



Şok Marketler Ticaret A.Ş.  
Q1 2018 Results Webcast  
Q&A Transcript

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**Operator**

*[Operator instructions]*

We have our first question from Görkem Görker from Yapı Kredi Yatırım. Please go ahead.

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**Görkem Görker**

Could you please provide us more information about this transformation of UCZ stores to Şok Mini, and as far as I see, I see 98 closures in total when compared to end 2017. So what would be the developments on that front? Secondly, what percentage of revenues are from tobacco this quarter when compared to last year and its margin contribution. Lastly, and a request, actually, you have provided very useful details for us in the IPO process, such as EBITDA contribution of your stores with respect to ages and breakdown of your CapEx, so it would be great if you were to share such useful information going forward on a quarterly basis as well. Thank you very much.

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**Uğur Demirel**

First of all regarding UCZ stores, as you know we acquired UCZ at the end of 2017. Right now, as I explained to you during the IPO process, it is in pilot for us to make another smaller format. What we are doing here, we are trying to develop a new small format and we started to convert some of the UCZ stores to the Şok Mini, and 48 of them have been considered and those transformed stores are doing very well and it is promising. Our trend is to finalise all the transformation within 2018 and after being sure that, I would like to test it a few quarters, so to be sure that it is working very well and then we can consider to invest and open more and more stores.

Some of them, yes, we have already closed some of them because of the size of the stores. The new format, we have established around 80-100 square metres, lower than those size of the stores we decided to close because the format is not working. That is one of the reasons, and the second one is some of the stores in terms of performance were not doing well on the UCZ brand, so we decided to close. At the end of the year, probably, we will have around 300 Şok Mini stores.

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**Ziya Kayacan**

About the tobacco percentage, if I look at the March quarterly figures, the percentage of tobacco is not so different from the year-end, which is about 13% level. About [inaudible] capital expenditures, we provide it better on the yearly basis for 2017 and the year before, and we can consider it, we will discuss it internally to provide it better maybe in the following webcasts.

About the CapEx, we try to give, of course, this time total number and try to give also number of stores opening and the conversions. If you remember the last year's CapEx, the figure it was TL 208,000 on average, we expect that also this will be increased by inflation, so we are not so far from this level as far as the first quarter is concerned for the store...

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### **Görkem Görker**

Just to clarify, when you say non- Şok operations, you do not include Şok Mini into total, right.

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### **Ziya Kayacan**

Non-Şok means something else. You know that we acquired Teközel, this is the private label and exclusive procurement company, and we acquired this company we are selling to Şok, as well as to others customers. As a management, what we decided, not to go on with the customers other than Şok, which means that this company will be only selling – providing product only for Şok. Since this company, these operations are not stopped as far as the first quarter, we continue to report as a consolidated basis. Now, as far as April is concerned in the second quarter, this operation is stopped, since we will not report any more these operations, we try to give you better comparison, that is why we excluded these numbers from our results for your understanding.

Remember, at the end of the year, also, IPO process, we also gave you these numbers in comparison with the previous year. Şok Mini results are included in our main results, but Teközel customers, which are out of Şok, they are excluded from sales, they are excluded from gross margin and also from EBITDA in order to give you a better picture for the continuing operations.

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### **Operator**

Our next question is from Hanzade Kilickiran from J.P. Morgan. Please go ahead.

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### **Hanzade Kilickiran**

I have a question about your basket size improvement. Is it possible for you to provide some guidance for the rest of the year, including the weakness in the first quarter, and you mentioned about some warehouse issues that prevents an improvement in the basket size. Can you please explain this a bit more in detail? Is this something temporary that will never occur in the future?

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**Ziya Kayacan**

This is one temporary issue for the warehouses, especially the bigger one. Now, we came back to our business and operation, now they are fixed, it was one-off issue, so we don't see any issue especially starting from May and for the coming quarters, we are expecting in line with the internal inflation, I would say.

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**Hanzade Kilickiran**

And your internal inflation is a couple of percentage points below the headline inflation, like around 10% we can say, right.

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**Ziya Kayacan**

Of course it changes from quarter to quarter, it can be about around 11%, you remember in the first quarter, and as we said before also, we are a couple of percent less than with CPI. Our aim is to keep up at least CPI level and also continue with a very strong customer strategy where we are focusing on more competitive basket size.

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**Hanzade Kilickiran**

And also about the traffic growth, sorry, I couldn't download your presentation on the website; I presume that you have around 4% traffic growth according to your basket size growth and the like-for-like growth. Going into IPO, you provide us some details about the traffic growth according to the store ages, what I wonder is that do you see still strong traffic growth in your mature stores.

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**Uğur Demirel**

Yes, we can say at the end of the first quarter, we have experienced 4.6% in season traffic. We can easily say that we see similar, on average, similar things in all the major stores. This is a very important KPI for us; it proves that we are gaining market or customers from the competition.

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**Operator**

Our next question is from Mete Ozbek from ÜNLÜ & Co. Please go ahead.

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**Mete Ozbek**

My question is about the OpEx. I understand that in your business, the OpEx is kind of front-loaded and at the beginning of the year, the OpEx would be relatively high, but we see around 46% increase in the logistics expenses in your OpEx and around 42% increase in your personnel expenses, both well ahead of the revenues growth. Could you please provide a more [inaudible] about the trajectory of these OpEx items throughout the year, so should we expect a normalisation or even a lower than revenue growth, growth in both items to achieve operational efficiency and margin expansion in the following quarters?

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**Ziya Kayacan**

As I explained that first quarter of the year, generally, we experienced relatively low sales revenue after year-end and January, February and March and then the season starts for us in May. Until the end of the year, we had very strong revenue, so almost 20-22% of our sales we experience in the first quarter, while less than that EBITDA number or percentage to be realised in the first quarter, because we have relatively less OpEx leverage. You can also understand that we started the year with personnel cost increases (salary increases) and because [inaudible] the first quarter more compared to other quarters, since most of our costs are fixed, so we realised significant leverage as our revenue growth, so you will see in the second quarter our EBITDA margin also improved considerably in line with our expectations. For the personnel expenses specifically, we have experienced relatively high minimum wage salary, and the Government said that they will incentivise this, subsidise this.

We haven't experienced a positive, let's say, reflection on our financials yet, probably we will get this advantage starting by June, let's say, and then almost nine months of this will be reflected on the remaining periods of the year, so this will also significantly lower our OpEx and will help us to get also better EBITDA margin in the next quarter, besides the OpEx leverage which we clearly get from the revenue increases.

This is the same thing for the warehouses, because warehouses, almost half of our costs are fixed and we will get benefit from this leverage in the following quarters. Also, within these [inaudible] I mean minimum wage salaries, again, that is incentive we will get from the government will help us to lower our logistic expenses as well. In summary, you can easily see that most of our costs are fixed and we do not yet get benefits of the minimum wage subsidy, and as we get this leverage in revenue and also this subsidy, you will see easily that our EBITDA margin will improve month by month.

As far as the second quarter, we already witnessed this leverage impact in our results in EBITDA margin improvement.

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**Mete Ozbek**

Do you have any number in your mind about this missing subsidy, so that we can understand the abnormal impact on your OpEx? Do you have anything you can share with us?

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**Ziya Kayacan**

It is about 0.2% roughly.

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**Mete Ozbek**

Of revenues.

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**Ziya Kayacan**

Yes, 0.2%...

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**Operator**

We have a question from Berna Kurbay from BGC Partners. Please go ahead.

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**Berna Kurbay**

Good afternoon and thank you for the presentation, I have got a couple of questions. The first one is just to clarify the explanations you gave earlier about the non-Şok related part of Teközel revenue. I understand that you are in the process of phasing it out and those operations will be phased out by the end of this year or did you say that they're only phased out in April?

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**Ziya Kayacan**

In April it is done, at the end of March let's say, so in June results we will not consolidate anything about the Teközel. This is our plan and so we will report first half and the second quarter of the year without any non- Şok operations or Teközel, which very clearly shows our real performances. As I said earlier, for example it seems our revenue growth is 31%, but real growth of our operations, which we will continue to 35%, is the same thing for gross margin, we are able to make a 3% impact in gross margin side, and our EBITDA also 13.5 instead of the lower figure, which [inaudible] especially [audio] I mean financials mostly negatively, and when we come to June results you will see six months and second quarter without Teközel [intervention] let's say.

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**Berna Kurbay**

My second question is about the net interest expense you show in your income statements on trade payables and trade receivables. The net amount is around 2.3% of revenue in the first quarter, if I calculated it correctly, and I was wondering where you see this evolving towards the end of this year and going forward, because that also seems to be a drag on your bottom line. My final question is about your targets for 2018. I was wondering if it would be possible for you to share the main targets for the full year. Thank you.

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**Ziya Kayacan**

For your first question about this interest [inaudible]. Remember from our discussion that it is related to our working capital capability. We are working with the negative working capital, so we get the benefit of it in our P&L, so there is nothing changed on the bottom line about it. It's only changed our gross margin and EBITDA profitability, and the counterpart is in our cash flow, you remember in our discussion, so that of course interest, this line is affected by the working capital level in days also, as well as the interest rate, but for these calculations we take into account not only it's monthly fluctuations, but we really prefer to have the cumulative numbers, so that such an impact on the interest rate will not further our figures, which you have seen in this line, so that's why I should say that this 2.3% more or less will be, let's say, sustainable during the year. This is our, at least, forecast, let me say that.

About year-end, for this moment we are not able to give any guidance for the full year, but what I should say is that for the store guidance we have already near 1,100 stores and our other figures like EBITDA and sales revenue, we have already... we have just completed our IPO processes and many analysts also cover us somehow, I mean there is some market consensus. We believe that they are not so far from the market consensus in general and [inaudible] I should say, and we are going in the right direction to achieve this plan.

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**Berna Kurbay**

One final point, if I may, or one final question, do you observe any weakening in consumer sentiment so far in the second quarter? I understand that the numbers are in line with your expectations and you're performing well, but I was wondering if you can share any colour as to the strengths that you see, that you observe in the market, given the level of exchange rates and higher interest rates. Thank you.

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**Ziya Kayacan**

Actually we don't see any big difference to what we are doing right now. As you know, there is a market fluctuation, but as we already said, we are lucky, we are in the right sector, we are discounters, and our business is so different and our business model and operating model is so different, so that we are pretty

sure that we know what we are doing and we are in line with our expectation and the market's consensus, so we are happy to say that.

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**Operator**

*[No further audio questions]*

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**Unnamed Company Representative**

We will be switching to the questions that we received from the web. One question is from Burak Isyar from ICBC. His question is "just to make sure you had 4,354 stores in Q1 '17, is that correct?"

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**Uğur Demirel**

Our store numbers for 2017, yes, it's a net figure, 4,354 is the number we have at the end of first quarter 2017 in the Şok stores.

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**Unnamed Company Representative**

Also one question again from Burak Isyar is "could you please provide us with the number of personnel at Q1 '17?"

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**Ziya Kayacan**

This is about... between 900 and, let's say, 19,500 personnel roughly for 2017 first quarter.

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**Unnamed Company Representative**

One question we have is from Neuberger Berman, [Marco Spinar]. His question is "what is the guidance for like-for-like growth for 2018? Is that in line with consensus estimates?"

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**Ziya Kayacan**

So for what we have said during the IPO process also, we target to achieve 3-4% above our internal inflation, so which means that it is 9%, let's say, internal inflation this year plus 13% like-for-like growth we can assume. So far we are not so far from this target. The first quarter was a little bit low, but if I look at the May and June results we face now, our like for likes are improving considerably, so we do not change our yearly plan, so we will believe that we will get results at the end of the year, so we believe that we are not so far from the market guidance let's say.

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#### **Unnamed Company Representative**

The other question is from Paul Trejo, Goldman Sachs. His question is "please explain the warehouse issue and how it was resolved?" His follow-up question on this is "please update on like-for-like performance as the warehouse and stock-out issue was resolved."

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#### **Uğur Demirel**

Actually, especially some of the big warehouses, we had some delivery issue [inaudible] full detail for the operational, collecting the cases from the operations because of the high volumes and because of the free currency of the transportation, so that we came to our business and we have now fixed it, and it has been solved. Starting from May, it's getting better and better, and we have improved our own share of availability.

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#### **Unnamed Company Representative**

The next question is from Christoph Brinkman from BlackRock. "Could you provide some more colour on the like-for-like growth in April and May?"

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#### **Ziya Kayacan**

I mean, this warehouse problem is fixed, as I said, in April, so starting by May, again, we return to our original target level, so in terms of basket size, they are going in line with what I said for the yearly target level, so inflation plus 3% at least, what we said for the yearly number, so we come back to our original position in that KPI.

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#### **Unnamed Company Representative**

The next question is from Garanti, [inaudible], but this is about the warehouse issue that we just received and we explained this. With this question, we completed our questions list that we received from the

webpage. One last question we received now from, again, [Marco Spinar]. “Can you clarify the difference between internal inflation and general CPI?”

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### **Ziya Kayacan**

If you look at the first quarter CPI, it's about 11% and internal inflation is about 2% less than CPI... it's about 9%.

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### **Uğur Demirel**

I think that's all for the questions. Ladies and gentlemen, I would like to thank you all for your attendance of our webcast. As discussed in our presentation, we are very happy to deliver our promise on a profitable, [inaudible], and growing company in the first quarter of the year. We believe that you will see the positive trends in our financial and the growing network during the rest of the year as well, so this performance will be reflective also of the bottom line of our company after substantial deleveraging in our whole balance sheet. Following the successful of the public offering and the positive result of the first quarter, we are now even more motivated to further improve our company's results and to deliver our promises to the investment community. We thank you all for your participation and hope to see you again. Thank you very much.

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