

Investor  
Presentation

# Teknosa İç ve Dış Ticaret A.Ş.

## *4Q15 Results*

«Turkey's Leading Electronics Retailer»

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February 15, 2016

## Agenda

### Results at a Glance

### Financial Overview

### 2015 in a Nut Shell & Road to Kliksa Decision

### Year-end Guidance

## Main messages

**LfL is back in black, leading to double digit revenue growth...**

- **6% LfL in 4Q15** leading to **13% top-line growth** thanks to:
  - **+3pps market share gain** in 2H15 vs. 1H15
  - CCI improvement following the elections
  - 44% YoY growth in e-commerce revenues

**By far, the strongest balance sheet among peers...**

- **TL 305mn net cash** as of 4Q15
- **(-) 32 days of cash cycle** in 4Q15

**Down to 4 players in a «winner takes it all» market...**

- Harsh market conditions takes a toll on one of the competitors
- **Further consolidation** is inevitable

**One-offs make a negative impact on bottom-line...**

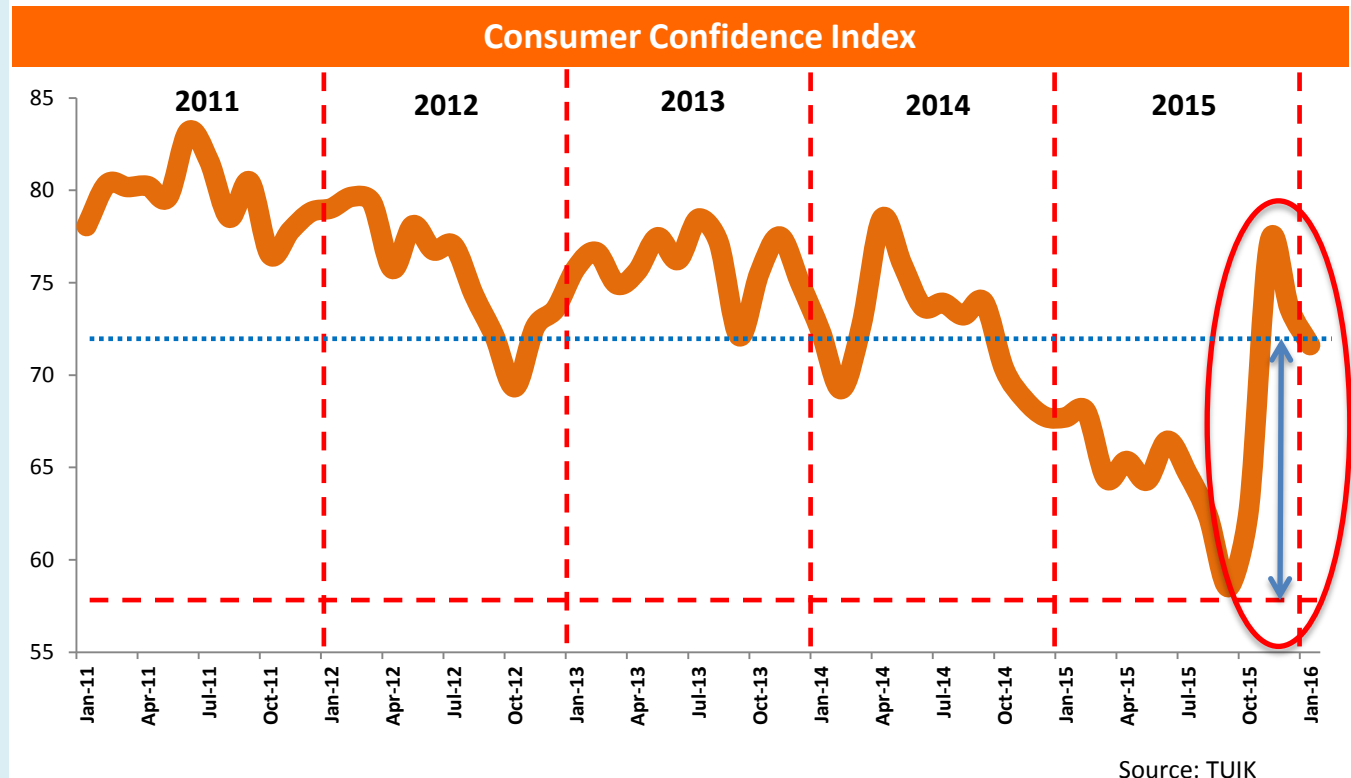
- **TL 67mn one-offs** due to the re-organization efforts and inventory provisioning in 4Q15
- Stronger balance sheet to yield further competitive power in 2016

**Intensified competition takes a toll on margins for the sector...**

- Competitors more aggressive to claim a higher slice in high season
- Market share expansion with relatively lower sacrifice from margins

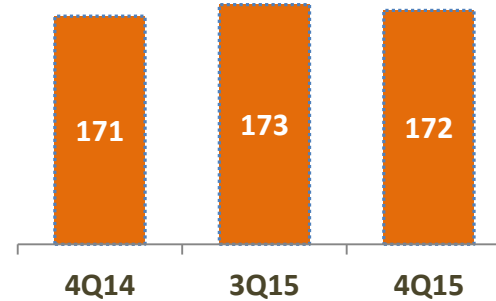
Post-election recovery in CCI halted by rising tensions with Russia...

- The completion of the elections with a single party government in November boosted the CCI to 77.2 from 62.9 in October. Yet rising tensions with Russia in the last month of the year triggered a 5% decline to 73.6, close to the 2012-2014 average of 74.8



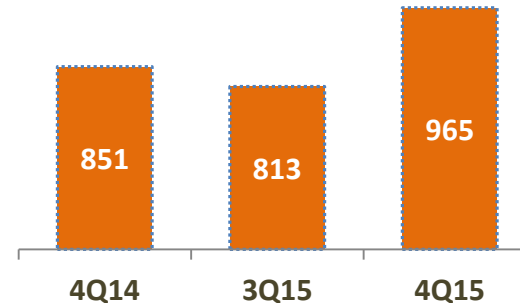
# 4Q15 Results

## Net Sales Area ('000 m<sup>2</sup>)



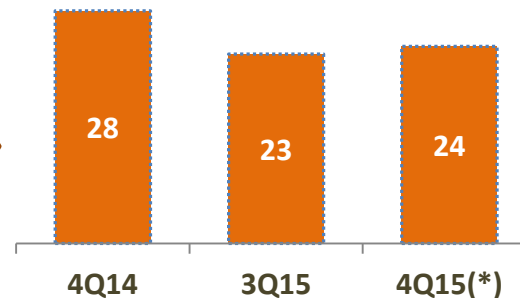
- Small change in net sales area
- 9 stores opened while 18 stores closed in 4Q15

## Net Sales (TL mn)



- 13% YoY revenue growth thanks to structural changes implemented leading to market share gains

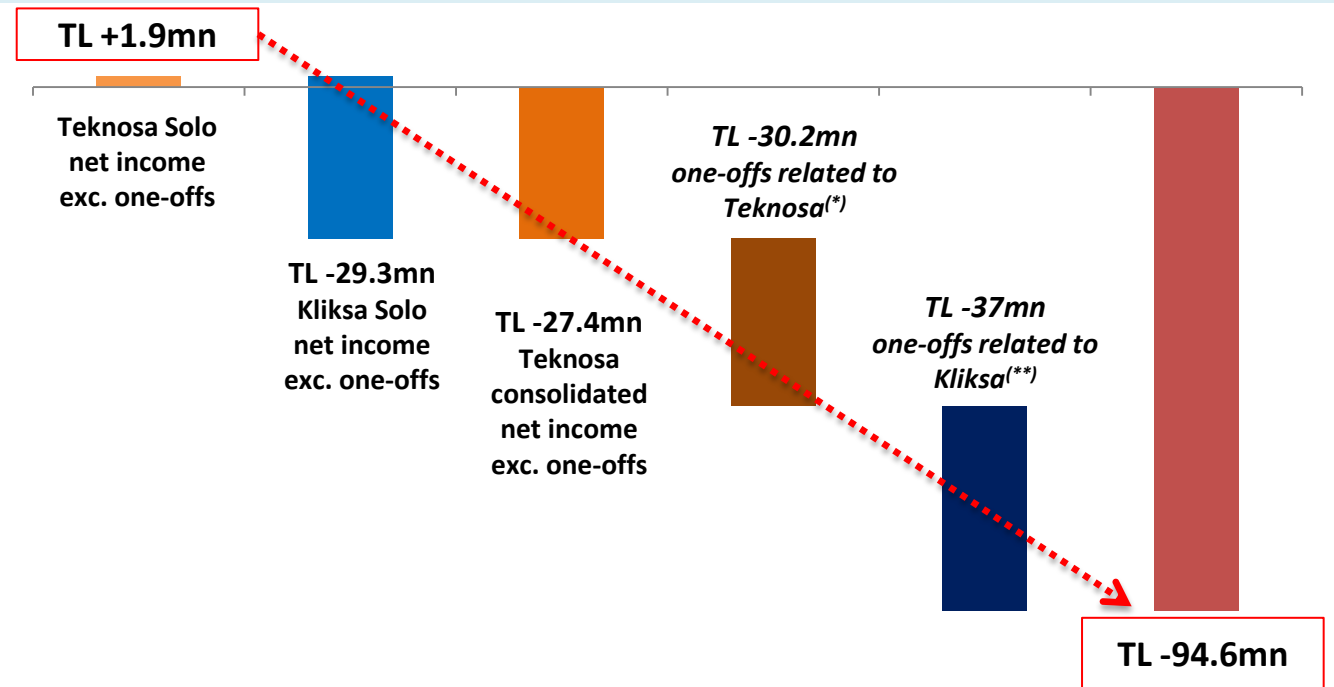
## EBITDA (TL mn)



- Competitive market condition and higher share of Kliksa led to margin deterioration

(\*) 4Q15 EBITDA is adjusted with one-offs

FY15 bottom line heavily impacted by one-offs

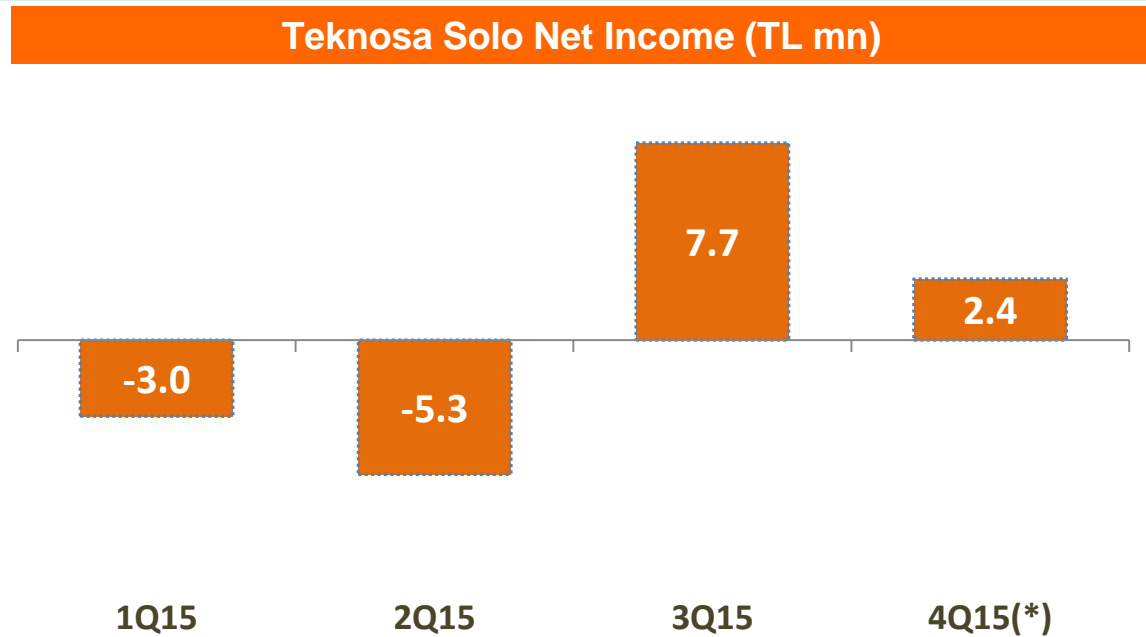


(\*) Major Teknosa one-offs include reorganization costs, inventory provisioning changes and Teknosa Mobil acquisition cost

(\*\*) Major Kliksa one-offs include fixed asset write off and reorganization costs

**Teknosa provisioning changes aim to take a more prudent approach and to improve the asset quality of the balance sheet for 2016, while Kliksa one offs are related with the new strategy**

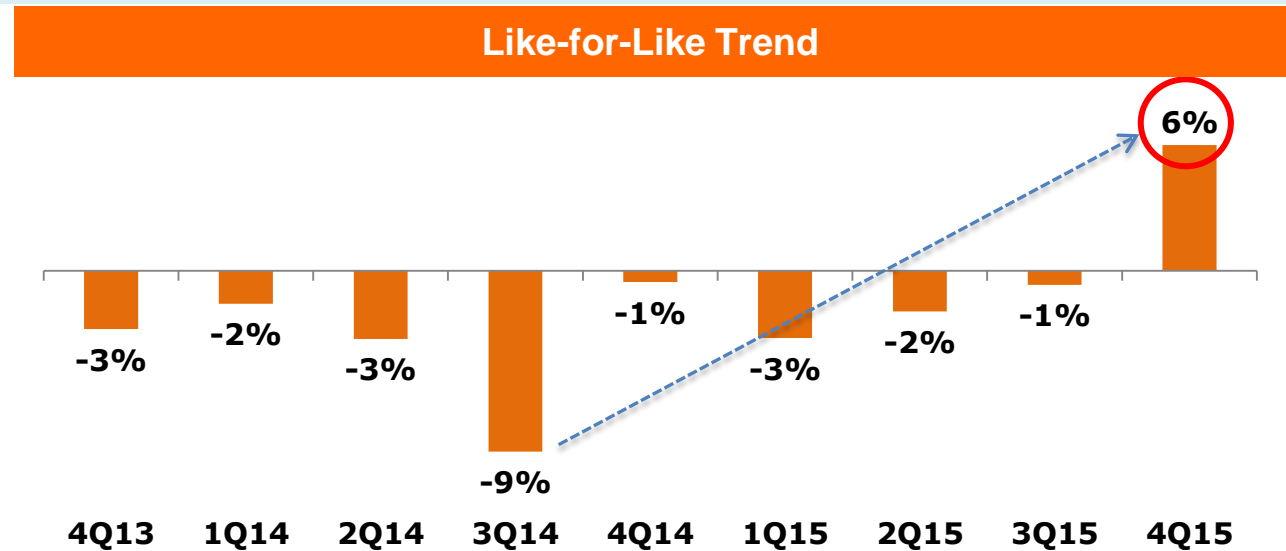
Teknosa Solo net income is back on a positive trend



- Teknosa solo bottom-line is back on a positive trend
- Adjusted net income remained in black in 4Q15 despite the intense competition
- We expect this trend to be maintained with a rising momentum thanks to the reorganization efforts made in 4Q15

(\*) 4Q15 figure excludes one-offs

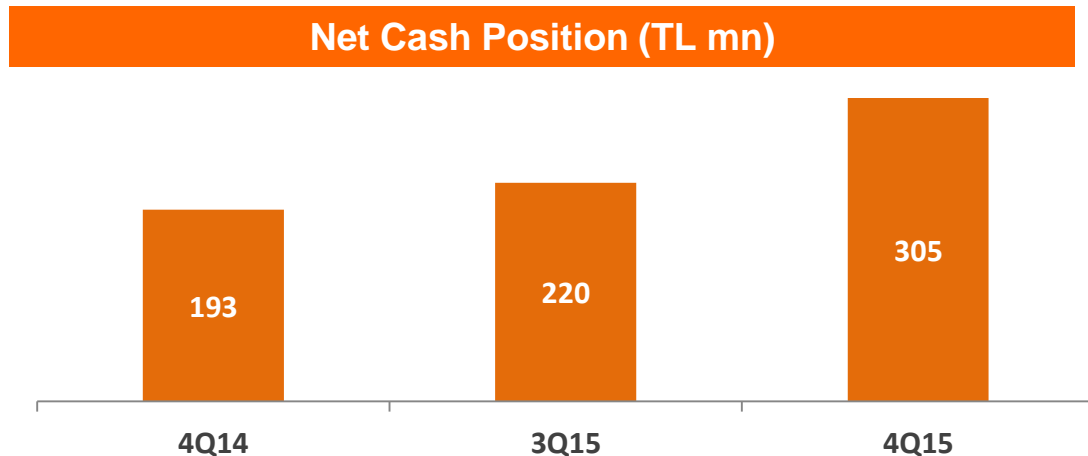
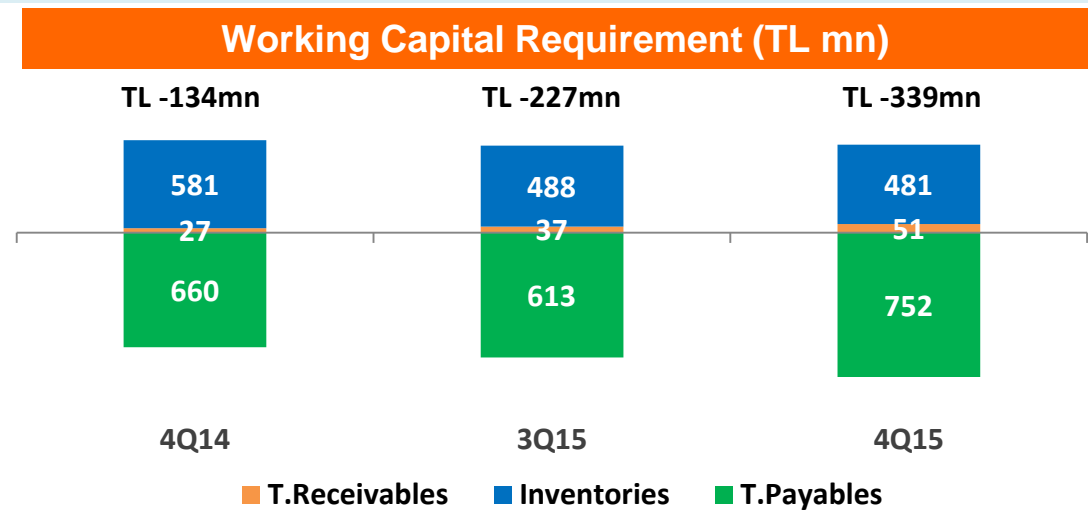
## Like-for-Like Sales Growth Trend



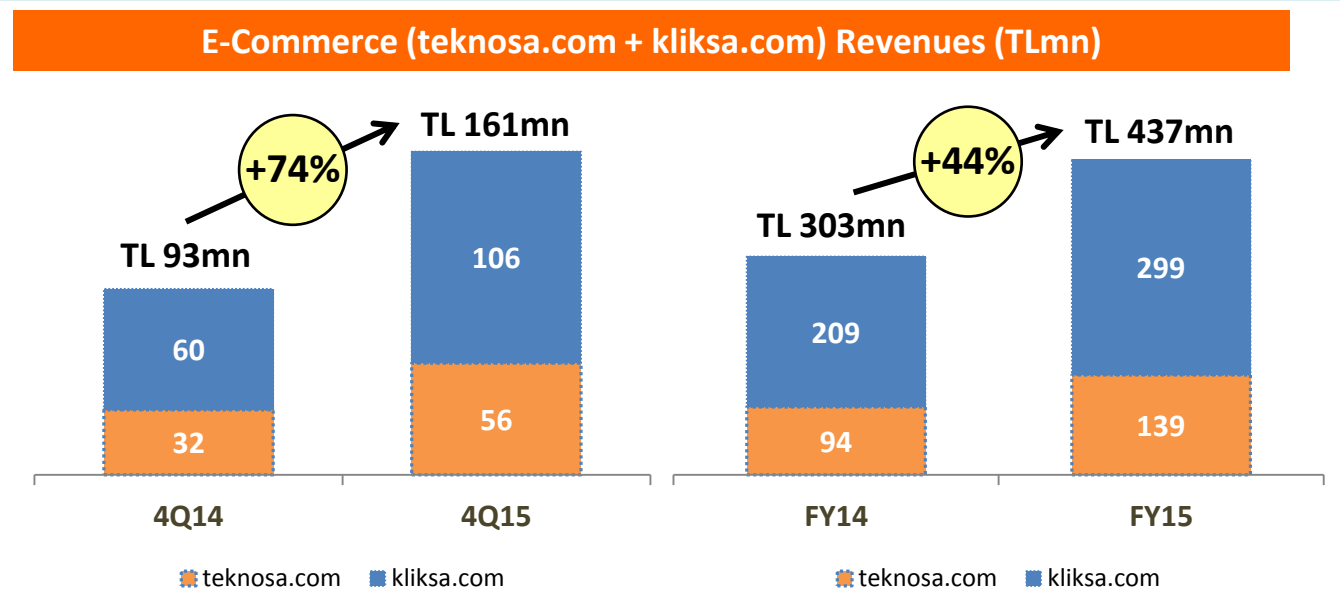
- LfL growth is back in black at 6% in 4Q15, after 8 consecutive quarters of contraction, as taken contra measures start to pay off
- These actions include:
  - New bonus scheme for personnel
  - New personnel at selected stores
  - Targeted promotional campaigns in designated cities
  - Increased communication and shifting the weight to TV & digital media
- TSS market share is up to 36% in 2H15 from 33% in 1H15



Working  
Capital and  
Cash Position  
Improvement

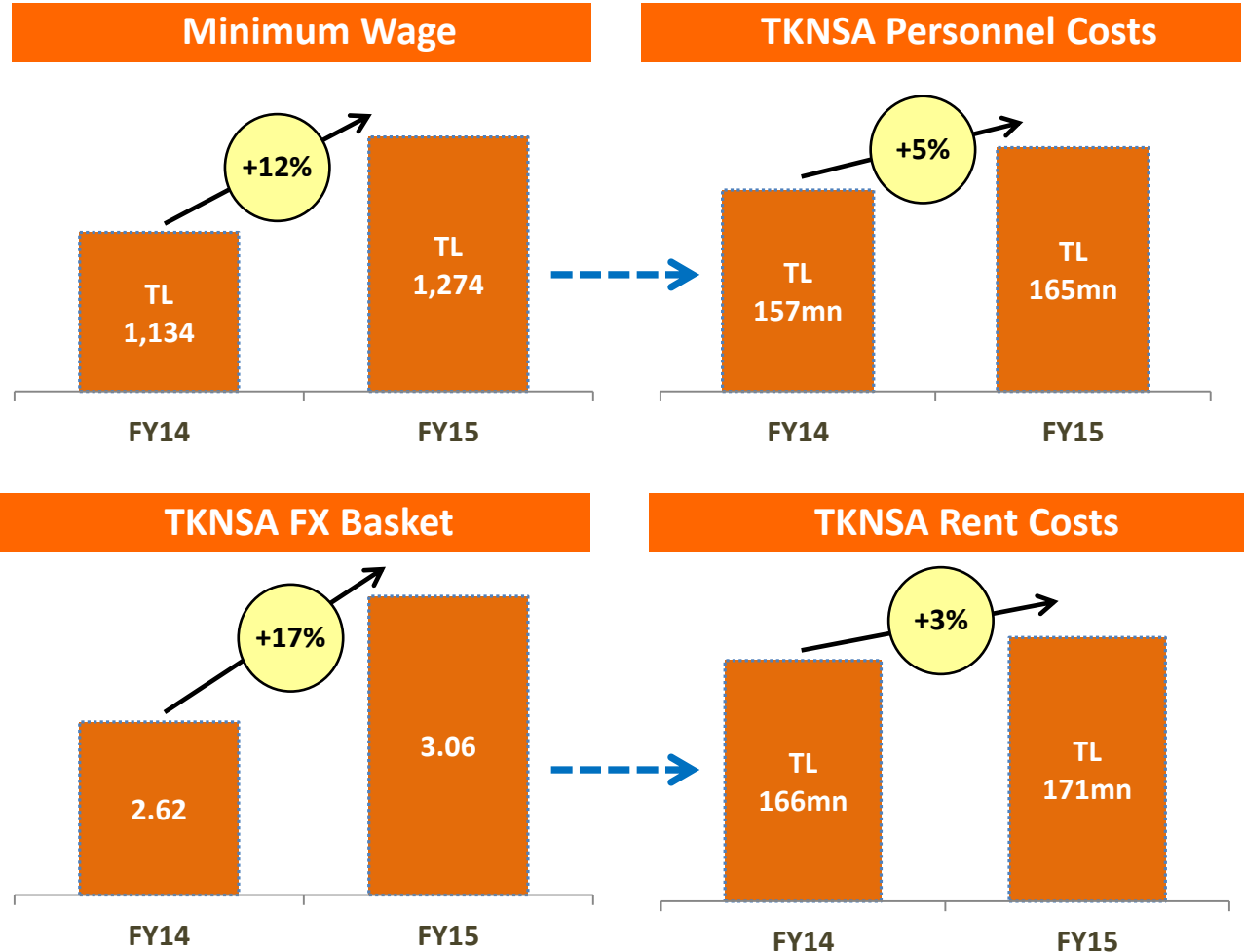


Strong growth  
in e-commerce  
revenues...



- Growth in e-commerce is expected to maintain the high pace
- Further investments in order to improve omni-channel model for teknosa.com
- «Click & Collect» is fully integrated into teknosa.com (reached over 10% of sales)
- 700k customers are directed to stores via online site or mobile (per month)
- Mobile applications are used by 1.3mn users, constituting ~15% of internet sales

Main OPEX  
Items are  
Under  
Control



Pioneer  
services &  
products  
launched over  
the last year...

- Teknosa will continue to differentiate itself from the competition, carrying on its evolution into a «service provider» from a «classical box mover»
- As the first step towards this goal, «**TeknoFinans**» was launched in June 2014, offering new financing options to our customers
- Aftersales services rebranded under «**Dr. Teknolog**» in 1Q15
- «**Teknosa Mobil**» launched in February 2015, rendering Teknosa as the first & only Electronics Retailer in Turkey offering complete telecom services under its own brand
- «**Teknosa Preo**» branded smartphone and smartwatch was launched in July 2015 as the first private label product by an electronic retailer in Turkey



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## Income Statement Summary

(TL mn )	4Q14	3Q15	4Q15	YoY (%)	QoQ (%)	FY14	FY15	YoY (%)
<b>Net Sales</b>	851	813	965	13%	19%	3,018	3,167	5%
Gross Profit	147	151	147	0%	-3%	551	551	0%
<b>Adj. Gross Profit</b>	<b>147</b>	<b>151</b>	<b>162</b>	10%	7%	<b>551</b>	<b>567</b>	3%
<b>Adj. Gross Profit Margin</b>	<b>17.3%</b>	<b>18.6%</b>	<b>16.8%</b>	<b>-0.4pp</b>	<b>-1.8pp</b>	<b>18.3%</b>	<b>17.4%</b>	<b>-0.8pp</b>
EBITDA	28	23	-4	-113%	-116%	82	40	-51%
<b>Adj. EBITDA</b>	<b>28</b>	<b>23</b>	<b>24</b>	-15%	4%	<b>82</b>	<b>68</b>	<b>-17%</b>
<b>Adj. EBITDA Margin</b>	<b>3.3%</b>	<b>2.8%</b>	<b>2.5%</b>	<b>-0.8pp</b>	<b>-0.3pp</b>	<b>2.7%</b>	<b>2.1%</b>	<b>-0.6pp</b>
Other Expenses	-19	-6	-53	177%	n.m.	-44	-74	-69%
<b>Adj. Other Expenses</b>	<b>-11</b>	<b>-6</b>	<b>-10</b>	<b>0%</b>	<b>-89%</b>	<b>-31</b>	<b>-31</b>	<b>0%</b>
Financial Expenses	-6	-5	-7	5%	37%	-22	-23	-4%
Profit Before Tax	-8	1	-76	n.m.	n.m.	-24	-103	-327%
<b>Adj. Profit Before Tax</b>	<b>-8</b>	<b>1</b>	<b>-6</b>	<b>-29%</b>	<b>n.m.</b>	<b>-24</b>	<b>-33</b>	<b>36%</b>
Tax	1	0	3	-187%	n.m.	4	8	-101%
Net Profit	-7	1	-73	n.m.	n.m.	-20	-95	-373%
<b>Adj. Net Profit</b>	<b>0</b>	<b>1</b>	<b>-6</b>	<b>-n.m.</b>	<b>n.m.</b>	<b>-10</b>	<b>-27</b>	<b>-177%</b>
<b>Adj. Net Profit Margin</b>	<b>0.0%</b>	<b>0.1%</b>	<b>-0.6%</b>	<b>-0.6pp</b>	<b>-0.7pp</b>	<b>-0.3%</b>	<b>-0.9%</b>	<b>-0.5pp</b>

(\*) «Gross Profit» is adjusted by the changes in inventory provisioning, «OPEX» is adjusted by Teknosa Mobil, and «Other Expenses» is adjusted by reorganization costs and Kliksa fixed asset write off

Source: Independent Auditor's report

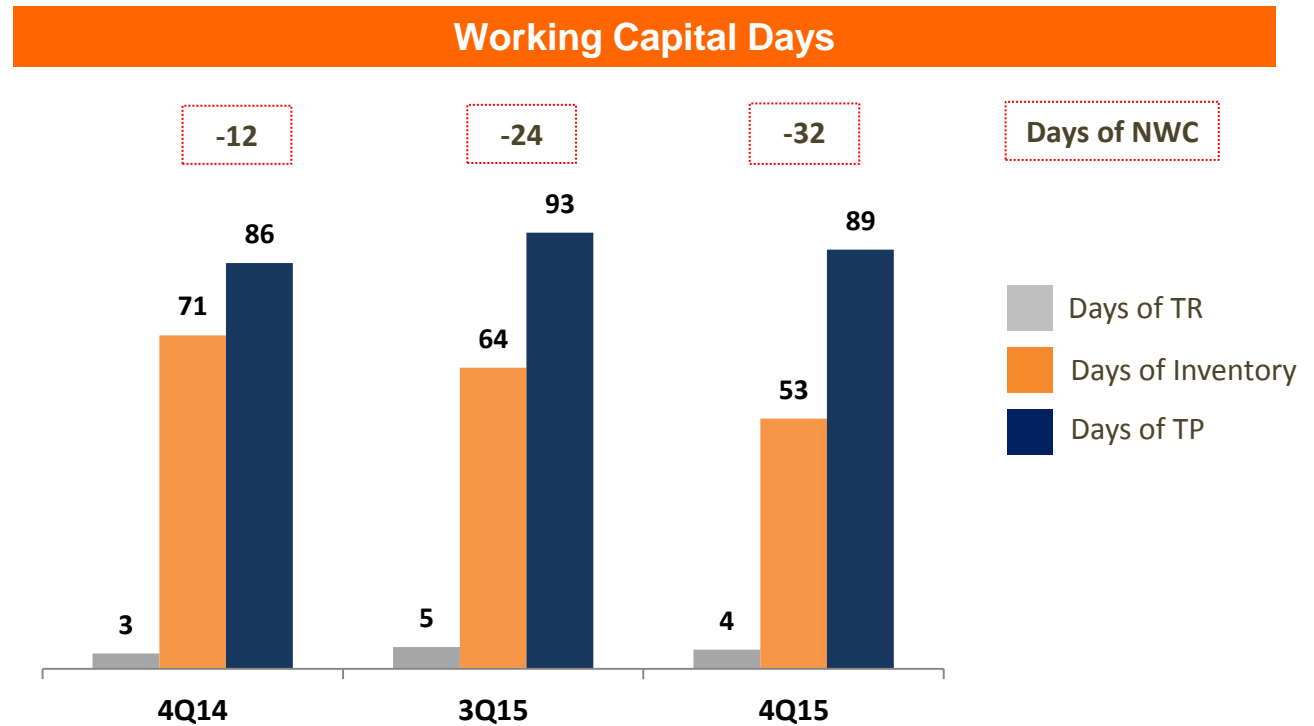
## Balance Sheet Summary

Assets (in TL mn)	Dec.14	Sep.15	Dec.15
<b>Current Assets</b>	<b>762</b>	<b>766</b>	<b>856</b>
Cash and Cash Equivalents	193	220	305
Due From Related Parties	4	3	2
Trade Receivables	23	35	49
Inventories	530	488	481
Other Current Assets	12	20	19
<b>Non-current Assets</b>	<b>187</b>	<b>202</b>	<b>175</b>
Investment Property	11	11	11
Property, Plant and Equipment	118	121	99
Intangible Assets	27	29	22
Deferred Income Tax Assets	16	21	25
Other Non-current Assets	15	20	20
<b>Total Assets</b>	<b>949</b>	<b>968</b>	<b>1,031</b>

Liabilities (in TL mn)	Dec.14	Sep.15	Dec.15
<b>Current Liabilities</b>	<b>757</b>	<b>814</b>	<b>950</b>
Financial Liabilities	0	0	0
Due to Related Parties	7	1	4
Trade Payables	684	751	866
Other Current Liabilities	66	62	80
<b>Non-current Liabilities</b>	<b>3</b>	<b>3</b>	<b>4</b>
<b>Total Equity</b>	<b>188</b>	<b>151</b>	<b>77</b>
<b>Total Liabilities</b>	<b>949</b>	<b>968</b>	<b>1,031</b>

Source: Independent Auditor's report

# Working Capital



- Negative working capital allows Teknosa to generate positive cash flow in tandem with growth
- Working Capital Requirement is down by TL 204mn to TL -339mn in 4Q15 from TL -134mn in 4Q14



## Key Performance Indicators

	4Q14	3Q15	4Q15	YoY (%)	QoQ (%)	FY14	FY15	YoY (%)
Net Sales Area ('000 sqm )	171	173	172	1%	-1%	171	172	1%
Number of Stores	291	287	278	-4%	-3%	291	278	-4%
Number of Visitors (mn)	26	22	22	-13%	2%	101	89	-11%
Number of Customers (mn)	2.0	1.7	1.8	-8%	6%	7.5	6.9	-9%
Conversion Rate	7.7%	7.8%	8.1%	0.4pp	0.3pp	7.5%	7.7%	0.2pp
Average Basket Size (TL)	371	380	418	12%	10%	349	375	7%
teknoSA.com visits (mn)	32	34	38	19%	10%	102	129	27%
Total Visitors (mn)	57	57	60	5%	7%	202	218	8%

- Teknosa has the highest penetration among Technical Super Stores with **278 stores throughout Turkey and 172K m2 net sales area** as of 4Q15
- Conversion rate exhibited 0.4pps YoY and 0.3pps QoQ improvement in 4Q15
- Average basket growth is 12% YoY in 4Q15
- Total visitors (store+web) was up by 8% YoY to 218mn

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Storm is  
calming down  
but the seas are  
still rough...

- TSS players have been **tackling restrictions imposed on consumer financing** options since 2H13, favoring traditional channels over the modern
- In addition, **lowest consumer confidence levels since the 2008 global crisis** due to the double election period during this period also made a negative impact on demand dynamics
- Although **the pace of deterioration on the key metrics is decelerating, the equilibrium is yet to be reached**, making it clear that the sector is not out of the woods yet.
- Accordingly, we will be **focusing our efforts on fortifying our key competitive strengths** in 2016
- On the following pages, we reiterate a brief summary of these legislation changes and their lingering numerical impacts on the electronics retail sector in 2015

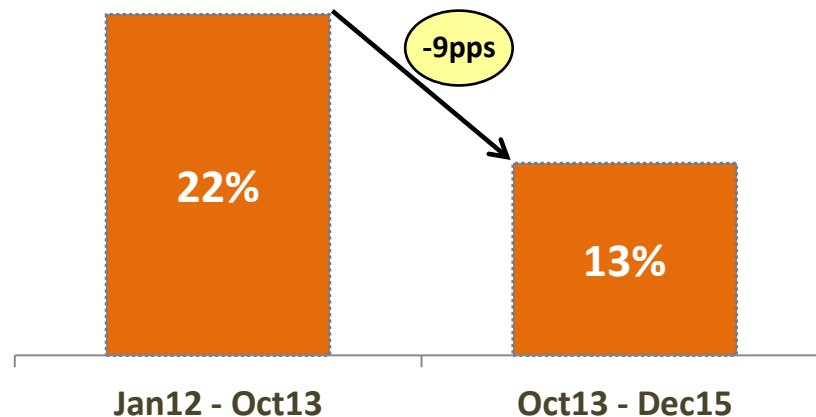
## Deceleration in credit card spendings...

### October 2013

**Legislation change:** Credit card limits decreased based on average income level, while the minimum payment amount increased based on the limit of the credit card.

**Consequence:** Average monthly growth in credit card spending slowed down by ~9pps, slightly above the annual inflation level.

#### CC Spending Average Monthly Growth



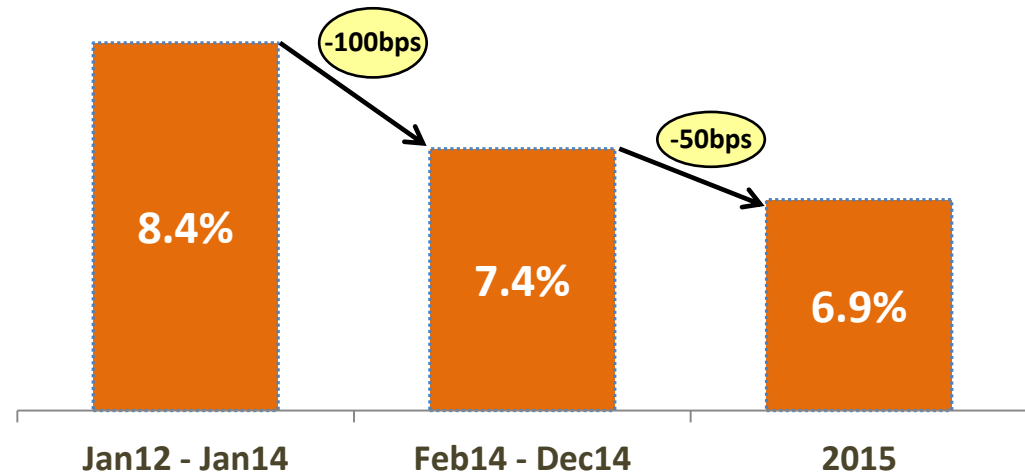
Decline in  
wallet share of  
CE products in  
CC spending...

### February 2014

**Legislation change:** Installments on Telecom products via credit cards has been cancelled, while being limited to 9 months on remaining electronic products.

**Consequence 1:** The wallet share of CE spending in total CC spending diminished by 1.5pps, maintaining a downward trend to date.

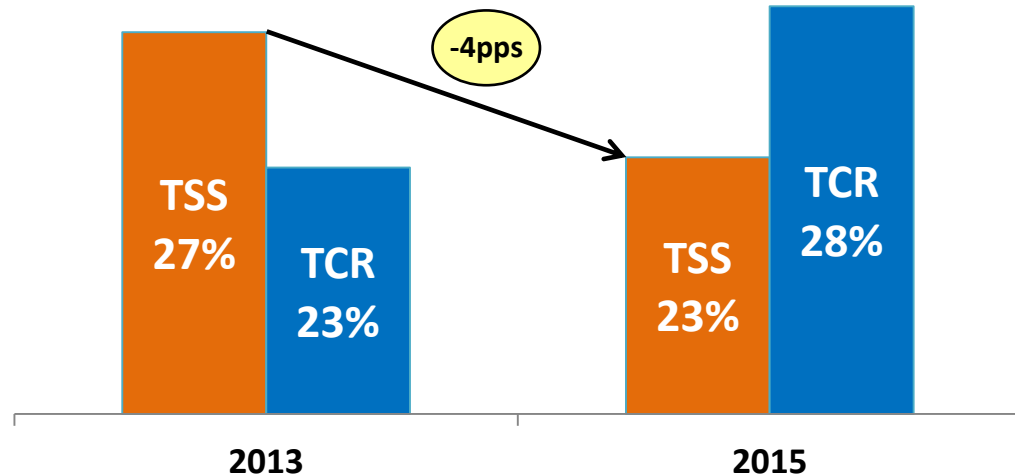
### CE Share in Total CC Spending



Market share  
loss on unfair  
competition...

**Consequence 2:** Telecom Retailers' ability to apply up to 24 months of installment on telecom products via contacts paved the way for an unfair competitive environment, causing TSS players to lose 4% market share since the law came into effect, which roughly translates into a **loss of TL 1.6bn annual revenues** in a TL 40bn market.

### TSS vs. TCR Market Share Comparison

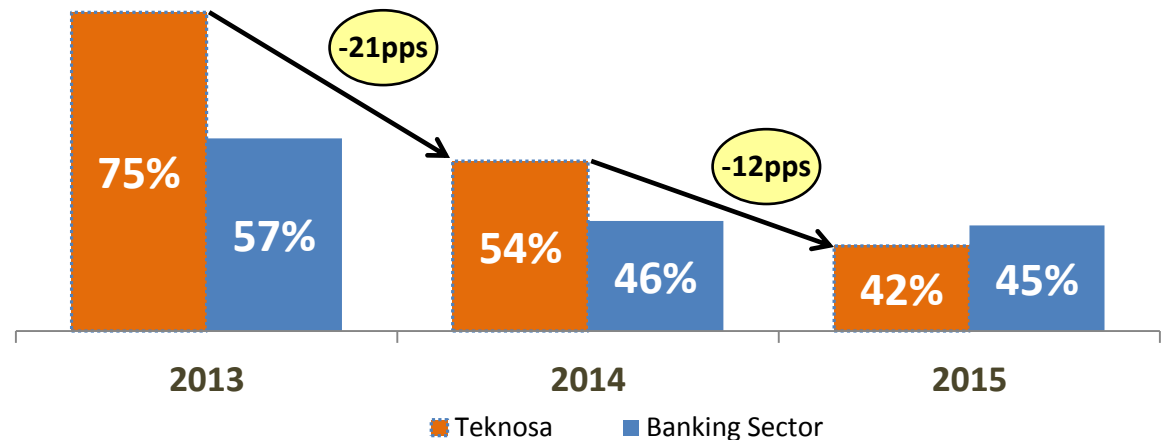


Source: GfK

Disadvantage in  
consumer  
financing...

**Consequence 3:** While the share of CC installments was down by 12pps in the banking sector, it was more pronounced for electronic retailers due to the limitation on the telecom segment - the fastest growing one - and the higher ticket size of electronic products compared to other items consumers purchase via credit cards.

Share of CC Installments in Teknosa<sup>(\*)</sup> Sales vs Banking Sector



Source: BRSA & Teknosa ( <sup>(\*)</sup> does not include TeknoFinans)

2016 will be a  
back to basics  
year for  
Teknosa...

- 2016 kick started with **one of the smaller players throwing in the towel**, mostly owing to an unhealthy balance sheet structure
- Turkish Market still host **4 players in a winner takes it all sector**, where we believe further consolidation will be inevitable going forward
- In order to successfully navigate through these stormy weathers, we believe that further strengthening our already formidable **balance sheet structure** and giving a boost to our P&L by focusing on our key strengths will be our strongest pillar on this endeavor:
  - ✓ Focus on increasing store efficiencies & market share
  - ✓ Maintain strict control on costs
  - ✓ Further perfecting the omni-channel model with full focus on teknosa.com
  - ✓ Further differentiate from the competition with value add services



## Road to Kliksa decision: Global Outlook...

- Pure players have been in the global market over 2 decades now, boasting **strong revenue growth while sacrificing profitability** often accompanied by red bottom-line figures in order to push stores out of the competition and dominate the market.
- Yet, in developed countries today, **brick & mortar retailers are making a comeback** with their tradition of offering solid aftersales services to their customers, which is gaining importance each day in a world where technological advances drive customer preferences towards the omni-channel model.
- Global giants like Amazon are able to compensate for the loss making nature of pure player business by offering additional video, publishing and software **services** which are quite lucrative.
- However, this is **not the case for smaller scaled domestic pure players**, with no means of complementing their poor cash generation capabilities.

Increasing  
burden of Kliksa  
on a less  
friendly  
landscape...

- **Omni-channel or pure player model? This is no longer the question**
  - *Pure players seeking drop points to duplicate omni-channel model*
- **Kliksa's increasing burden on our objective to create value for our shareholders**
  - *Kliksa's ~45% top-line expansion continued to come with a high price tag, weighing down our consolidated EBITDA figure by ~TL 20mn and our bottom-line by ~TL 30mn in FY15, excluding one-offs regarding fixed asset write-offs and reorganization costs recorded in 4Q15*
- **teknosa.com will take the helm for our growth in e-commerce**
  - *teknosa.com displayed 27% growth in # of visits to 129mn, 35% growth in average basket size to TL 623, translating into a 47% YoY growth in its revenues to ~TL 140mn in 2015*
  - *Considering the 70% convergence rate between Kliksa customers , we expect to see this strong trend to continue with a further 45% YoY growth in 2016*

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## Macroeconomic Indicators

	2014	2015	2016E
GDP growth	2.9%	3.8%	4.0%
CPI Inflation	8.2%	8.8%	8.5%
USD/TL rate (avg.)	2.19	2.72	3.07
EUR/TL rate (avg.)	2.90	3.01	3.36

## 2016 Full Year Financial Guidance

	2015	2016E
YE Net Sales Area (km <sup>2</sup> )	172	170
Net Sales (TL mn)	3,167	3,300
<b>LFL Growth (%)</b>	<b>0%</b>	<b>10%</b>
<b>teknosa.com Growth (%)</b>	<b>47%</b>	<b>45%</b>
<b>EBITDA<sup>(*)</sup> (%)</b>	<b>2.0%</b>	<b>3.5%</b>
CAPEX (TL mn)	48	35-40

(\*) EBITDA excludes Other Income/Expenses / 2015 EBITDA (%) is adjusted

Thank You

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