

Investor  
Presentation

# Teknosa İç ve Dış Ticaret A.Ş.

## *3Q16 Results*

«Turkey's Leading Electronics Retailer»

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## Agenda

Results at a Glance

Financial Overview

Year-end Guidance

## Main messages

### **A new Teknosa in the making...**

- Based on our new profitability focused strategy, drastic steps have been taken in 3Q16
- 54 stores closed in order to cleanse the network of loss making stores
- Inventories have been deflated by TL 145mn QoQ, as stocks moved from closed stores and old aged inventory cleaned up

### **Initial impacts of the restructuring meets our expectations...**

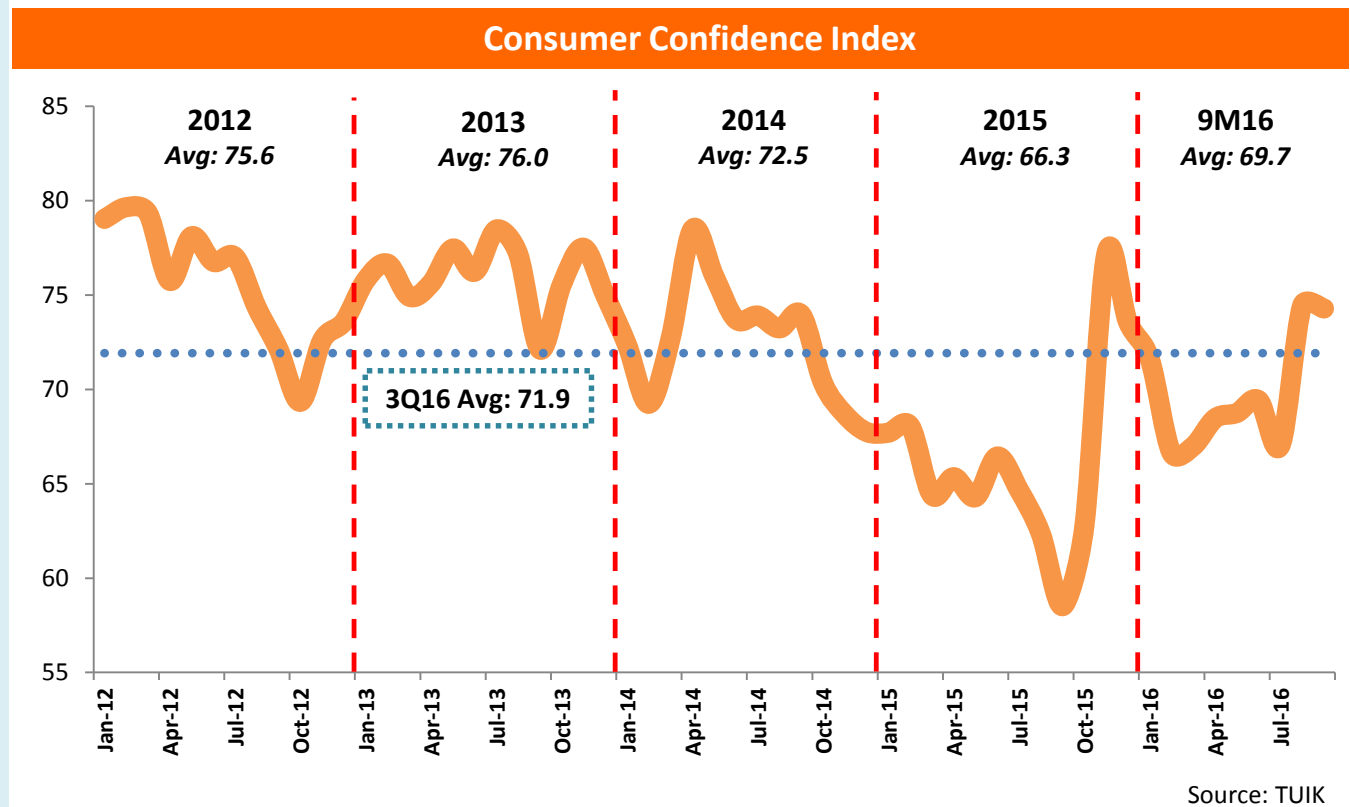
- Monthly September results suggest 18.6% gross margin and 2.0% EBITDA margin, leading to a break-even point at the bottom-line
- Keeping in mind that the effects of the restructuring will be more pronounced starting from October, initial results support our target to see an upward trend in both the EBITDA and the Net Margin in 4Q16

### **One-offs related to restructuring made a negative impact on 3Q16 P&L...**

- Discounts offered in order to move inventories squeezed the gross margin by 5pps in 3Q16
- The combined before tax one-off effect of inventory clean-up and restructuring efforts in stores and HQ amounts to TL 121mn in 3Q16

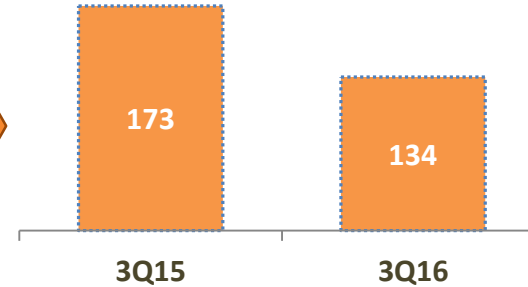
CCI recorded a modest QoQ improvement in 3Q16...

- The consumer confidence index recorded a QoQ improvement to an average of 71.9 in 3Q16 from 68.9 in the previous quarter. Despite a slight MoM decline in July, the index recovered rapidly in August and September.



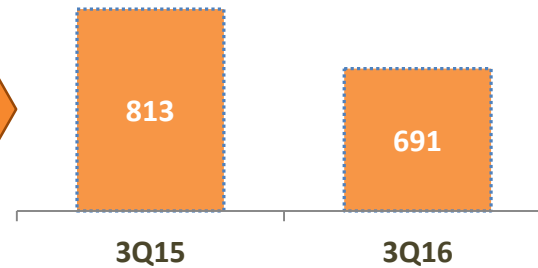
## 3Q16 Results

Net Sales Area  
(‘000 m<sup>2</sup>)



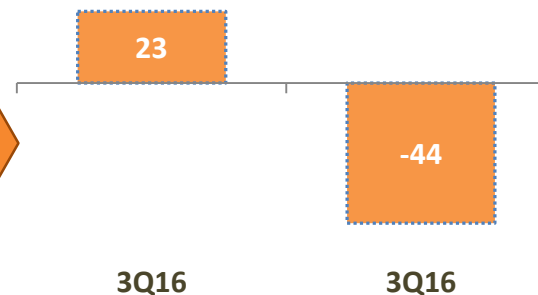
- Cleansing of loss making stores from the network resulted in 31K sqm QoQ reduction in the net sales area

Net Sales  
(TL mn)



- Efforts to deflate the inventories of closed stores led to discount sales, which put additional pressure on revenue growth

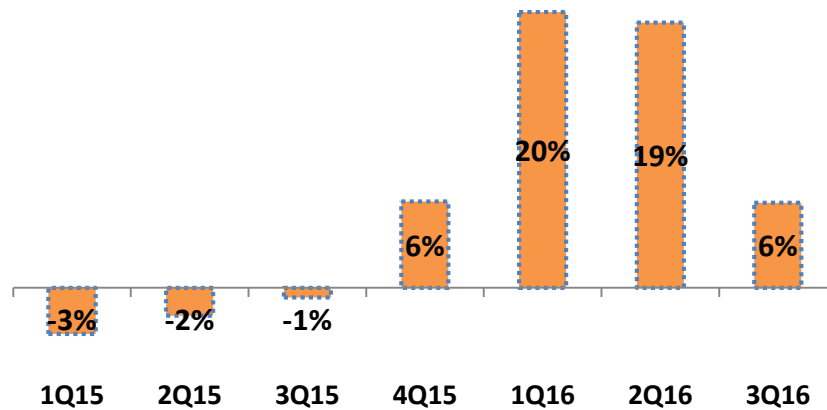
EBITDA  
(TL mn)



- Negative EBITDA mainly stems from the drop in gross margin due to the destocking efforts in closed stores

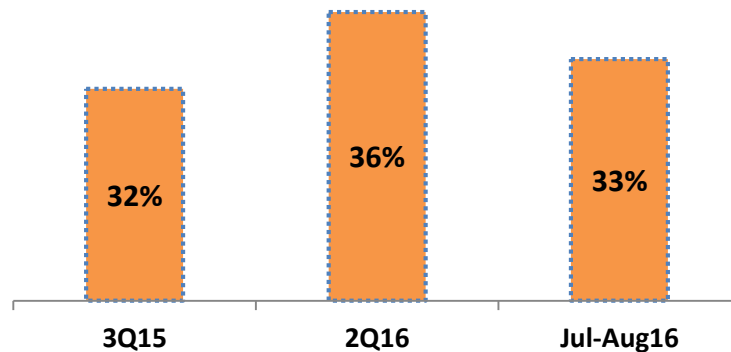
## Like-for-Like Sales Growth Trend

Quarterly Like-for-Like Trend



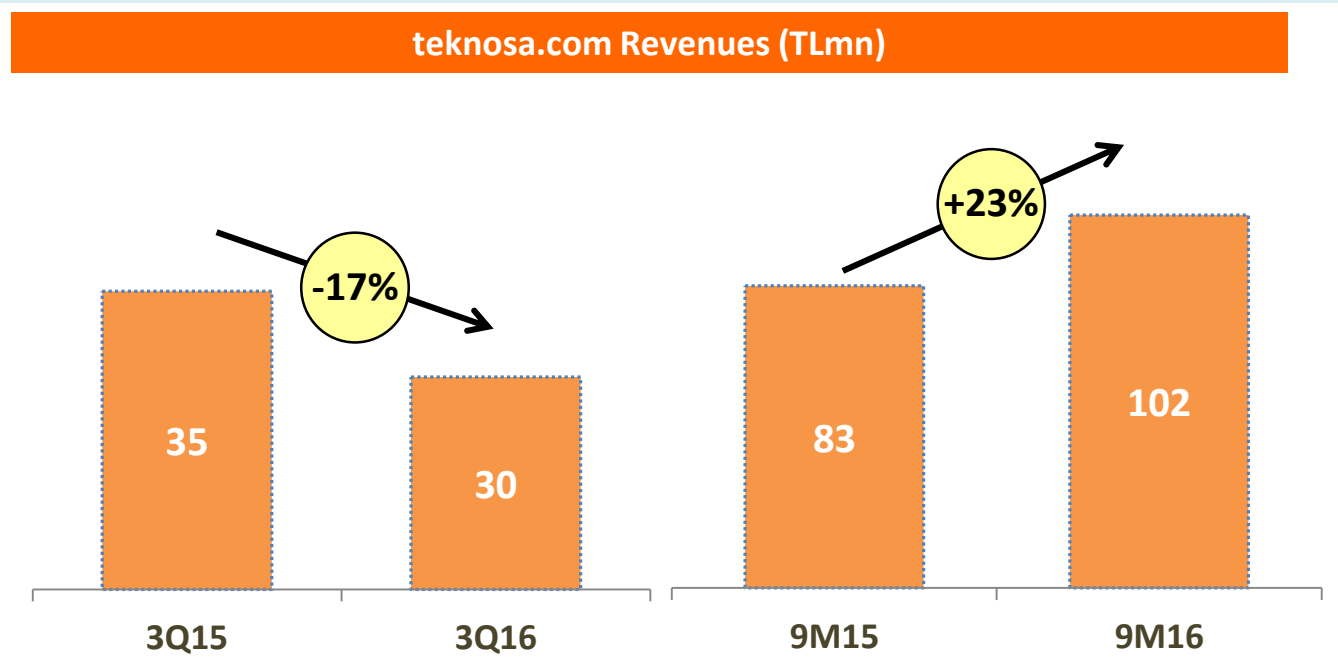
Despite the restructuring efforts in 3Q16, LfL remained in the positive territory

TSS Market Share (exc. Kliksa)



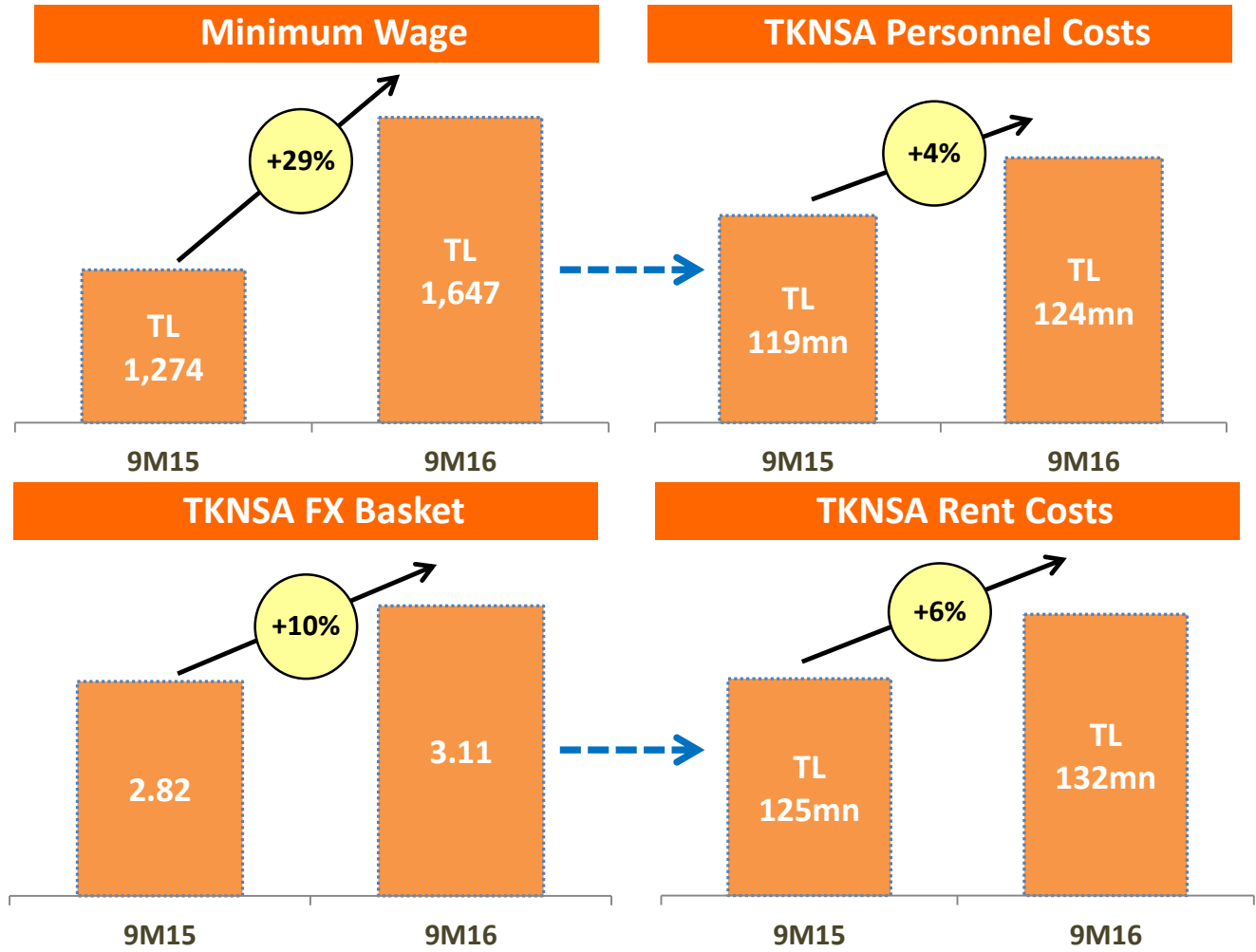
Restructuring efforts also took a toll from market share in August. Yet, Jul-Aug share was still higher than 3Q15 level

Strong growth  
in e-commerce  
revenues...



- Decline in 3Q16 is attributable to discount sales to deflate inventory
- Growth in e-commerce is expected to maintain the high pace going forward
- Further investments in order to improve omni-channel model for teknosa.com
- «Click & Collect» is fully integrated into teknosa.com (reached over 25% of sales)
- 700k customers are directed to stores via online site or mobile (per month)
- Mobile applications are used by 1.5mn users, constituting ~15% of internet sales

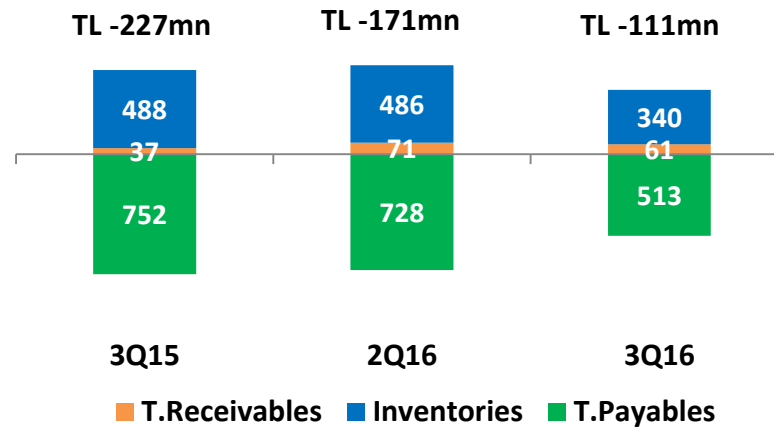
Main OPEX  
Items are  
Under Strict  
Control





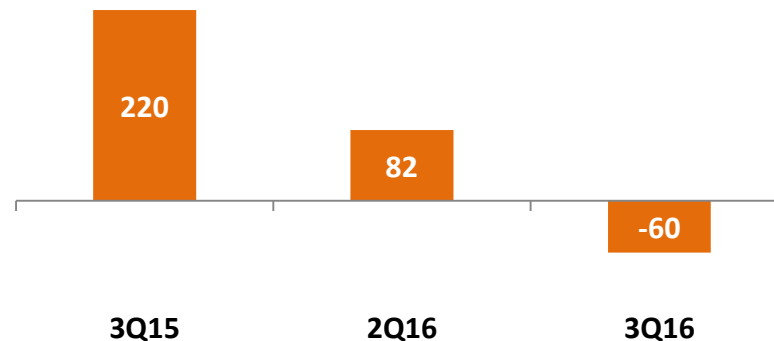
## Working Capital and Cash Position

### Working Capital Requirement (TL mn)



WCR increased by TL 60mn QoQ, as no new inventories purchased in order to move old ones, deflating both inventories and payables

### Net Cash (TL mn)



Short term financial loans used in 3Q16 to compensate the temporary drop in the WCR. We expect to revert back to a cash position in 4Q16

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## Income Statement Summary

(TL mn )	3Q15	2Q16	3Q16	YoY (%)	QoQ (%)	9M15	9M16	YoY (%)
<b>Net Sales</b>	<b>813</b>	<b>803</b>	<b>691</b>	<b>-15%</b>	<b>-14%</b>	<b>2,202</b>	<b>2,269</b>	<b>3%</b>
<b>Gross Profit</b>	<b>151</b>	<b>126</b>	<b>67</b>	<b>-55%</b>	<b>-47%</b>	<b>405</b>	<b>332</b>	<b>-18%</b>
<b>Gross Profit Margin</b>	<b>18.6%</b>	<b>15.7%</b>	<b>9.7%</b>	<b>-8.9pp</b>	<b>-6.0pp</b>	<b>18.4%</b>	<b>14.6%</b>	<b>-3.8pp</b>
<b>EBITDAR</b>	<b>67</b>	<b>48</b>	<b>-4</b>	<b>-106%</b>	<b>-108%</b>	<b>169</b>	<b>103</b>	<b>-39%</b>
<b>EBITDAR Margin</b>	<b>8.2%</b>	<b>6.0%</b>	<b>-0.6%</b>	<b>-8.8pp</b>	<b>-6.5pp</b>	<b>7.7%</b>	<b>4.5%</b>	<b>-3.1pp</b>
<b>EBITDA</b>	<b>23</b>	<b>2</b>	<b>-44</b>	<b>-295%</b>	<b>-2796%</b>	<b>44</b>	<b>-29</b>	<b>-166%</b>
<b>EBITDA Margin</b>	<b>2.8%</b>	<b>0.2%</b>	<b>-6.4%</b>	<b>-9.2pp</b>	<b>-6.6pp</b>	<b>2.0%</b>	<b>-1.3%</b>	<b>-3.3pp</b>
Other Expenses	-6	-20	-92	-1547%	-355%	-20	-129	-527%
Financial Expenses	-6	-8	-8	-28%	-2%	-17	-22	-34%
<b>Profit Before Tax</b>	<b>1</b>	<b>-38</b>	<b>-153</b>	<b>n.m.</b>	<b>-304%</b>	<b>-27</b>	<b>-211</b>	<b>-687%</b>
Tax	0	8	30	n.m.	303%	5	41	691%
<b>Net Profit</b>	<b>1</b>	<b>-30</b>	<b>-123</b>	<b>n.m.</b>	<b>-304%</b>	<b>-22</b>	<b>-171</b>	<b>-686%</b>
<b>Net Profit Margin</b>	<b>0.1%</b>	<b>-3.8%</b>	<b>-17.8%</b>	<b>-17.8pp</b>	<b>-14.0pp</b>	<b>-1.0%</b>	<b>-7.5%</b>	<b>-6.5pp</b>

Source: Independent Auditor's report

## Income Statement Summary (Adjusted)

(TL mn )	3Q15	2Q16	3Q16	YoY (%)	QoQ (%)	9M15	9M16	YoY (%)
<b>Net Sales</b>	<b>813</b>	<b>803</b>	<b>691</b>	<b>-15%</b>	<b>-14%</b>	<b>2,202</b>	<b>2,269</b>	<b>3%</b>
Gross Profit	151	126	67	-55%	-47%	405	332	-18%
<b>Adj. Gross Profit</b>	<b>151</b>	<b>132</b>	<b>102</b>	<b>-33%</b>	<b>-23%</b>	<b>405</b>	<b>372</b>	<b>-8%</b>
<b>Adj. Gross Profit Margin</b>	<b>18.6%</b>	<b>16.4%</b>	<b>14.7%</b>	<b>-3.9pp</b>	<b>-1.7pp</b>	<b>18.4%</b>	<b>16.4%</b>	<b>-2.0pp</b>
EBITDA	23	2	-44	-295%	-2796%	44	-29	-166%
<b>Adj. EBITDA</b>	<b>23</b>	<b>8</b>	<b>-10</b>	<b>-143%</b>	<b>-220%</b>	<b>44</b>	<b>12</b>	<b>-73%</b>
<b>Adj. EBITDA Margin</b>	<b>2.8%</b>	<b>1.0%</b>	<b>-1.4%</b>	<b>-4.2pp</b>	<b>-2.5pp</b>	<b>2.0%</b>	<b>0.5%</b>	<b>-1.5pp</b>
Other Expenses	-6	-20	-92	-1547%	-355%	-20	-129	-527%
<b>Adj. Other Expenses</b>	<b>-6</b>	<b>-16</b>	<b>-5</b>	<b>15%</b>	<b>70%</b>	<b>-20</b>	<b>-32</b>	<b>-56%</b>
Financial Expenses	-6	-8	-8	-28%	-2%	-17	-22	-34%
Profit Before Tax	1	-38	-153	n.m.	-304%	-27	-211	-687%
<b>Adj. Profit Before Tax</b>	<b>1</b>	<b>-27</b>	<b>-32</b>	<b>n.m.</b>	<b>-19%</b>	<b>-27</b>	<b>-74</b>	<b>-175%</b>
Tax	0	8	30	n.m.	303%	5	41	691%
Net Profit	1	-30	-123	n.m.	-304%	-22	-171	-686%
<b>Adj. Net Profit</b>	<b>1</b>	<b>-21</b>	<b>-26</b>	<b>-4480%</b>	<b>-20%</b>	<b>-22</b>	<b>-60</b>	<b>-177%</b>
<b>Adj. Net Profit Margin</b>	<b>0.1%</b>	<b>-2.7%</b>	<b>-3.7%</b>	<b>-3.8pp</b>	<b>-1.0pp</b>	<b>-1.0%</b>	<b>-2.7%</b>	<b>-1.7pp</b>

(\*) 3Q16 Adjustments: : COGS: Inventory Clean-up Costs, Other Expenses: Restructuring Costs regarding store closures & personnel dismissals / 2Q16 Adjustments: COGS: Inventory Clean-up Costs, OPEX: Severance Payments, Other Expenses: Store Closure Costs, Fixed Asset Fair Value Loss / 1Q16: Other Expenses: Reversal of a Provision

(\*\*) Kliksa recorded TL 5.6mn net loss in 1H16 (2Q16: TL 1.1mn), adjusted net loss of Teknosa amounts to TL 55mn for 9M16 and TL 20mn for 2Q16 when also adjusted with this figure

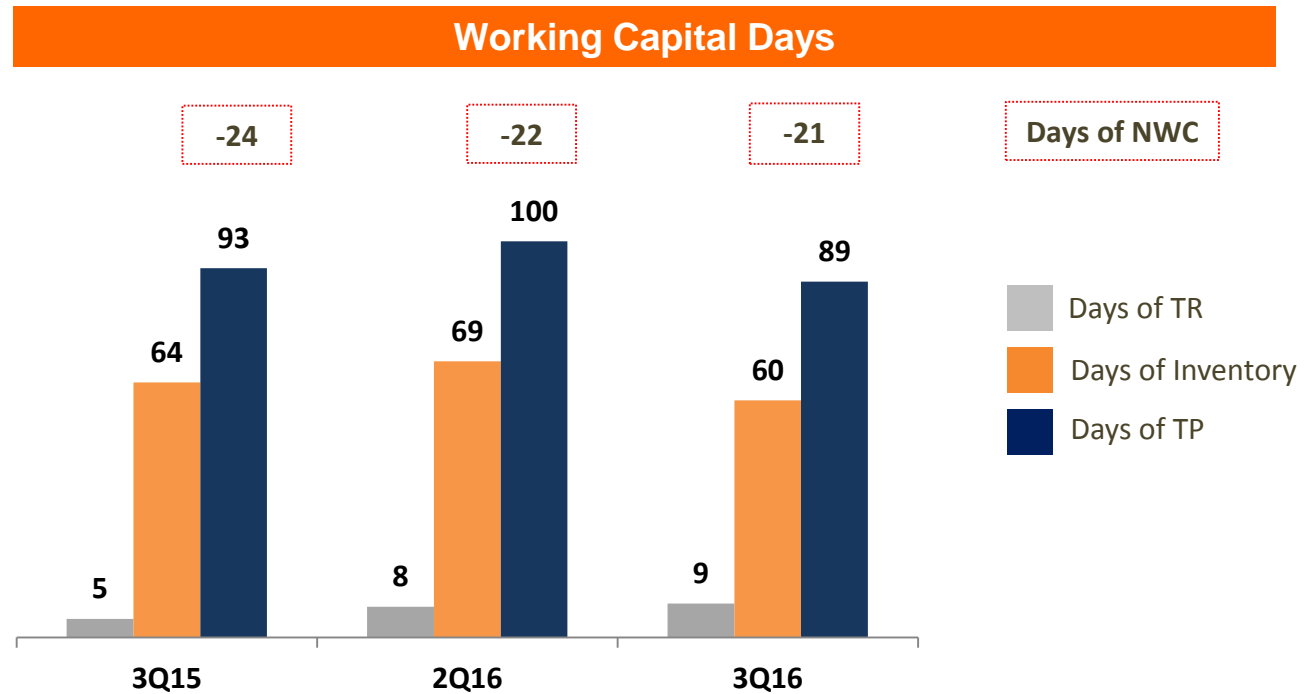
## Balance Sheet Summary

Assets (in TL mn)	Sep-15	Jun-16	Sep-16
<b>Current Assets</b>	<b>766</b>	<b>671</b>	<b>435</b>
Cash and Cash Equivalents	220	82	9
Due From Related Parties	3	3	2
Trade Receivables	35	68	59
Inventories	488	486	340
Other Current Assets	20	33	25
<b>Non-current Assets</b>	<b>202</b>	<b>185</b>	<b>201</b>
Investment Property	11	10	10
Property, Plant and Equipment	121	116	103
Intangible Assets	29	23	22
Deferred Income Tax Assets	21	35	65
Other Non-current Assets	20	1	1
<b>Total Assets</b>	<b>968</b>	<b>857</b>	<b>637</b>

Liabilities (in TL mn)	Sep-15	Jun-16	Sep-16
<b>Current Liabilities</b>	<b>814</b>	<b>805</b>	<b>705</b>
Financial Liabilities	0	0	69
Due to Related Parties	1	2	2
Trade Payables	751	725	511
Other Current Liabilities	62	77	124
<b>Non-current Liabilities</b>	<b>3</b>	<b>5</b>	<b>5</b>
<b>Total Equity</b>	<b>151</b>	<b>47</b>	<b>-73</b>
<b>Total Liabilities</b>	<b>968</b>	<b>857</b>	<b>637</b>

Source: Independent Auditor's report

## Working Capital



- Negative working capital allows Teknosa to generate positive cash flow in tandem with growth
- Cash cycle remained above our (-) 15 days target in 3Q16, granting us room for maneuverability going forward

## Key Performance Indicators

	3Q15	2Q16	3Q16	YoY (%)	QoQ (%)	9M15	9M16	YoY (%)
Net Sales Area ('000 sqm )	173	165	134	-22%	-19%	173	134	-22%
Number of Stores	287	260	209	-27%	-20%	287	209	-27%
Number of Visitors (mn)	22	17	16	-25%	-4%	67	54	-19%
Number of Customers (mn)	1.7	1.6	1.5	-10%	-5%	5.0	4.9	-4%
Conversion Rate	7.8%	9.5%	9.4%	1.6pp	-0.1pp	7.6%	9.0%	1.5pp
Average Basket Size (TL)	380	429	404	6%	-6%	361	415	15%
teknoSA.com visits (mn)	34	34	36	4%	6%	91	108	18%
Total Visitors (mn)	57	51	52	-7%	3%	158	162	2%

- Teknosa has the highest penetration among Technical Super Stores with **209 stores throughout Turkey and 134K m2 net sales area** as of 3Q16
- Conversion rate exhibited 1.6pps YoY growth, while maintaining a flat QoQ figure despite store closures
- Due to price promotions to deflate the inventories of closed stores, average basket size declined 6% on a quarterly basis

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## New Chairman, New Strategy

- Following the appointment of our new chairman Mr. Zafer Kurtul as of June 1<sup>st</sup>, our strategy has become more focused on profitability rather than profitability + market share
  
- **This new approach entails trade-off in all areas:**
  - Closing low performing stores
  - Smaller stores for lower lease costs and OPEX
  - Reducing aged inventory
  - More effective outlet activities (stores and web)
  - Focus on Omnichannel (including marketplace) vs. new stores
  - Reducing product portfolio & assortment
  - Ending low RoI activities such as insert & loyalty program
  - Leaner and simpler processes, leading to smaller HQ

## Macroeconomic Indicators

	2014	2015	2016E
GDP growth	3.0%	4.0%	3.5%
Private Consumption	1.3%	4.5%	4.6%
CPI Inflation	8.2%	8.8%	7.9%
USD/TL rate (avg.)	2.19	2.73	2.95
EUR/TL rate (avg.)	2.90	3.02	3.29

## 2016 Full Year Financial Guidance

	2015	2016E OLD	2016E NEW
YE Net Sales Area (km <sup>2</sup> )	172	170	125
Net Sales (TL mn)	3,167	3,300	3,100
LFL Growth (%)	0%	10%	15%
teknoSA.com (%)	47%	45.0%	15%
EBITDA <sup>(*)</sup> (%)	2.1%	~3.5%	0%
CAPEX (TL mn)	48	35 - 40	35 - 40

(\*) EBITDA excludes Other Income/Expenses / 2015 EBITDA (%) is adjusted with one-offs

Thank You

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