

Transcription
Şok Marketler,
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Operator

[Operator instructions]

Our first question comes from Cemal Demirtas from Ata Invest. Please go ahead.

Cemal Demirtas

My question is related to your top line growth. I see like-for-like per average customer declined versus increase in the average basket size. Could you further elaborate the dynamics in your top line growth so far? Do you see any further room for operational efficiency of your new stores or contribution from the new stores? How much room do you see, at least for now, for the top line growth? Thank you.

Uğur Demirel

First of all, we need to divide two to the first quarter, before COVID-19 and after COVID-19. As I told you already, before COVID we were in line with our expectation both on the top line and gross margin and the other things. After COVID-19, as we all know, we have seen a high demand from the market. It took two weeks and after two weeks it started to become normalized.

Coming to the like-for-like growth on traffic side, as you can understand that people are more sensitive not to go out and they come less to our stores, so the frequency of the shopping is getting less and less, so when they come to the stores, they purchase more. This is the typical shopping behavior of the pandemic atmosphere. I think that it may continue for a while, but maybe I can elaborate for further months what is going to happen.

As you know, home consumption started to get higher and higher whenever people are at home. We sell more from our stores. The out of home consumption, I think that will be slower in the coming months. This is my guess also. Whenever people will continue consumption at home, so we will be able to sell more, but it will not be, again, as much as (higher) compared to the first quarter.

Cemal Demirtas

As a follow-up, I have a question about your fruit and vegetable section, you had a very good value proposition in that side, but I want to understand, do you think you are at the stage that you want to be or you need further efforts to become more efficient in that front. Thank you.

Uğur Demirel

For fruit and vegetables, you know that we have direct sourcing from the farmers, so we have many platforms across Turkey. This is one of the competitive edges of our company. We are having some contracts with the farmers, so the contract terms is getting higher and higher in terms of SKUs for the products. In each year, we are getting more experience, and when we have more experience, we are going more in... we are very happy about this vertical integration, I would say, for the fruit and vegetables.

Cemal Demirtas

By the way, I'm a customer of Şok. I was locked down in the house and I was happy with it so far, if I have any problems, I will let you know.

Uğur Demirel

Thank you for your feedback. We will be happy to take your feedback, Cemal Bey.



Operator

[Operator instructions]

Our next question comes from Metin Esendal from Renaissance Capital. Please go ahead.

Metin Esendal

I have a question on home delivery. What's the share of home delivery revenues in total in April? I know it's very early, maybe you can share just towards the end of the month, but I would like to learn what was the share in total.

Uğur Demirel

As you said, it's very early to talk about the home delivery right now, but there's a demand, there's a stronger demand especially coming from the COVID-19 period. I think that we have to wait and see. What is important after COVID-19, what is going to happen, this is the crucial one. Other than the percentage of sales, this is a strategic business for us, to prepare my company for the future. This is very important for us, that's why we have been investing those e-commerce at least for two years. As you remember, we had already click and collect option in Cepte ŞOK, now we have been working on for more than one a half years for the home delivery, so we were about to launch it in two to three months, so we pushed the button after COVID-19 period, even if we weren't 100% ready yet.

This is very strategical channel for us and we are continuing to invest in that Cepte ŞOK business model, but in terms of sales, it's very early to talk about it.

Metin Esendal

The second question on the financial expenses, as you mentioned the net cash position of the company is improving, but we still see that financial expenses are still high. Can you elaborate a bit, given that the interest expense is declining, your cash position improving, why shouldn't we see the impact on the P&L yet?

Ziya Kayacan

Firstly, you know that our financial expenses excluding expense income or expense on payable side, financial expense is coming from the credit cards and also leasing assets, this is diminishing each and every quarter, with high sales on our top line. We also got early benefit of the high volume in our cash position, so with this cash generation for the coming quarters, financial expenses, it seems will decrease more than we expected at the beginning of the year, so that we still have some financial expenses. This is coming from the main discount and credit card [inaudible] and also limited financial leases, but you can see as a percentage-wise, also in Turkish lira, this is diminishing. It's only TL 20 million. Hopefully, for the coming quarters, this will diminish and diminish and we will be in much better shape in the financial expenses side. This will clearly have a major impact on our bottom line.

I should say that these financial expenses will diminish each and every quarter because of our high cash generation. It will take some quarters to see minimum numbers on that.

Metin Esendal

I think I misled you, I was referring to financial expenses from credit purchases on trade payables line, which is under other income and expenses. That's the point that I think we should see some kind of decline in the coming quarters, right, I mean given the decline—

Ziya Kayacan

You are right, Mr. Demirel also underlined it, that's the reason why we do not change our EBITDA guidance. You know that gross margin and EBITDA are impacted by the interest rate, but on the other hand, when we go to net income side, this effect becomes limited or even becomes zero. What I would like to say that our EBITDA and gross margin



could be impacted, but our financial expenses on payables side also positively impacted with the decreasing rate. But, again, currently still, in the trading side, interest rates are not as low as you see from the news. We are able to still consider higher interest rates than the market, but this is decreasing and decreasing over the quarters. As you said that in the next quarters, our financial expenses, in line with the lower interest rate, including payables side, also, will decrease. It will be over the quarters, it will be gradual, let's say.

Operator

[Operator instructions]

Our next question comes from Görkem Göker from Yapı Kredi Yatırım. Please go ahead.

Görkem Göker

I have a couple of questions. The first one is regarding this [get-up] impact, this recycling cost. As your private label sales are increasing, is there a meaningful level of adverse impact on your gross margin?

My second question is about your online. Again, I'm aware that it is too early but considering the size of your basket when compared to ordinary supermarket, would it be still feasible for you to make online delivery at these basket levels or how do you expect it to evolve going forward. Is it possible to provide a numeric number regarding the cost per delivery, something like that, any KPI? These are my questions for the time being. Thank you.

Uğur Demirel

I can start online and Ziya Bey, you may answer it.

Coming to, again, online I will tell the same thing that it's too early really, but the basket compared to the offline basket is considerably high, so that I think whenever we grow with Cepte ŞOK, it will help us to increase our basket size, so it's very important. Instead of [coffee shop] purchasing from the stores, online shoppers are the main shoppers of the supermarket, so basket size is very high, really it's a significant number we can see. Again, we have to wait and see after COVID into normal period.

In terms of cost, the advantage of Şok is to serve from the more than 7,000 stores. Everybody talks about the dark stores or delivery from the stores whatsoever, so I have been able to deliver from over 7,000 stores across 81 cities. This is an advantage of Şok, and right now we just started to deliver just for our neighborhood to just 500 meters around the stores. We are going to improve it for the coming months with another business model, so that there will not be, for our estimation, as a cost-minded people, there will not be additional costs in terms of percentage of sales. That's our target. Whenever we have more sales, we will add more cost or people, I would say, and if you don't have sales, so we will not add people. That's our target.

Görkem Göker

Just a follow-up at this time, under new strategy, can we see some partnerships with the companies already operating in this business, such as [inaudible] since it is one of your sister companies.

Uğur Demirel

No, this is our own business model, so this is just for Şok business, and we will continue to do our business as ourselves. We are not considering any partnership.

Ziya Kayacan

For [get-up], of course this is a burden for everybody. Our private label percentage already increased from last year 27 to 25% almost, but even with this number, even it's a burden, you can see from our gross margin, I relayed to you our performance and got a percentage over 24% in the first quarter. This is a really limited dilutive impact of [get-



up] on our results, but we can manage this dilutive impact with our other gross margin performance actions, and there will be no visible impact of that in our results, I should say. Very minor, let's say.

Görkem Göker

Actually a request, Uğur Bey, could you be so kind to reiterate your comments regarding the development in the market, especially your comments on quantities. I couldn't take that part very accurately.

Uğur Demirel

According to research that we are having from the market, modern channel in terms of volume has grown around 9%, and the traditional channel is diminishing by 2%, so traditional channel is still losing ground and modern channel is getting more and more market share. That's, again, widespread opportunity for all the modern channel retailers, so we have observed last year minus 5% growth in terms of volume on FMCG. Now, this year is getting stronger.

Operator

[Operator instructions]

There are no other questions over the phone. Dear speakers, we can switch to the written Q&A.

Çağrı Demirel

We have some written questions as well.

“Can you give some color on numbers for basket and traffic growth in April, any additional costs related to COVID-19 measures, and also store output?”

Uğur Demirel

In terms of like-for-like growth, as I told you, traffic is getting... when we say traffic - just to remind - it's not the number of customers, it's the number of receipts, actually, daily basis we follow, so the number of receipts is decreasing, but the basket size is significantly higher compared to COVID-19 period. In terms of cost related to the COVID-19, yes, we are having some costs, because we are providing some hygienic and disinfection and the masks to our people, to more than 30,000 people, so there is a cost, but considering our big numbers in the company, so this is negligible, I would say. Yes, there are some costs.

In terms of store openings, all the stores are open, by the way, operationally, but if the question is related to the new store openings, we don't have any issue up to date for the new store openings as well.

Çağrı Demirel

Another question from [inaudible].

“Congratulations with great results. If it is possible, three quick questions from my side. First one, could you provide any guidance on free cash flow generation for 2020? Second one, what is the midterm target for online business, percentage of consolidated revenue coming from online, or some other KPI? What is the ROIC that you guide for your investments, new openings? Thank you a lot for your answers.”

Uğur Demirel

I think that - related to the online question, I have already answered it, the rest of them, Ziya Bey, maybe you can talk about it.



Ziya Kayacan

The free cash flow of 2020, we don't, unfortunately, give a guidance on that, but I can give some color on what it could be. We generated already over 3% free cash flow in the first quarter, mainly coming from the profit for the year, and change in working capital. These two items, of course, over the quarter really improved, so we expect more cash from the change in working capital in our sales during the summer time and for the rest of the year, generally, much better than the first quarter, except this year because of the COVID impact in March. Normally, we expect again increase on cash from working capital and profit for the rest of the year, so that this will be the case.

Our investments, we already spent part of it and it will be almost stable for the rest of year. What I would like to say that our free cash flow generation will continue for the rest of the year. As a percentage-wise, as a number, unfortunately we are not able to give any guidance for the moment, but maybe we can consider it for future quarters if we have some guidance on that as well.

Çağrı, can you remind me the last question about the financial side.

Çağrı Demirel

“What is the return on investment that you are guiding for your investments, new openings, and etc?”

Ziya Kayacan

It's a good question. In fact, return on investment is our key criteria for opening stores, so we have a weekly committee who decides on the openings, there are many projects coming to the table and we decide on the project giving around a 24-month payback period. Other than this we don't accept and, again, there is a negotiation started with landlords etc, and we accept only stores giving 24-month payback period. This is our main criteria for the return on investments.

Çağrı Demirel

Next question is from [inaudible].

“Could you please elaborate more on Cepte ŞOK operations, how deliveries are done, to what distance, how long does it take, what is the cost to Şok etc?”

Uğur Demirel

First of all, the distance is about 500 meters around the stores. As I told you, we are not 100% ready yet to increase more coverage, so that we are delivering by our managers' care right now, but we have a plan to deliver with other tools that we will launch it later on. When we launch it... so we are going to extend the distance to cover more household people. The cost, again, is related to the sales, only the cost right now is the personnel cost, depending on the [non-card], so we are elaborating it.

Çağrı Demirel

Next question from Morgan Stanley on home delivery.

“How basket size of online order compare to the basket size in stores?”

Uğur Demirel

It's considerably high compared to the stores, significantly higher, I would say. One more thing, the minimum delivery for the basket is TL 50, just to remind you, TL 50 and our basket size is about between TL 17-18, and the minimum order for Cepte ŞOK is TL 50.



Çağrı Demirel

Next question from [inaudible].

“Do you see any risk on CapEx guidance, I mean despite the depreciation of Turkish lira, you did not change your CapEx guidance while keeping same number of store openings. Furthermore, is there additional CapEx decline to Cepte ŞOK?”

Ziya Kayacan

I can answer your first question about the capital expenditure, a good question. In fact, you know that some part of our capital expenditure is foreign currency and we have seen high depreciation in the Turkish lira in the recent weeks. Of course, for the moment, as the first quarter is concerned, as you can calculate from the numbers we have presented, the cost of CapEx per store did not increase over the quarters, so we achieved really a significant effort on negotiation with contractors, like we did in operational expenses side. But currently FX rate for 2020 is more than what we expected, so it could have some dilutive impact on CapEx per store. We did not change our yearly guidance for the moment, because we believe that we can handle this issue with our, again, negotiating with landlords, but if the FX rate continues to increase in such a trend, of course, it will be inevitable to see some increase in capital expenditure side. We will see.

Çağrı Demirel

Next question from Deniz Invest [inaudible].

“[Inaudible] start to normalize, what kind of change will you have to make to keep social distance in store. Do you think this might reduce the efficiency of stores or how do you think you might overcome this issue? In the longer term, do you think you will have opportunity to open new big stores?”

Uğur Demirel

When things start to normalize, I think people will be careful to go less and less to the stores, so the frequency will be, I think, again, less at least for a while. I don't think there will be reduction in our efficiency on our stores. What is important is the top line, so whenever home consumption will continue, our top line will be good, so I don't see any risk in terms of reduction of efficiency in our stores.

Çağrı Demirel

Paul [Fraser] from Goldman Sachs.

“How would you think about lowering payable financial expenses via shorter payment terms to suppliers now that you have a high cash balance?”

Uğur Demirel

That's one of our strategies when we have more cash, so there can be many things to do. This is one of the things that we can pay earlier to the supplier and get more margin. This is related to negotiation with the suppliers, so we are already having some of them. We can extend it more when we have more and more cash. That's true.

Çağrı Demirel

Second question of Paul.

“Can you please comment on Government investigations into price of hygienic products at retailers?”

Uğur Demirel



We heard that there will be some investigation but I'm not sure this is related to hygienic items. It can be hygienic items, by the way, we will see. I cannot comment about it yet.

Çağrı Demirel

We do not have any further questions.

Conclusion

Uğur Demirel

Thank you very much for your participation. Hope to see you in healthy days in the coming quarters.