to make sure that we are becoming a more profitable company as we move down the track. I have already shared that our top line growth, which stands at 42%, is already exceeded through our EBITDA growth, it stands at 71%. The good news is that our gross profit has grown also 42% in the first half to first half comparison and stands at 50.6%. And at the same time, our net income has even grown faster at 95%, reaching 4.3% of our total sales.

Through doing all of this, we have a very strong cash conversion standing. In the first half of this year, we have a cash conversion ratio of 126%. This is, again, another testament of Mavi



It is also another capability that we have been building, which is to make sure that we are operating the company with an open-to-buy mantra, which is a great enabler in terms of making sure that we have the right product in the right time on the shelf, which is a great enabler, also, for making sure that we have a very efficient inventory management.

Moving forward, through efficient CapEx management and healthy ratios, you will observe that our CapEx ratio stands at 4.4% of total sales. Some of you will recall that we maintain that as a company we target around 5% of total CapEx to sales ratio. The first half of the year is slightly lower than 5%, but in the second half, as we will continue to open up new stores, we believe this will be more in the realm of around 5%. And in terms of our debt breakdown, TL stands at 51% of our total debt, while euro stands at 30% and U.S. dollar stands at 19%, with a blended interest rate of around 8.1%. As I have already shared with you, with the great inventory management open to my management and right product mix and increased traffic, we are also seeing financial results becoming less and less levered and standing at a 0.7% ratio, which is extremely healthy, and we believe that, as a company, we will maintain this below 1 ratio for many months to come.

To wrap up, for the fiscal year 2017, we are very happy to be in a very positive trading environment. The Turkish consumer confidence has been high and the propensity to spend has been high, but as Mavi, I think we are beating the market in terms of getting in more and more of the customer, and giving out a good business performance result in the Turkish retail environment. We would close the year with opening up 26 net new stores. We are very confident that we will continue to deliver 16% plus like-for-like growth, month-in/month-out, and that our EBITDA margin improvement will continue in the quarters to come. We have very positive cash generation results that have come through, and we are also very confident that this positive cash generation result will continue in the coming quarters, and lastly but not least, as I mentioned, our debt/EBITDA will remain below 1 times in the coming quarters.

That, in the big picture, sums up what I have to share with you guys. I am more than happy to take questions. I believe the operator will guide us through, initially, through voice questions that may come through and for those who are online, we will also actively answer some of the on-voice questions. We will also take any questions that might popup through mail that may come to us. I will just hand it over to you to see if you have any questions that you need me to answer for you.



Question and Answer Session

Operator

[Operator instructions]

Our first question comes from Paul Steegers, Bank of America Merrill Lynch, please go ahead.

Paul Steegers

I actually put my question through the web as well, but you could just talk a bit to your gross margins in terms of, obviously, they didn't really expand in the first, but you have such excellent revenue growth. Was there a lot of discounting to drive that excellent revenue growth and what were your markdowns? Can you talk a bit to that please, thank you?

Cüneyt Yavuz

In terms of our overall trending, in terms of how we are managing our markdowns, actually, versus, I would say through the first half of the year, every month we have been on a downward trajectory in terms of how we are managing our markdowns. Meaning, we are very prudent in terms of how we are spending our money. Therefore, in the big picture, what I would say is markdowns is an area where this company is improving and will continue to improve. We have a very positive standing from that perspective.

Anything else from your side?

Paul Steegers

If you, therefore... if markdowns were down as well and you saw such great like-for-like growth in top line, why was there no expansion in the gross margin. Can you just talk to the levers in the gross margin that may have meant flat gross margins? Thank you.

Cüneyt Yavuz

The fundamental position due to not increase is the pricing ability or the capability that we have chosen not to take. As you know, Turkey came through a tough period of economics, therefore, we wanted to make sure that the consumer traffic and business [inaudible] was holding up there. Therefore, overall, if you look at us and we maintained the current margin status and ran through the business to increasing our top line per sector.



Operator

Our next question comes from Sedak Singh, Concorde International. Please go ahead.

Sedak Singh

I had a short question. So in the presentation you had shown 2016 adjusted for July sales, so I am trying to understand for 2017 your transaction growth and basket size growth. Would you have an idea how did you do in July and would you have an idea, like ex of July what was the performance like, because last year July was barren because of the coup attempt?

Cüneyt Yavuz

I don't have the exact numbers for July to July there, but you are right in assuming to say that the second quarter was a lower base vis-à-vis the other quarters, and therefore this quarter, when we came through with more than 20% like-for-like, this was not an unexpected position for us and, hence, I underlined the fact not to low ball, but just to underline the fact that we are a solid 16% like-for-like company, so there are many quarters to come ahead of us when planning for how this company will do, regardless of this base effect that you're mentioning, that we will be a 16%+ like-for-like company in terms of growing. I hope that helps.

Operator

Our next question comes from Cem Oksan, Goldman Sachs. Please go ahead.

Cem Oksan

My question is regarding the new store openings in the second half of this year. In the first half you opened 11 stores in Turkey and you have 26 new store openings targeted for this year. My first question is why did you open just one store in the second quarter and are you confident on your target? The second question is what are you planning on Russia with your store openings in the second half? Thank you.

Cüneyt Yavuz

We will close the year at 26 net stores, so that is our plan, that has been our budget and commitment, and we are confident that we will deliver against that. In terms of Russia, in the second half of the year we will open up two stores in Russia, so net-net on top of the level we have, we will open 15 net new stores in Turkey and two more stores in Russia.

Thank you.



Operator

We have a follow-up question from Sedak Singh, Concorde International. Please go ahead.

Sedak Singh

I'm just curious to know, would you have an idea as to how much of your sales is coming from your loyalty customers versus non-loyalty cardholders?

Cüneyt Yavuz

Yes, more than 80% of our customers who come in and shop at our retail shops use the loyalty card, so for the first half, it shouldn't be wrong if I said that around 85% of our total retail sales are coming through our loyalty cardholders.

Sedak Singh

Perfect, thank you, so it's safe to assume that a lot of the growth is driven by these customers.

Cüneyt Yavuz

Mavi has a very loyal and repeat coming customer base. Not only that, the good thing we do is that every year we average around acquiring almost around a million new customers and in the first half I'm very pleased to share that we've acquired 636,000 new customers that have never shopped with us, as well as of course we know through the loyalty cardholders. Now, they are being carded and they are part of our card programme, and we have 6.1 million gross cardholders, of that 4.4 million of them are actually users, and this is one of the secret or strong ingredients of Mavi performing on a retail level.

Operator

Our next question comes from Paras Mavani, Neuberger Berman. Please go ahead.

Paras Mavani

I just wanted to understand on slide 15 of your presentation, you're mentioning the other investing cash flows minus 39.5 for the first half of '17, and in the footnote it seems that from what I read that this should be an inflow rather than an outflow, so I'm just wondering if you can throw some light on that.



Cüneyt Yavuz

Give me a second, let's analyse this. 39.5 million cash outflow that you see of the investing is the acquisition of the U.S. and Canadian businesses that we executed, and that's the payment for that.

Sedak Singh

Okay.

Cüneyt Yavuz

Okay, is that clear?

Sedak Singh

Oh, I'm sorry, please continue.

Cüneyt Yavuz

So that's part of the acquisition that we did of our U.S. and Canadian businesses, and bringing it under one roof as Mavi [inaudible], so that was the 39.5 million, is the other investing cash flow that we see on that line.

Sedak Singh

Okay and could you also let me know what were the proceeds from the asset sales and interest received?

Cüneyt Yavuz

I will just analyse and get back to you. let's not keep the group holding and let's keep the questions and I will come back to you with the exact details of what the proceeds are in a while.

Operator

Our next question comes from Ilya Ogorodnikov, Bank of America. Please go ahead.



Ilya Ogorodnikov

I have two questions, please. The first one is could you share with us some colour in terms of regional performance; I mean, in the U.S., Canada, Russia, and Europe, and secondly, could you give us maybe some indication in terms of seasonality between Q3 and Q4 that would help us build our expectations for the next quarterly divisions? Thank you very much.

Cüneyt Yavuz

In terms of seasonality, one could say that in terms of the two seasons, it's almost a 50/50 split with winter being slightly above. We expect that because... as you know, in Turkey we have the [Ramadan, the Eid] period. This has also moved more towards the first half of the year, so that is also boosting some of the consumer demand and bringing it up front. We do expect that this year will be a split of sales, a 48 to 52 split in favour of fall/winter. In terms of the other reasons it's performing, they're in line with our budget, while Europe, U.S., Canada, Russia when I look at the numbers, they're all growing at single-digit hard currency numbers or local currency numbers.

Operator

We have a follow-up question from Cem Oksan, Goldman Sachs. Please go ahead.

Cem Oksan

My question is regarding the EBITDA margin actually. Do you expect any volatility in working capital over the remainder of the year and net debt to EBITDA to go down even further from these levels? The second question is where do you see the EBITDA margin by the end of this year? I mean, obviously your guidance is EBITDA margin year-on-year, but like how sustainable do you see the EBITDA margin going forward for the next year? If you can provide any colour on this, that would be helpful, thank you.

Cüneyt Yavuz

In terms of the net debt to EBITDA margin, we foresee that it will remain under 1, so it's at 0.7, so it's going to be in this vicinity for the coming six months. When it comes to in terms where our EBITDA margin will be, you will recall that we started at around 13% and we are now standing at 13.5%, and again it will be in this ballpark figure for the rest of the year when we close the year.



Operator

Our next question comes from Burak Isyar, ICBC. Please go ahead.

Burak Isyar

I missed the beginning of the presentation, so if this question was asked before, I am sorry. Could you please explain to me why the like-for-like growth expectation is lower than the first half? Thanks.

Cüneyt Yavuz

The company, what we are giving as a guidance is that we are a 16% like-for-like growth company. The first half of the year we delivered more than that. As you will recall, Turkey had a low base in quarter two last year. We are very much happy with the strong consumer demand and the great growth numbers that we have brought in in the first half of the year. For the remainder of the year, we don't see it as a fall-back, but we are very confident that we will achieve this good momentum of healthy growth, standing at 16% or above like-for-like growth for the rest of the year, so that's our position. I hope that helps.

Operator

We have no other audio questions. We can now switch to the written Q&A.

Cüneyt Yavuz

Mike has asked about our dividend policy. Our position on our dividend policy is that we will distribute 30% of our net income, so that's our position in terms of our dividend policy.

There's another question. It's a question that is more centred around the like-for-like performance in terms of number of stores. Let me put it this way, of our total sales growth, about 80% of our growth is sales revenue, is coming from our like-for-like sales, and therefore you can take it from there in terms of the numbers I've given you in terms of how much of our like-for-like growth is coming in terms of revenues.

In terms of what will be the [trended] net financial expense level in the second half. We believe that it will be in the second half slightly lower than it is right now.



Okay, those were the two written questions that I had. If there is anything else, there was a question that I came through that I parked, which was with regards to the 11.8 million other proceeds and our CFO can comment on that. I will hand it over to Tuba.

Tuba Yilmaz

It is financial costs other than interest expenses.

Cüneyt Yavuz

Is there anything else that I can help any of you with?

Operator

We have no other questions, dear speaker. Back to you for the conclusion.

Cüneyt Yavuz

In that case, we're very happy that we had this opportunity to go through our great results. For any further questions, you can always reach us through our investor relations department, and I look forward to coming across to you and meeting you in the quarter three with our good results and numbers, and hopefully closing the year at a good momentum that we had during this year, and I send my great thanks to each and every one of you. Thank you and bye-bye.