

Investor  
Presentation

# Teknosa İç ve Dış Ticaret A.Ş.

## *3Q14 Results*

*«Leader of A Growing Market»*

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Erman Tütüncüoğlu, Head of IR

*November 3, 2014*

## Agenda

Results at a Glance

Electronics Retail Market

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Year-end Guidance

## Main messages

### **Now in every city of Turkey...**

- The sole electronics retailer present in all 81 cities of Turkey

### **Higher focus on profitability in 3Q14 ...**

- With strong market share gains in June and July, focus diverted back to profitability, leading to +80bps QoQ improvement in gross margin

### **QoQ improvement in OPEX/Sales ratio is to be maintained in 4Q14...**

- Cost cutting measures led to improvement in OPEX/Sales ratio
- Further improvement expected in 4Q14 through continuing cost control measures

### **Strong e-commerce performance maintained...**

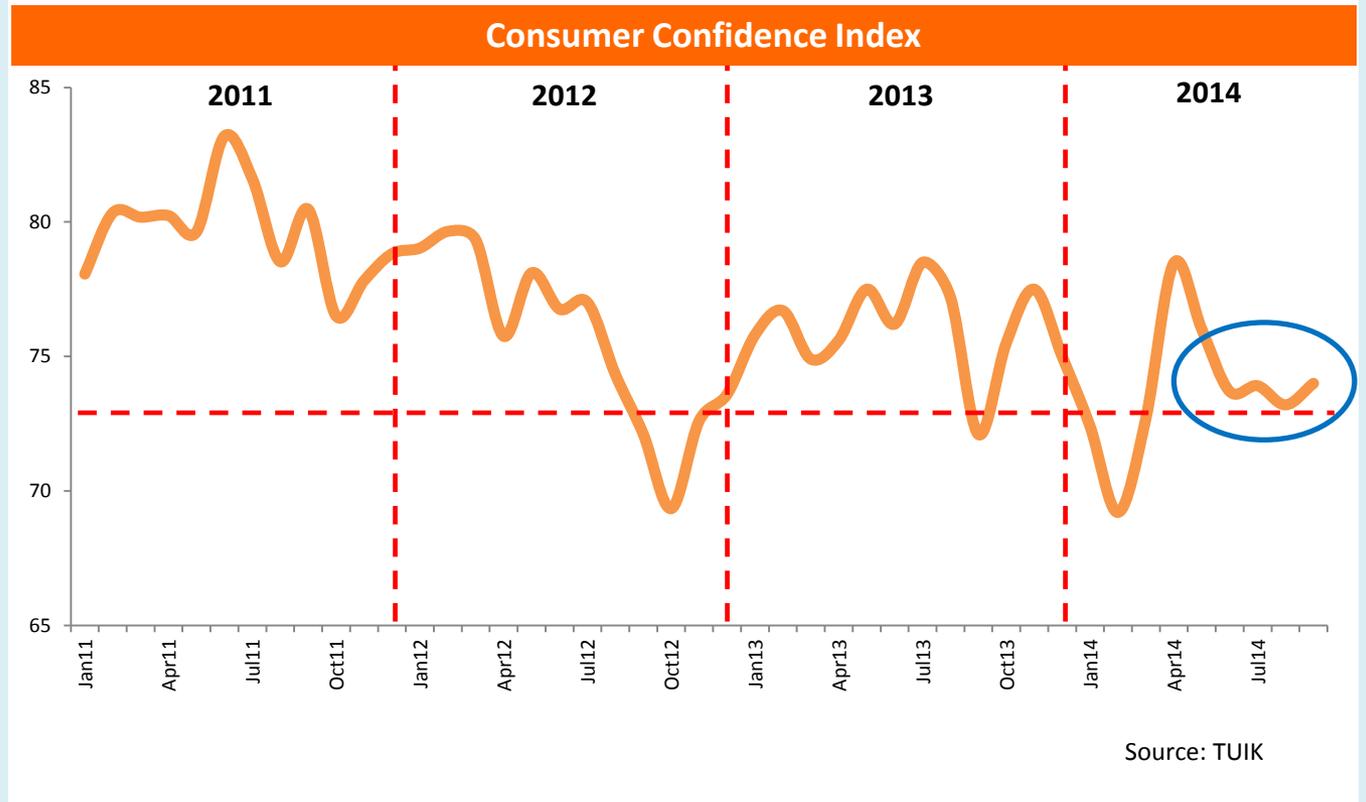
- E-commerce sales maintained strong growth trend with 33% YoY increase in 3Q14 to TL 72mn
- 10% of Net Sales in 9M14; from 6% in 9M13

### **Low consumer confidence continued to pressurize demand ...**

- Low consumer confidence led to a flattish top-line figure, despite the growth achieved via on-line sales & store openings

CCI remained flat in the 3rd quarter...

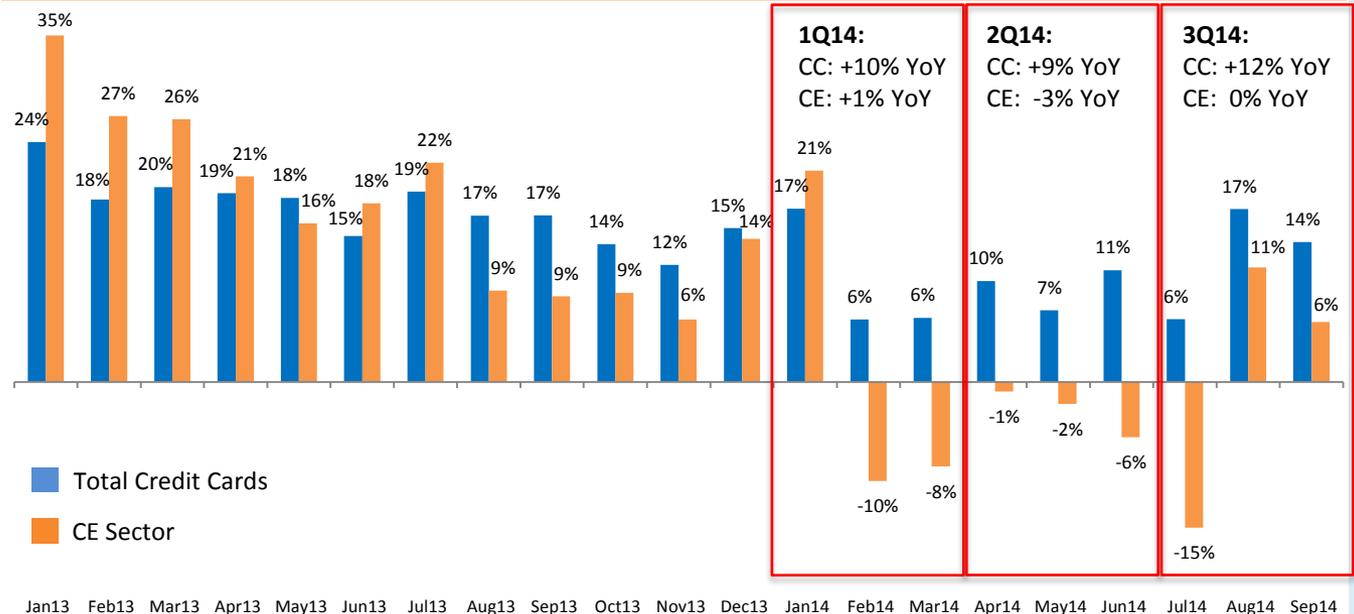
- Amidst the political tensions in the region, the Consumer Confidence Index failed to display any improvement in the third quarter, remaining below pre-election levels



Consumers are still adjusting to the new law...

- Consumer electronics spending via credit cards displayed 11% YoY growth in August, following 6 months of consecutive contractions for the first time after the law came into effect and a further 6% improvement in September. Yet, it is early to comment on the sustainability of this trend at this stage.

YoY Growth Rates of Credit Card Total and CE Sector Spending

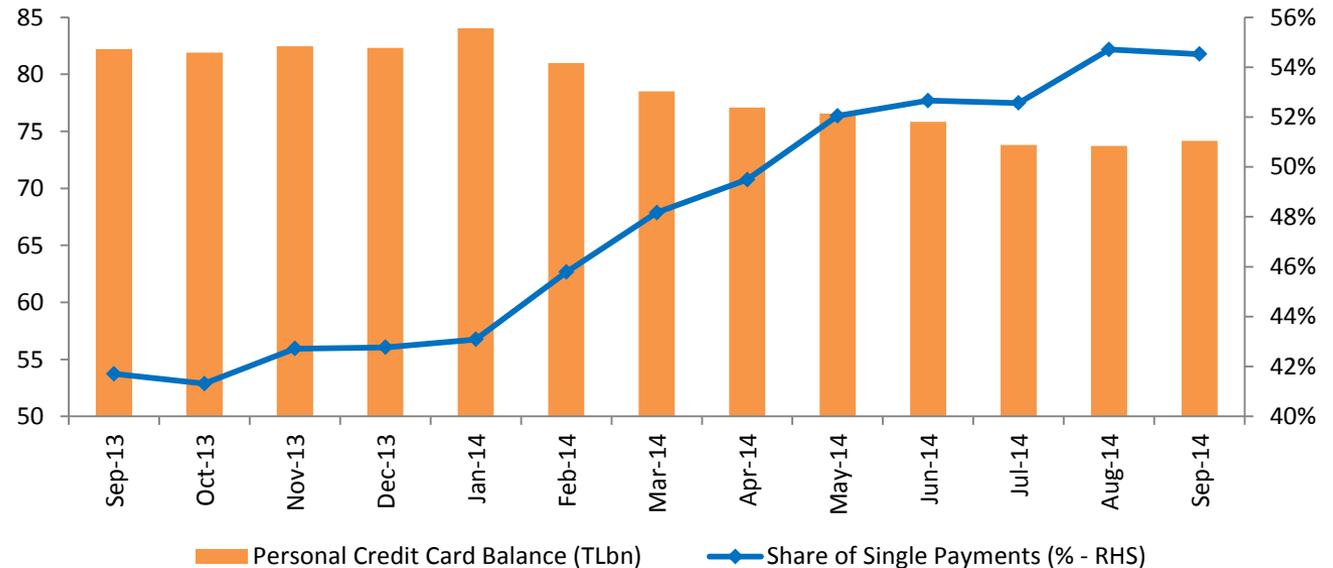


Source: Interbank Card Center

Consumers are still adjusting to the new law...

- The monthly balance of single payments via personal credit cards grew 15pps YtD, increasing their share in total to 55% from ~40% levels prior to the law.
- The consistent decline in monthly balance for personal credit cards came to a halt in August and displayed a miniscule growth for the first time on a MoM basis in September.

Monthly Personal Credit Card Balance & The Share of Single Payments



Source: BRSA

TeknoFinans is to display faster growth with Akbank on board...

TEKNOSA

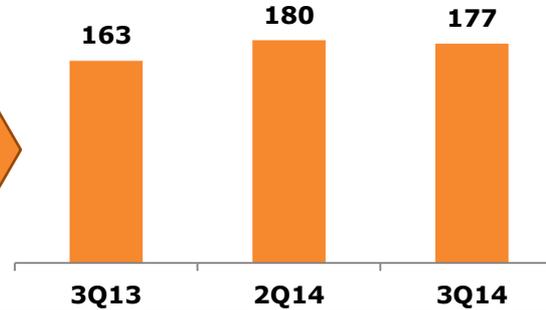
AKBANK

ING  BANK

- After its launch on June in collaboration with ING Bank, consumer financing business saw a rapid increase in the number of applicants.
- Akbank also entered into picture in October with its wide network, which will no doubt make a positive impact on growth figures.
- The current numbers support our target of increasing the share of TeknoFinans to 10% of our sales by the end of the year on a monthly basis.
- Unlike the competition, Teknosa is partnering with larger scale banks with better IT structures for its consumer financing program, helping the procedures to run smoothly and without a glitch.
- Consumers are benefitting from installments up to 36 months on every product, with interest rates rivalling mortgages and without bearing any additional costs.

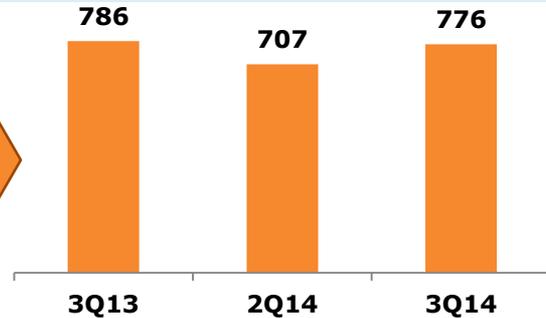
# 3Q14 Results

Net Sales Area  
(‘000 m2)



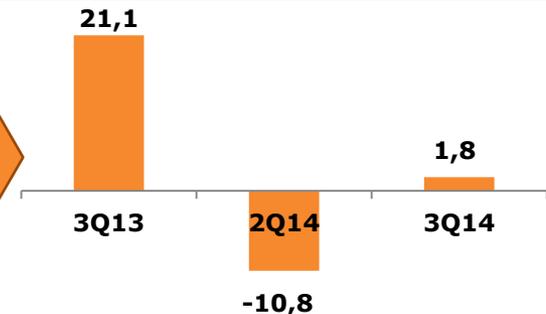
- +8% YoY growth
- 15 new stores opened while 21 low performing stores closed in 3Q14

Net Sales  
(M TL)



- Store closures limited top-line growth in the third quarter

Net Profit  
(M TL)

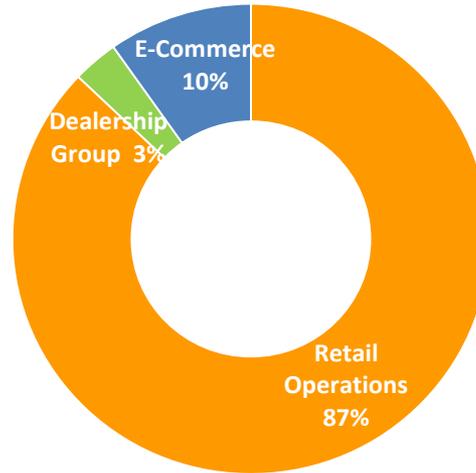


- Bottom-line returned to black in 3Q14, supported by margin gain and further cost control measures

# Revenues by activity

Teknosa operations are composed of Retail, Dealership and e-commerce activities

Revenue Breakdown as of 9M14



## E-trade Operations

**KLİKSA**.com

- Separate legal entity **fully owned by Teknosa**
- Started operations in **March 2012**

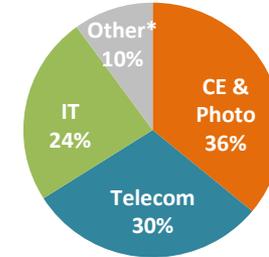
**TEKNOSA**.com

- Started operations in **2005**

## Retail Operations

**TEKNOSA**

Revenue Breakdown by Product Groups as of 9M14



\* Consists of major and small domestic appliances and warranty sales

## Dealership Group

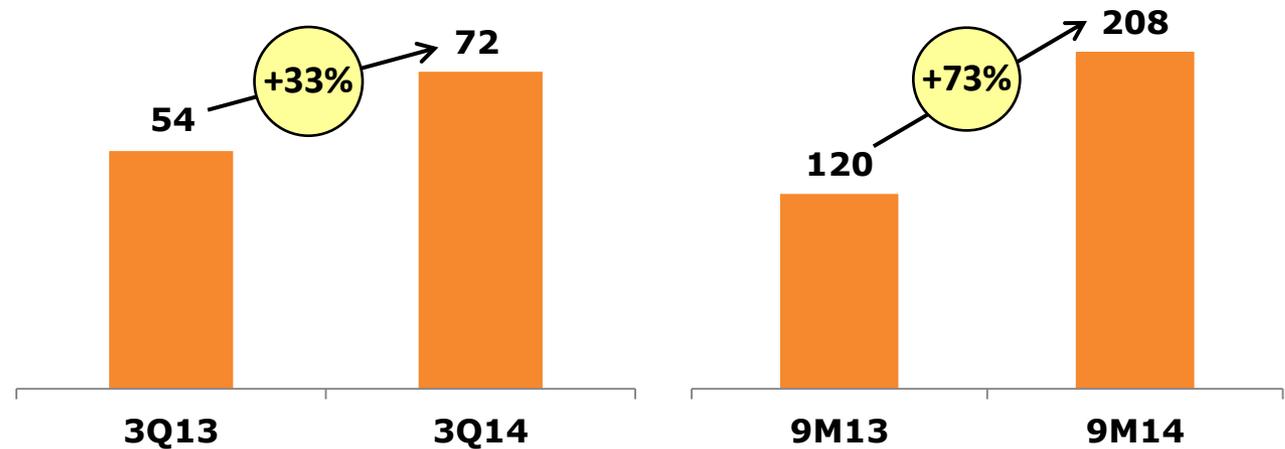
**iklimSA**  
Türkiye'nin İklimlendirme Merkezi

Revenue Breakdown by Product Groups as of 9M14

- Air Conditioners: 94%**
- Refrigerators: 6%**

Strong growth  
in e-commerce  
revenues...

### E-Commerce (teknosa.com + kliksa.com) Revenues (M TL)



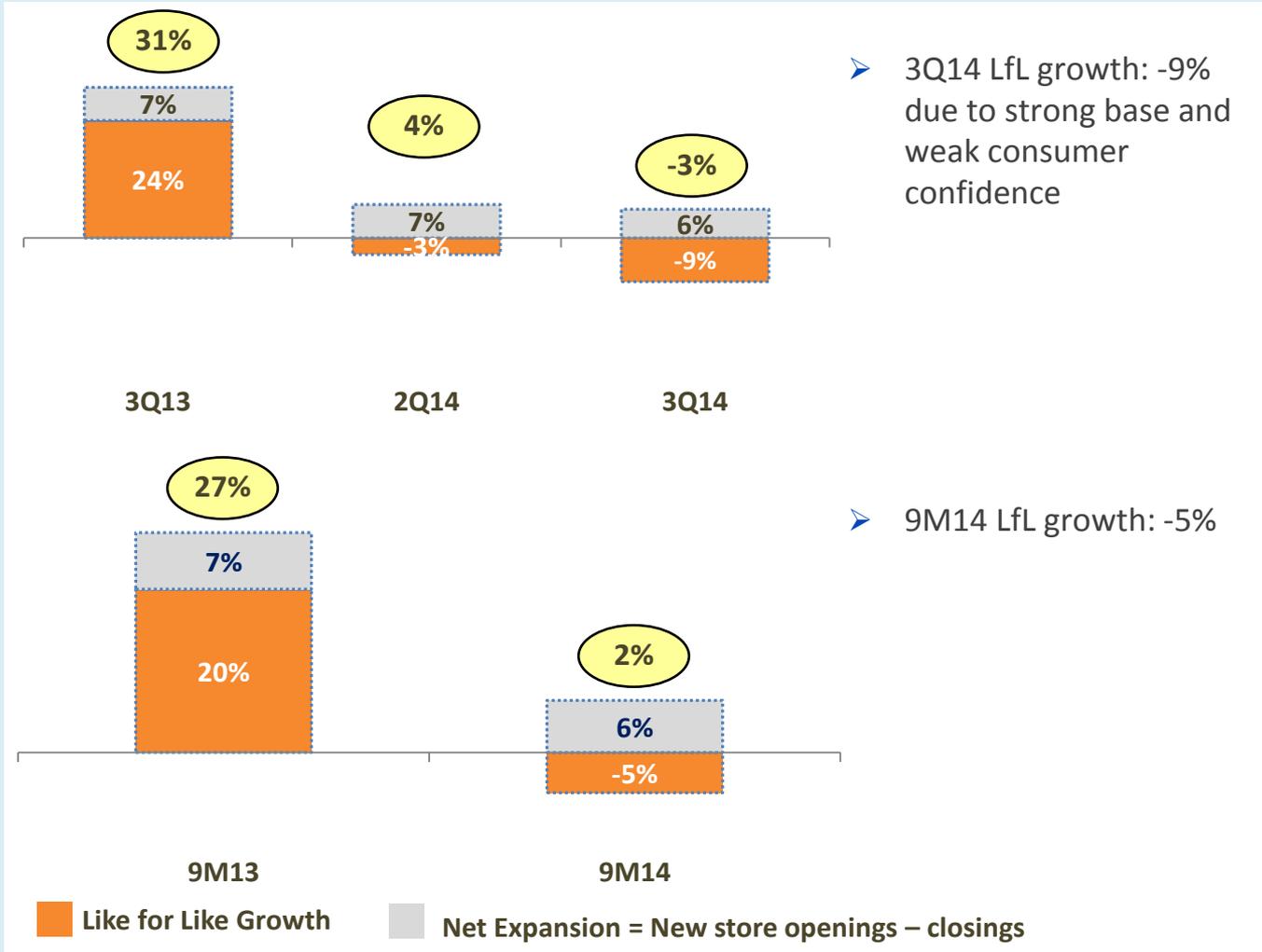
- Growth in e-commerce is expected to maintain the high pace
- E-commerce revenues expected at TL 300mn, implying ~60% y/y growth, constituting ~10% of consolidated revenues in 2014
- The share of e-commerce is expected to reach 25% of consolidated revenues over the next 4-5 years
- Further investments in order to improve omni-channel model for teknosa.com and implement a marketplace model for kliksa.com
- Mobile applications are used by ~700K users, constituting ~10% of internet sales

## Key Performance Indicators (Retail Operations)

| Teknosa Key Performance Indicators (Retail Operations) |      |      |      |         |         |      |      |         |
|--|------|------|------|---------|---------|------|------|---------|
|  | 3Q13 | 2Q14 | 3Q14 | YoY (%) | QoQ (%) | 9M13 | 9M14 | YoY (%) |
| Number of Provinces                                    | 77   | 77   | 81   | 5%      | 5%      | 77   | 81   | 5%      |
| Net Sales Area ('000 sqm )                             | 163  | 180  | 177  | 8%      | -2%     | 163  | 177  | 8%      |
| Number of Stores                                       | 292  | 306  | 300  | 3%      | -2%     | 292  | 300  | 3%      |
| Number of Visitors (mn)                                | 27   | 23   | 25   | -8%     | 5%      | 79   | 75   | -5%     |
| Number of Customers (mn)                               | 2.2  | 1.8  | 1.9  | -12%    | 7%      | 6.2  | 5.6  | -10%    |
| Conversion Rate  | 8.0% | 7.6% | 7.7% | -0.3pp  | 0.2pp   | 7.9% | 7.4% | -0.4pp  |
| Average Basket Size (TL)                               | 326  | 348  | 359  | 10%     | 3%      | 303  | 342  | 13%     |

- Teknosa has the highest penetration among Technical Super Stores with **300 stores in all 81 provinces of Turkey** and 177k m2 net sales area as of 3Q14
- Teknosa stores were visited by 25 million people in 3Q14 (+5% QoQ)
- The improvement in conversion rate was maintained, following the trough point hit in 1Q14 at 7.0%

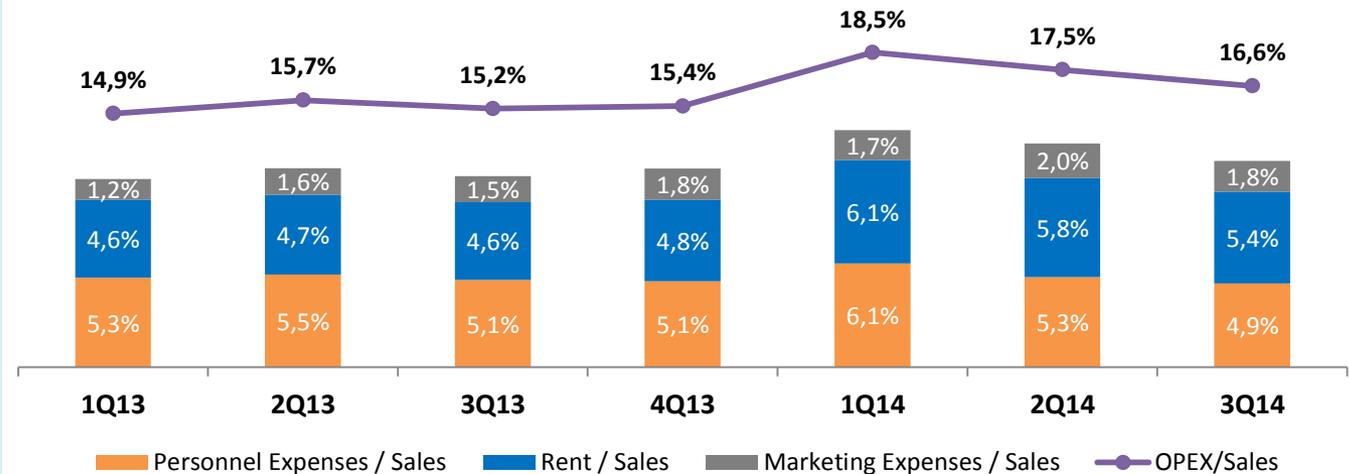
# Retail Operations Revenue Growth Analysis



## Quarterly OPEX Breakdown

- Reduction of the operational expenses goes in line with our plan
- Rent/Sales ratio continued to improve from the peak in 1Q14; additional improvement is expected in the final quarter of the year
- Further improvement in personnel costs through efficiency measures
- Marketing expenses remain slightly above historical levels due to brand investment in online business, as well as sales communication to revive demand

### Shares of Major OPEX Items in Net Sales



## Agenda

Results at a Glance

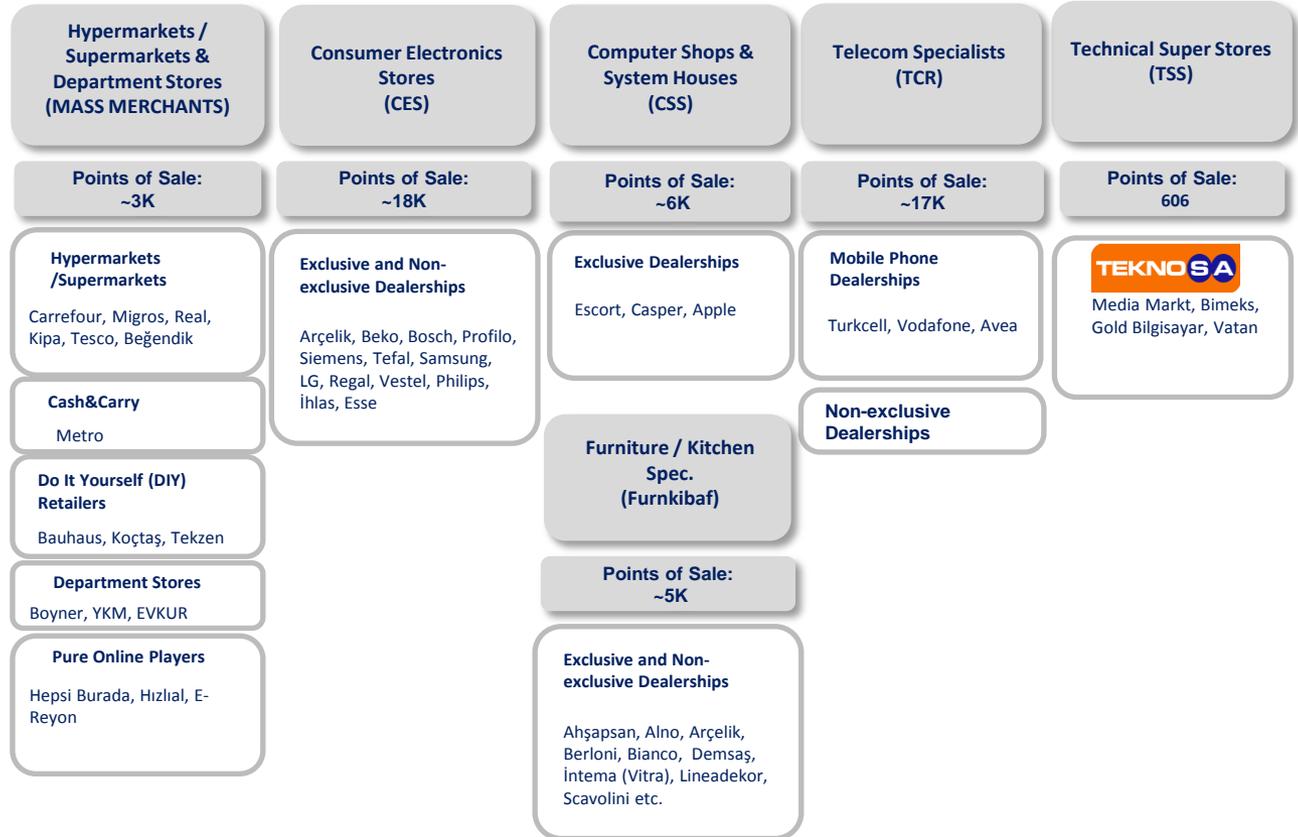
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# Electronics Retail Market in Turkey

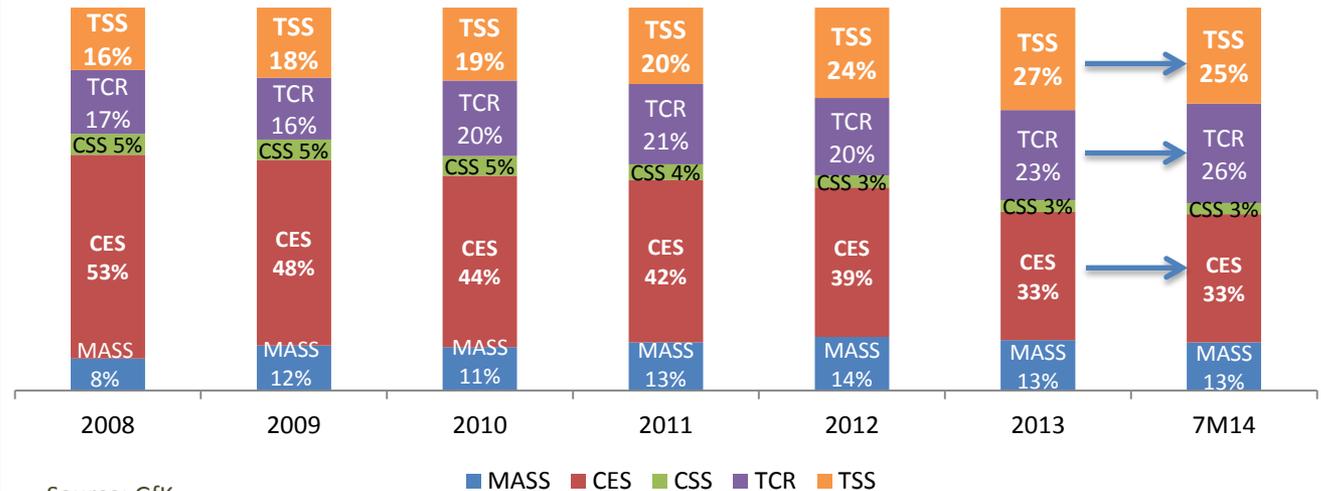
## Sales Channels of Technical Consumer Goods Market



# Channel Development

- Technical Super Stores (TSS) grew below the market for the first time this year due to their disadvantage in consumer financing
- The new law offered Telecom Retailers (TCR) an advantage, as they are able to apply up to 24 months of installments on Telecom products via contracts, helping them to raise their share by 3pps in 7M14, compared to FY13
- Consumer Electronic Stores (CES) were also able to use bill payables in order to offer their customers installment options exceeding 9 months

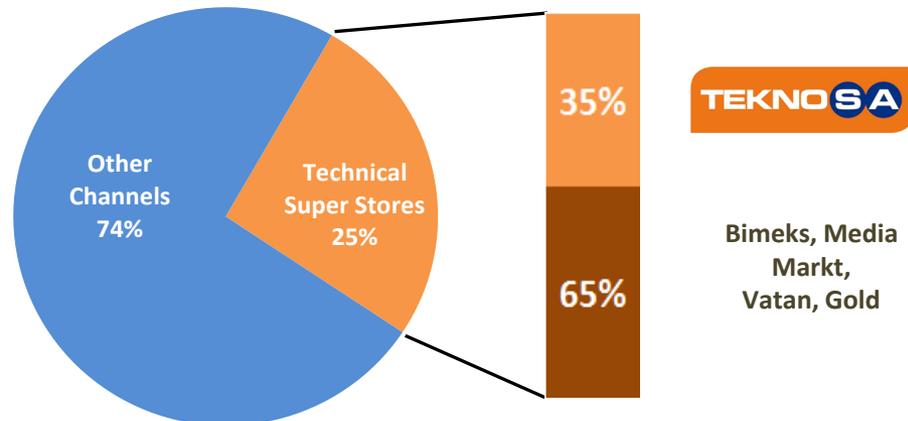
## Channel Development (inc. MDA & SDA)



## Electronics Retail Market and Teknosa (7M14)

- As of 7M14, total market (CE, IT, Telecom, MDA, SDA) grew by 15% YoY, reaching TL 19bn
- Technical Super Stores (TSS) channel recorded 7% YoY growth in the same period to TL 4.7bn in the 5 major categories
- TSS channel accounts for 25% of the total market
- Teknosa retail sales were up by 8% YoY in 7M14, excluding the one-off wholesale that took place in 1H13
- Teknosa has 35% market share in the TSS channel as of 7M14. Teknosa's TSS share has closed in to ~40% in July, boosted by the campaigns held since June.

### Electronics Retail Market (CE, IT, Telecom, MDA, SDA) – 7M14

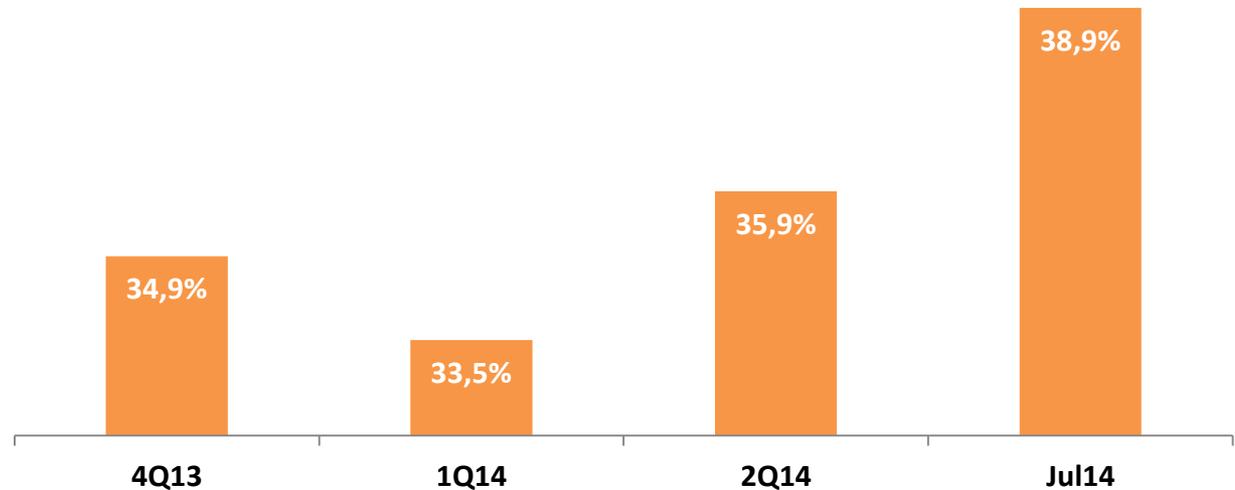


Source: GfK

## Teknosa Market Share trends in the TSS Channel

- Teknosa's market share was negatively affected in February and March, due to immediate and full compliance with new regulation
- After wider compliance in the sector, a more aggressive pricing and promotional strategy was deployed, in order to win back the market share lost in 1Q
- This strategy paid off with +4pps MoM market share gain in June to 38% and an additional 1pp gain in July

### Teknosa Market Share in TSS (CE, IT, Telecom, MDA, SDA)



Source: GfK

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## Income Statement Summary

Teknosa Summary Financials - Income Statement

| ( M TL )                   | 3Q13  | 2Q14  | 3Q14  | YoY (%) | QoQ (%) | 9M13  | 9M14  | YoY (%) |
|----------------------------|-------|-------|-------|---------|---------|-------|-------|---------|
| <b>Net Sales</b>           | 786   | 707   | 776   | -1%     | 10%     | 2,141 | 2,165 | 1%      |
| <b>Gross Profit</b>        | 154   | 127   | 145   | -6%     | 14%     | 402   | 402   | 0%      |
| <b>Gross Profit Margin</b> | 19.5% | 17.9% | 18.7% | -0.8pp  | 0.8pp   | 18.8% | 18.6% | -0.2pp  |
| <b>EBITDAR</b>             | 78    | 54    | 68    | -13%    | 28%     | 197   | 177   | -10%    |
| <b>EBITDAR Margin</b>      | 10.0% | 7.6%  | 8.8%  | -1.2pp  | 1.2pp   | 9.2%  | 8.2%  | -1.0pp  |
| <b>EBITDA</b>              | 42    | 12    | 27    | -37%    | 114%    | 98    | 53    | -47%    |
| <b>EBITDA Margin</b>       | 5.4%  | 1.7%  | 3.4%  | -2.0pp  | 1.7pp   | 4.6%  | 2.4%  | -2.2pp  |
| Other Expenses             | -3    | -10   | -9    | -201%   | 14%     | -8    | -23   | -202%   |
| Financial Expenses         | -5    | -6    | -5    | -20%    | 10%     | -12   | -16   | -38%    |
| <b>Profit Before Tax</b>   | 26    | -13   | 2     | -91%    | n.m.    | 55    | -16   | -129%   |
| Tax                        | -5    | 3     | -1    | -91%    | -119%   | -10   | 3     | -129%   |
| <b>Net Profit</b>          | 21    | -11   | 2     | -91%    | n.m.    | 45    | -13   | -128%   |
| <b>Net Profit Margin</b>   | 2.7%  | -1.5% | 0.2%  | -2.4pp  | 1.8pp   | 2.1%  | -0.6% | -2.7pp  |

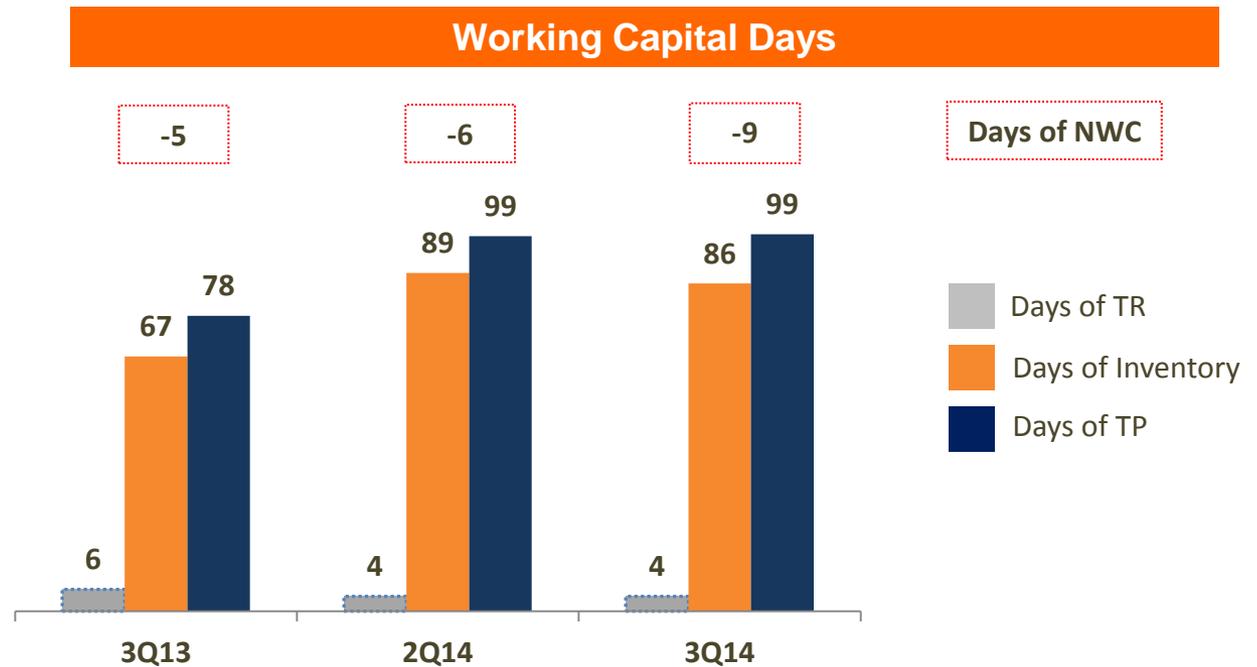
Source: Independent Auditor's report

## Balance Sheet Summary

| Assets (in M TL)              | Sep.13     | Jun.14     | Sep.14     |
|-------------------------------|------------|------------|------------|
| <b>Current Assets</b>         | <b>688</b> | <b>807</b> | <b>745</b> |
| Cash and Cash Equivalents     | 127        | 124        | 111        |
| Due From Related Parties      | 1          | 2          | 3          |
| Trade Receivables             | 38         | 32         | 32         |
| Inventories                   | 479        | 626        | 581        |
| Other Current Assets          | 43         | 22         | 19         |
| <b>Non-current Assets</b>     | <b>154</b> | <b>167</b> | <b>177</b> |
| Investment Property           | 11         | 11         | 11         |
| Property, Plant and Equipment | 115        | 118        | 123        |
| Intangible Assets             | 11         | 18         | 22         |
| Deferred Income Tax Assets    | 6          | 12         | 14         |
| Other Non-current Assets      | 11         | 8          | 7          |
| <b>Total Assets</b>           | <b>841</b> | <b>974</b> | <b>922</b> |

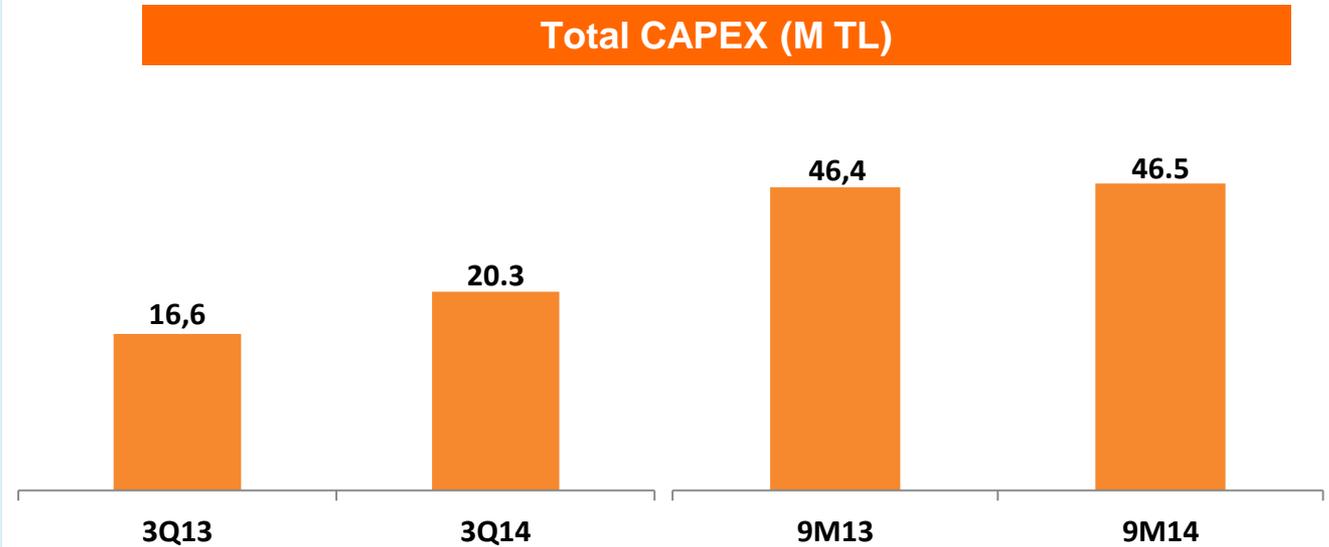
| Liabilities (in M TL)          | Sep.13     | Jun.14     | Sep.14     |
|--------------------------------|------------|------------|------------|
| <b>Current Liabilities</b>     | <b>596</b> | <b>777</b> | <b>723</b> |
| Financial Liabilities          | 0          | 0          | 0          |
| Due to Related Parties         | 1          | 1          | 3          |
| Trade Payables                 | 518        | 727        | 656        |
| Other Current Liabilities      | 77         | 49         | 63         |
| <b>Non-current Liabilities</b> | <b>4</b>   | <b>4</b>   | <b>4</b>   |
| <b>Total Equity</b>            | <b>241</b> | <b>193</b> | <b>195</b> |
| <b>Total Liabilities</b>       | <b>841</b> | <b>974</b> | <b>922</b> |

# Working Capital



- Negative working capital allows Teknosa to generate positive cash flow in tandem with growth
- NWC improved by 4 days on a yearly basis to -9 in 3Q14

## Capital Expenditures



- New store openings and store renovations account for a major part of the Company's capital expenditures.
- Capital expenditures are financed with cash generated from operations.

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## Macroeconomic Indicators

| Indicator           | 2012  | 2013 | 2014E |
|---------------------|-------|------|-------|
| GDP growth          | 2.1%  | 4.1% | 3.0%  |
| Private Consumption | -0.5% | 5.1% | 2.1%  |
| CPI Inflation       | 6.2%  | 7.4% | 9.4%  |
| USD/TL rate (y.e.)  | 1.78  | 2.13 | 2.22  |
| USD/TL rate (avg)   | 1.80  | 1.92 | 2.17  |

## Teknosa's Targets in 2014

### **Growth over the market; stores&online**

- Stores; new openings and LfL
- Maintain strong growth in e-commerce

### **Aftersales services**

- Develop new products & increase attachment rate

### **Customer centricity**

- Over 4m loyalty customers
- Continue to invest in CEM projects

### **Consumer financing models**

- Develop new models to complement credit card system
- Potentially a new profit center

### **Tactical opportunities**

- Utilize cash position in difficult macro environment

### **Dividend**

- Dividend policy is to distribute 100% of the distributable income to our shareholders

## 2014 Targets Checklist...

### **Growth over the market; stores&online**

- Net store space up by 8% YoY in 9M14
- On-line sales up by 73% YoY to TL 208mn

### **Aftersales services**

- Aftersales services increased to 2x of 9M13 level, nearly doubling YoY in TL terms

### **Customer centricity**

- 4.3m loyalty customers in 9M14, compared to 3.8m in FY13

### **Consumer financing models**

- TeknoKredi fully launched in June with ING Bank, Akbank also launched Kredi Ekspres in October.

### **Tactical opportunities**

- Strong cash position effectively being used with suppliers for more favorable terms

### **Dividend**

- TL 0.40/share gross cash dividend distributed on April 2, implying 3.5% dividend yield

## 2014 Full Year Financial Guidance

|                                | 2013<br>FORECAST | 2013<br>ACTUAL | 2014E<br>OLD | 2014E<br>NEW  |
|--------------------------------|------------------|----------------|--------------|---------------|
| <b>YE Net Sales Area (km2)</b> | 165-170          | 166            | 175-180      | 175           |
| <b>Net Sales (TL mn)</b>       | 2,900 – 3,000    | 2,957          | 3,200-3,300  | 3,000 - 3,100 |
| <b>Growth (%)</b>              | 25%-30%          | 27%            | 8%-12%       | 1%-5%         |
| <b>LFL Growth (%)</b>          | 15%-20%          | 13%            | 0%           | -4%           |
| <b>EBITDA (%)</b>              | 4.5%-4.7%        | 4.5%           | 3.5%         | 2.8%-3.2%     |
| <b>CAPEX (TL mn)</b>           | 60-65            | 56             | 60           | 55-60         |

Note: EBITDA excludes Other Income/Expenses

## Our 3-5 year growth plan...

|                                  | 2014E     | 2015-2020   |
|----------------------------------|-----------|-------------|
| <b>Market Growth</b>             | 15%       | 10%-15%/yr  |
| <b>YE Net Sales Area (km2)</b>   | 175       | +20K sqm/yr |
| <b>TKNSA Top-line Growth (%)</b> | 1%-5%     | ~20%/yr     |
| <b>LFL Growth (%)</b>            | -4%       | 10%-15%/yr  |
| <b>EBITDA (%)</b>                | 2.8%-3.2% | 4.0%-5.0%   |
| <b>CAPEX (TL mn)</b>             | 55-60     | ~60         |

Note: EBITDA excludes Other Income/Expenses

## Our 3-5 year growth plan...

- **Benefitting from the «Economic Darwinism» as the strongest player...**
  - Control costs in order to adopt to 10-15% annual market growth
  - Utilize debt-free strong balance sheet
  - Strengthen our foothold in the sector via market share gains
- **E-commerce is the new frontier...**
  - Further benefit from the low penetrated e-commerce market of Turkey
  - Carry on perfecting our omni-channel business model with teknosa.com
  - Position kliksa.com as the leading pure-player in Turkey
  - Derive ~25% of our consolidated revenues from our e-commerce over the next 4-5 years.
- **Evolving our business model into a service provider...**
  - Evolve into a «service provider» from a «classical box mover»
  - Improve our CRM capabilities,
  - Offer new & enhanced after sales products
  - Further differentiate Teknosa from the competition

## Our 3-5 year growth plan...

- **Laying the foundations for new services to our clients...**
  - Consumer financing options under TeknoFinans brand
  - Telecom contract sales in order to provide a complete service and boost market share in telecom products
- **~20% annual top-line growth targeted over the next 3-5 years...**
  - Add +20K sqm net selling area each year
  - Maintain a 10-15% LfL

Thank You

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