

Equity / Large Cap. / Integrated Textile

Koton Mağazacılık

11/11/2024

Initiation of Coverage

Affordable Fashion for Everyone

We are initiating our coverage for KOTON with a BUY recommendation and a price target of 39TL/share, implying an upside potential of 117%. The stock is trading at 2025E P/E of 9.5x with a discount of 25% compared to its international peers. Following the successful rebound story in the post-Covid period, Koton is poised for further growth thanks to its strong positioning as a regional mass fashion brand in a large addressable market. With its strong brand, omni-channel presence, international expansion efforts and experienced management team, the company is well positioned to capitalize on favorable market dynamics and growing demand for affordable and trendy fashion.

Operating in over 70 countries, Koton is a regional player focused on attractive and growing markets. Koton ranks among the top three in all major categories, with a 3.3% market share in Turkish apparel retail market. Koton also has strong presence in CIS, CEE and MENA. The Company's multi-channel strategy provides access to a wide range of customers. In addition to a well-crafted retail strategy, Koton solidifies its market position through its asset-light franchise model, robust online sales channels, and effective partnerships with marketplaces and wholesale distributors. The company currently has 243 stores in Türkiye, 201 stores abroad, along with wholesale and online channels. Türkiye and Koton's primary international markets have favorable macro and demographics trends, translating into superior apparel market growth rates.

Profitable growth is to continue. Overall, we estimate top-line to grow at a CAGR of 7.5% in real terms between 2024 and 2029. The growth will be mainly driven by international operations with expected increase in sales area through franchise model and expanding international online penetration. Accordingly, share of international revenues is expected to increase from 36% in 2023 to 43% in 2029. Koton's profitable growth is to continue to be contributed by high sell-through rates, further optimization in mark-up and mark-down and sustainable track record of keeping inventory purchases below inflation. We project adjusted EBITDA (including other income/expense and credit card commissions) margin to gradually increase from 11.5% in 2024 to 14.4% in 2029. We expect some margin pressure in the short-term due to macro pressures. However, we believe company's efforts to increase sale density with ongoing store renovations and improved omnichannel offerings will also support the margins, going forward.

BUY

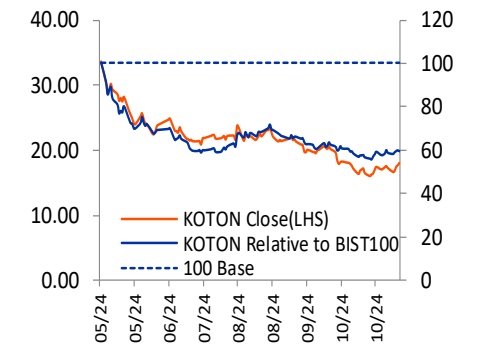
Upside Potential 117%

Stock Data	TL
Price	17.97
Target Price*	39.02
Prev.TP	-
Mcap (mn)	14,909
Float Mcap (mn)	1,962
Avg.Daily Volume (3M, mn)	
No. of Shares Outstanding (mn)	830
Free Float (%)	13
Foreign Share (%)	3

Price Perf. (%)	1 Mn	Ytd	12 Mn
TL	-0.1	na	na
US\$	-0.3	na	na
Rel.to BIST-100	-1.6	na	na

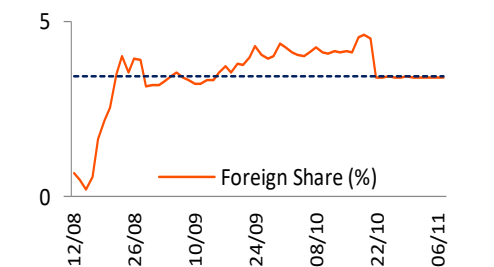
Multiples	2023	2024	2025
P/E	6.1	8.6	9.5
P/BV	2.9	2.2	1.8
EV/EBITDA	4.6	3.5	3.2

Price / Relative Price



52 Week Range (Close TL) 0.00 0.00

Foreign Share (%) Cur.(%) : 3.41



Ezgi Akalan

eakalan@isyatirim.com.tr

+90 212 350 25 86

**INVESTMENT
THEME****INVESTMENT POSITIVES**

Strong positioning in a large addressable market as a regional mass fashion brand. Operating in over 70 countries, Koton is a regional player focused on attractive and growing markets in within a total addressable market worth of USD 90 billion (source: OC&C). Koton ranks among the top three in all major categories, with a 3.3% market share in Turkish apparel retail market (5.0% in womenswear). Koton also has strong presence in CIS, CEE and MENA. The Company's multi-channel strategy provides access to a wide range of customers. In addition to a well-crafted retail strategy, Koton solidifies its market position through its asset-light franchise model, robust online sales channels, and effective partnerships with marketplaces and wholesale distributors. The company currently has 243 stores in Türkiye, 201 stores abroad, along with wholesale and online channels. The Company's retail space in Türkiye grew more than two folds from 117K sqm in 2012 to 225K sqm in 2023, while international retail space more than tripled from only 47K sqm in 2012 to 166K sqm in 2023.

A successful turnover story with increased focus on profitability. Koton has launched a store optimization program during the pandemic aiming to increase store productivity and profitability. The program included eliminating stores with low profitability, disciplined store opening, requiring 29% contribution margin for 0-2 years stores (in line with the average of retail network) and finally renovation of legacy stores with new layout and styling. Under this program, the Company closed 61 stores in Türkiye and 50 international stores, while opening 16 and 60 new stores in Türkiye and abroad between 2021 and 2023. Moreover, store renovations was another factor supporting contribution margins. During the same period, the Company renovated 109 stores. Contribution margin of renovated stores increased from 20% to 29%, one year after the renovation. Consequently, per sqm revenues grew from USD805 in 2021 to USD1,260 in 2023, while Adj EBITDA margin improved by 3.7ppt. Koton aims to grow through corporate stores in Turkey and mainly through franchise stores in international arena, while focusing on store efficiency with ongoing renovation plans and multi-channel push, going forward.

Supporting macro and demographics. Türkiye and Koton's primary international markets have favorable macro and demographics trends supporting superior apparel market growth rates. These trends are faster population growth (1.2% CAGR in Türkiye and 1.1% in primary markets during 2013-2022), real GDP growth of 9.4% in Türkiye and 3.2% in primary markets, high increase in female labor participation as % of total workforce (4% CAGR in Türkiye vs 2.5% in primary markets). These factors translate into high apparel market growth* (4.8% real growth in Türkiye and 2.6% in primary markets), larger share of consumer spend in GDP (4.1% in Türkiye and 2.6% in primary markets in 2021) and finally, higher apparel unit price growth** (3.5% CAGR in Türkiye and -0.5% in primary markets between 2013 and 2023 years).

* Contribution margin = (Gross Profit-Personnel Expenses-Rent Expenses-Other Expenses)/Revenue.

*The apparel industry in Türkiye and primary markets (North Macedonia, Kazakhstan, Serbia, Bosnia, Morocco, Georgia, Saudi Arabia and UAE) grew at the CAGRs indicated between 2013 and 2019.

**Apparel unit price growth measures the increase in the prices consumers pay for apparel products.

Koton Mağazacılık Tekstil Sanayi Ticaret

Affordable love brand with wide product range for every occasion. Koton has strong brand awareness with a loyal, young and trendy customer base in Türkiye. Higher fashion sense and quality compared to local competitors, who mainly focus on basics, and broad collection with over 30,000 SKUs are the key differentiators for the company. According to OC&C's web scraping sample (2023), in the total number of men and women options' comparison the number one player provides 15k options while Koton offers 13k options. As compared to global players in the local market, the company stands out with its competitive prices. In the price index, Koton is approximately 20% higher than the two leading local players, while being 35% to 60% cheaper than international brands. The company achieves this advantage through its competitive supplier base in Türkiye. 48% of Koton's customers have shopped at Koton three or more times in the one last year.

At the right time and right place with the right product. Womenswear, which have the largest share in Türkiye's apparel market (37% in USD terms in 2022), is the largest category for Koton with 57% share in total number of clients. Koton's revenues across major product categories consist of women (50%), men (25%), kids (16%) and accessories (9%) in 2023. Customers who define their fashion sense as modern has 77% share among Koton's clients. This segment has high purchase frequency to keep up with latest trends. Customers earning higher than TL 35K monthly income accounts for 36% share in Koton's customers. This is the highest contributing segment to apparel spend in Türkiye. Additionally, 59% of the customers are in 25-44 years age bracket with high propensity to spend on apparel.

Home advantage in procurement, optimized warehouse management and logistics. Türkiye is the largest textile producer in Europe and ranks third globally after China and India. Koton uses approximately 85% local sourcing, enjoying best in class lead times (4-8 weeks for in season) and agile product development capacity. The Company has more than 300 suppliers globally (250 local and 50 overseas) with 7.5 years average history with them. While top 10 suppliers account for 25% of the purchases, the largest supplier has 6% share. The Company has the ability to reserve the capacity of suppliers, conduct raw material negotiations on their behalf and may keep raw material inventories when deemed necessary. The Company usually secures its purchases for the following season below inflation. Typically, raw materials have 50%-60% share in total product cost, while the remaining 30%-40% is made of labor and other items. The Company has more than 80K sqm warehouse located in Kocaeli, one of the major industrial zones in Türkiye with separate units for e-commerce and reverse logistics operations. China, Bangladesh and Egypt are among alternatives to local sourcing.

Minimized fashion risk, high sell through and best in class initial mark-ups. Pre-season orders make up 45% of the company's total womenswear orders. Of these, 15% is based on new trend forecasts (derived from catwalk presentations, bestseller analyses, and customer ratings), while the remaining 30% consists of bestsellers from previous seasons. Meanwhile, 35% of the orders is in-season orders based on trends emerging within the season. The remaining 20% of the total orders are repeat products. Thus, 85% of orders have minimized fashion risk. Pre-season orders are based on anticipated trends and generates better margins if successful, while priced lower than in-season. The Company employs data driven trend analysis and heavily uses analytical and customer feedback mechanism to cover latest drivers in fashion with minimized risk and achieve high sell through.

Koton Mağazacılık Tekstil Sanayi Ticaret

As a result of these efforts the initial mark-ups of the Company progressed from 2.1x to 2.8x, which is stated to be higher than competition. Rich mark-ups combined with a sell-through rate of approximately 90% provides a competitive edge and supports profitability.

Significant white space to fuel future growth. Koton is present in 66 out of 81 cities in Türkiye, with 100% coverage through wholesale operations. The store network potential in Türkiye is estimated to be around 400, implying room for further 140-150 new stores. Similarly, there is room for potential c.100 corporate owned stores in international market. Meanwhile, the white space potential for franchise stores is much greater at around 600. The sales to the franchise stores abroad are final sales, while sales to the franchise stores in the domestic market are consignment sales. We project the Company to open 33 new stores in Türkiye (10 franchise & 23 corporate) and 182 stores in international markets (101 franchise & 81 corporate) during 2024-2029, implying a 5.5% CAGR in average sales area.

International expansion to gain momentum. Koton aims to accelerate its international retail growth, capitalizing on the demand for affordable, stylish fashion in rapidly developing nearby markets. The company plans to expand its corporate store network in the CEE region, Kazakhstan and Georgia, and to grow in the GCC region mainly through the franchise model. In line with its profitable growth targets, the company prioritizes capex-light franchise model in abroad. Given the new markets entered/planned to be entered (such as Hungary, Egypt, Armenia, India) and new partnerships, (such as Apparel Group in GCC), we expect store openings to accelerate, particularly over the next three years.

Ramp-up in newly opened stores. Out of total 311 corporate stores (as of 2023YE) in Türkiye and internationally, 113 of them are aged more than 9 years, 108 of them are between 6-9 years, 63 of them are 2-6 years and remaining 27 are aged 0-2 years. Sales/sqm of stores older than 9 years is 15% higher compared with the average sales/sqm of stores aged between 6-9 years, and 23% higher than stores aged 0-2 years, implying a significant like for like growth going forward as stores mature. The ramp-up period of new stores are as short as 6-9 months, while it takes around 5-10 weeks to process new store openings. Contribution margin of 0-2 years stores is 29%, close to the overall contribution margin indicating to fast ramp up period. Therefore, we expect sales/avg. sqm to grow by a CAGR of 1.3% during our projection period translating into a retail top line CAGR of 6.9%.

E-commerce is to be another main growth pillar. E-commerce has a critical position in growth strategy of Koton which has made a significant inroads in recent years, particularly in international side. The share of e-commerce in total international revenues increased from 6% in 2021 to 12% in 9M24. We believe e-commerce revenues (11% of the total revenues) is poised to grow further considering the significant headroom to increase share of e-commerce to similar levels of global and local competitors. Online revenue shares of top two competing local brands were 12%, and 17% in 2022, while top three global competitors have around 30% e-commerce share on average. We expect Koton to continue to increase its domestic online penetration through recently renewed website and online application, and fully integrated omnichannel loyalty program Koton Club.

Koton Mağazacılık Tekstil Sanayi Ticaret

As for international e-commerce, we see larger potential for growth thanks to planned roll-out of koton.com in key geographies, entry into new international marketplaces and scaling up in existing marketplaces by expanding product offerings. As a result, we project further surge in share of e-commerce revenues up to 15% by 2029, indicating a CAGR of 5.9%.

Profitable growth and solid balance sheet. Overall, we estimate top-line to grow at a CAGR of 7.5% in real terms between 2024 and 2029. The growth will be mainly driven by international operations with expected increase in sales area through franchise model and expanding international online penetration. Accordingly, share of international revenues is expected to increase from 36% in 2023 to 43% in 2029. Koton's profitable growth is to continue to be contributed by high sell-through rates, further optimization in mark-up and mark-down and sustainable track record of keeping inventory purchases below inflation. We project adjusted EBITDA (including other income/expense and credit card commissions) margin to gradually increase from 11.5% in 2024 to 14.4% in 2029. We expect a margin pressure in the short-term due to slowdown in domestic market, relative TL strength and high interest rate environment. However, we believe company's efforts to increase sale density with ongoing store renovations and improved omnichannel offerings will also support the margins, going forward. The company has limited net debt position of TL1.9mn (excl. IFRS 16) as of end-9M24. We expect the company to start distributing dividends in 2026 with a payout ratio of 30%.

2024 Outlook: In 9M24, Koton reported TL17.9bn revenues, up by 1.7% YoY in real terms. Domestic retail sales and consolidated domestic sales grew by 5.3% and 6.6% in real terms, respectively. International revenues ,on the other hand, decreased by 5.3% in real TL terms. This contraction was mainly driven by weaker demand conditions and intensified competition, particularly in CIS region. During this period, the depreciation of the Turkish lira against the US dollar, which remained well below the average inflation rate, also curbed down TL-based real growth. In 9M24, domestic LFL retail sales volumes increased by 7.4%, while international LFL retail sales decreased by 3.6%. Consolidated adjusted EBITDA (excluding IFRS-16) for the first nine months of the year stood at TL1.83bn, with an EBITDA margin of 10.2%, compared to 17.6% in 9M23. The margin contraction was primarily driven by above-inflation increase in personnel costs, lower FX gains on international sales, and higher credit card commission expenses. Consumer demand is expected to continue to pick up with the back-to-school period and campaign season in 4Q24. Therefore, we estimate 5% real growth for 2024, in-line with management's guidance. We also expect 2.1ppt decline in Adj. EBITDA margin.

INVESTMENT RISKS

Economic slowdown: Tight monetary and fiscal policies is likely to put pressure on domestic demand. A potential limitation on minimum wage adjustment in 2025 may curb spending throughout the year, particularly in 1H25. In addition, relatively stable TL reduces the competitiveness of local apparel brands against foreign players. On the other hand, we think that a potential trade-down will limit the negative impact on Koton's sales growth, as the price gap with global brands are carefully maintained. However, temporary margin pressure is likely.

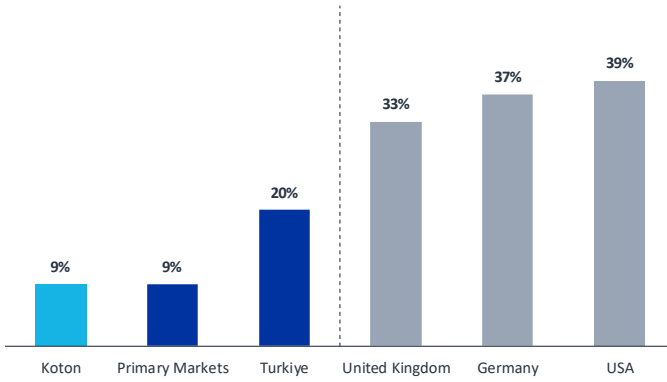
Appreciation in TL pressuring international revenues and margins: The appreciation of TL in real terms puts temporary pressure on the company's international revenues and margins. This situation weakens the company's competitiveness in the international market. In addition, as the increase in exchange rate is below the inflation rate, international revenues under inflation accounting application are declining in TL terms.

Expansion risk: Slower than expected future store roll-out which may be due to the weak demand conditions and /or difficulties in finding appropriate locations in Türkiye and abroad may create a downside in our future growth projections. In fact, construction of new shopping malls in Türkiye slowed down in recent years.

Geopolitical risks: The Company generates c.10% of its revenues from Russia and Belarus. There are no plans to invest in these operations currently. Similar developments in other geographies the Company currently operates may create geopolitical risks having a negative impact on company's international revenues.

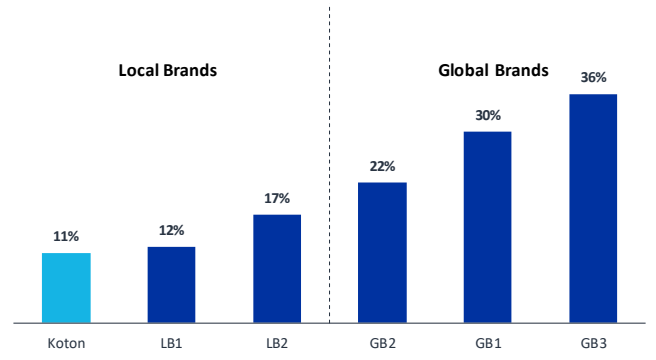
Koton Mağazacılık Tekstil Sanayi Ticaret

Figure 1: E-commerce Penetration



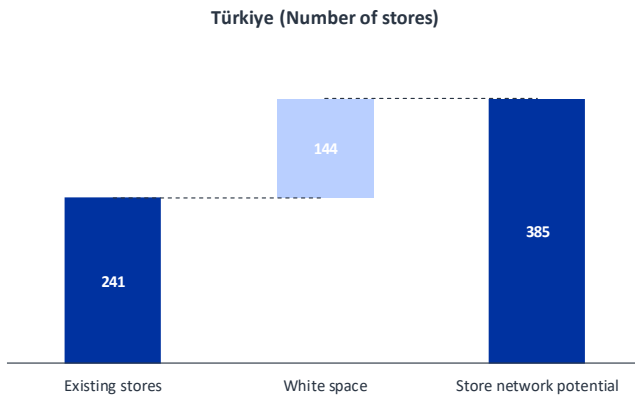
Source: Euromonitor, Company websites, OC&C Analysis, Company

Figure 2: Online Revenue Mix by Players



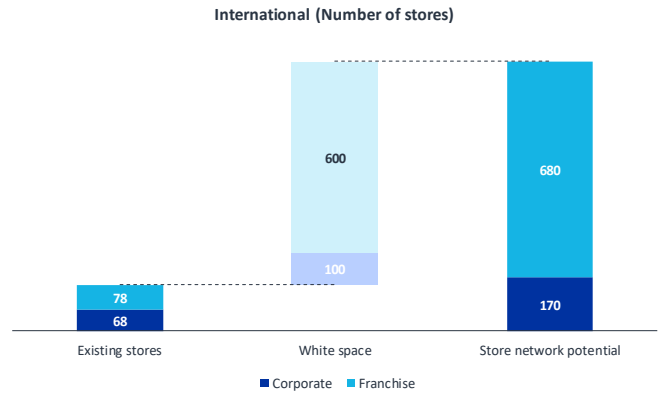
Source: Euromonitor, Company websites, OC&C Analysis, Company

Figure 3: Store Network Potential in Türkiye



Source: Company Websites, OC&C Analysis, TURKSTAT, Retailer

Figure 4: Store Network Potential Abroad



Source: Company Websites, OC&C Analysis, TURKSTAT, Retailer Websites

Koton Mağazacılık Tekstil Sanayi Ticaret

Shareholder Structure (%)	
Nemo Apparel B.V.	39.6
Yılmaz Yılmaz	23.61
Şükriye Gülden Yılmaz	23.61
Diğer	13.18

Company Description
Koton is a leading Turkish fashion retailer with a strong presence in Türkiye while expanding internationally. The Company offers affordable and trendy apparel for women, men, and children across all age groups, targeting a broad customer base.

Income Statement (mn ₺)	2022A	2023A	2024E	2025E	2026E
Net Sales	16,017	17,194	26,035	28,227	31,214
Gross Profit (Loss)	8,413	8,948	13,651	15,233	17,114
Operating Expenses	-9,764	-10,460	-10,689	-11,915	-13,013
Core Operating Profit	2,350	2,424	2,962	3,318	4,101
Non-operating Income (Exp.)	-307	-139	-724	-598	-1,028
Net Financial Income (Exp.)	-1,548	-1,681	-1,345	-1,278	-1,053
PBT	2,173	2,240	2,163	2,071	2,670
Tax Expense (Income)	-425	-435	-324	-414	-614
Net Profit	1,748	1,805	1,839	1,657	2,056
Recurring Net Profit	2,517	2,599	1,839	1,657	2,056
NOPAT	2,087	2,313	2,548	2,700	2,830
EBITDA	4,225	4,466	5,835	6,433	7,545
Adjusted EBITDA (Exc. IFRS 16)	2,895	3,362	2,998	3,461	3,932

Growth & Operating Perf.	2022A	2023A	2024E	2025E	2026E
Growth					
Net Sales	-	7.3%	51.4%	8.4%	10.6%
EBIT	-	3%	22%	12%	24%
EBITDA	-	6%	31%	10%	17%
Adjusted EBITDA (Exc. IFRS 16)	-	16%	-11%	15%	14%
Net Profit	-	3%	2%	-10%	24%

Operating Performance	2022A	2023A	2024E	2025E	2026E
Gross Margin	52.5%	52.0%	52.4%	54.0%	54.8%
EBIT Margin	14.7%	14.1%	11.4%	11.8%	13.1%
EBITDA Margin	26.4%	26.0%	22.4%	22.8%	24.2%
Adjusted EBITDA (Exc. IFRS 16) Margin	18.1%	19.6%	11.5%	12.3%	12.6%
Effective Tax Rate	-28.2%	-28.0%	-15.0%	-16.0%	-15.5%
Net Profit Margin	10.9%	10.5%	7.1%	5.9%	6.6%
ROE	-	42.4%	29.1%	21.1%	22.4%
ROA	-	12.2%	10.3%	8.2%	9.1%
ROIC	-	16.5%	27.9%	28.1%	30.1%
OCF / Sales	-	9.8%	2.9%	1.6%	3.4%

Ratio Analysis	2022A	2023A	2024E	2025E	2026E
Adj. P / E (x)	6.2	6.1	8.6	9.5	7.6
EV / EBITDA (x)	4.9	4.6	3.5	3.2	2.7
EV / Adjusted EBITDA (Exc. IFRS 16) (x)	7.1	6.1	6.9	6.0	5.2
EV / Sales (x)	1.3	1.2	0.8	0.7	0.7
P / B (x)	5.2	2.9	2.2	1.8	1.6
EPS (₺)	2.20	2.27	2.22	2.00	2.48
DPS (₺)	n.m	n.m	n.m	n.m	0.75
Dividend Yield	-	-	0.0%	0.0%	2.8%
Net Debt (Cash) (mn ₺)	1,781	1,650	-794	-1,766	-2,485
Net Debt / EBITDA (x)	0.42	0.37	n.m	n.m	n.m
Net Debt / Equity (x)	0.59	0.30	n.m	n.m	n.m

Source: Is Investment

Current Assets	7,436	9,973	12,553	13,851	15,271
Cash and Cash Equivalents	872	488	2,151	2,953	3,548
Short-Term Trade Receivables	817	1,557	1,664	1,727	1,825
Inventories	4,973	6,949	7,647	7,988	8,591
Other Current Assets	1,115	1,037	1,091	1,183	1,308
Long Term Assets	5,504	6,722	6,608	7,441	8,424
Investments with Equity Method	0	0	0	0	0
Tangible Fixed Assets	2,212	2,050	2,328	2,614	2,948
Intangible Fixed Assets	530	553	584	615	652
Other Long-Term Assets	5,184	5,043	3,684	3,099	2,767
Total Assets	12,940	16,694	19,161	21,292	23,695
Short Term Liabilities	7,940	8,470	8,816	9,227	9,925
Short-Term Financial Loans	3,034	3,041	1,297	1,139	1,022
Short-Term Trade Payables	4,207	4,530	5,042	5,325	5,856
Other Short-Term Liabilities	2,416	2,361	1,980	1,868	1,861
Long Term Liabilities	1,980	2,742	3,180	3,548	3,899
Long-Term Financial Loans	1,577	2,008	60	48	41
Other Long-Term Liabilities	3,202	3,147	2,526	2,305	2,230
Equity	3,020	5,483	7,165	8,517	9,871
Parent Shareholders Capital	3,020	5,483	7,165	8,517	9,871
Reserves and Other Items	3,759	2,623	1,457	1,518	1,541
Current Year Income (Losses)	1,748	2,452	1,839	1,657	2,056
Minority Interests	0	0	0	0	0
Total Liabilities & Equity	12,940	16,694	19,161	21,292	23,695

Cash Flow (mn ₺)	2022A	2023A	2024E	2025E	2026E
Net Cash from Operations	2,999	1,681	749	463	1,058
Earnings Before Adjustments	1,748	1,805	1,839	1,657	2,056
Depreciation & Amortisation	1,874	2,041	2,873	3,115	3,444
Change in Working Capital	-357	-1,330	-1,602	-1,200	-1,079
Other Operating Cash Flow	3,405	3,182	-2,361	-3,110	-3,364
Cash from Inv. Operations	-372	-497	-830	-884	-996
Capital Expenditures	-368	-497	-829	-883	-996
Other Inv. Cash Flow	-6	-1	-1	-1	-1
Free Cash Flow	2,627	1,184	-81	-421	61
Cash from Fin. Operations	-2,433	-1,697	-278	134	-304
Change in Financial Debt	-352	-81	-148	102	60
Dividends Paid	0	0	0	0	-420
Other Financing Cash Flow	-1983	-1,833	-130	32	55
Net Change in Cash	278	-597	-359	-287	-242

All figures are indexed to 2024YE and valuation multiples are calculated in USD terms.

VALUATION

We deem discounted cash flow (DCF) method more appropriate to value Koton since it better reflects the Company's long-term growth and cash generation potential. We have also conducted a peer comparison analysis including both domestic and international peers. We have done a deeper comparative analysis with Mavi, which we believe is the closest domestic peer.

In our TL based DCF model, We assume an average WACC of 24.7% based on a risk-free rate of 20.1%, a risk premium of 6.0%, a beta of 0.9, and a D/(D+E) ratio of 15% in our 6 year forecast horizon (**all on average**). Our terminal growth rate assumption is 10%, in line with our long-term inflation assumption.

Our basic DCF assumptions are as follow:

- **New Store Openings**

Türkiye: The Company plans to continue selective new store openings in strategic locations with high foot traffic and target customer segment. In line with previous years, we have assumed that Koton will open 6 new stores (including franchise) per year with an average size of 900 sqm between 2024 and 2029. Accordingly, the Company's average net sales area expected to increase by 0.7% on average over our forecast period. We estimate the number of stores in Türkiye to reach 274 in 2029YE, with average sales area increasing to 242k sqm.

International: Koton's offline global growth strategy is to expand its corporate store network in CEE, Kazakhstan and Georgia, and capture white space opportunities in GCC and Asia via franchise channel. The weight is expected to be on franchise model. The Company sees an opportunity to open 43-50 stores per annum in the next three years. Accordingly, we project Koton to open 182 new stores (net, including franchise) with an average size in-line with existing square meters in the targeted geographies in our forecast period, reaching a total of 378 international stores by the end of 2029. The average sales area is estimated to increase by average 10.9% to 306k sqm in the same period.

As the Company has concluded its store optimization in 9M24, no more store closures are expected unless there is an underperformance in contribution margins of the stores. Along with new store openings, the Management plans to continue to improve store performances through scheduled renovations. The Company aims to further expand the display areas in its stores with renovations. In this way, it will be able to offer more product options to customers without increasing the store area.

- **Sales/sqm growth**

We expect LfL growth to be supported by ramp-up period of new stores and omnichannel push. We anticipated a real growth of 4.0% per annum on average for domestic retail sales/avg. sqm over the 2022-2028 forecast period. As for the international retail operations, we estimated 1.2% sales/ avg. sqm growth in USD terms in the same period.

Table 1: Key Projections

	2021	2022	2023	2024E	2025E	2026E	2027E	2028E	2029E
Number of Stores (Eop)	451	440	437	455	494	536	578	620	652
Türkiye	269	248	241	242	246	253	260	267	274
Corporate Owned Stores	236	218	212	212	215	220	225	230	235
Franchise Stores	33	30	29	30	31	33	35	37	39
International	182	192	196	213	248	283	318	353	378
Corporate Owned Stores	110	111	115	126	141	156	171	186	196
Franchise Stores	72	81	81	87	107	127	147	167	182
Average sales area (sqm)	424,356	397,656	400,474	421,271	449,923	482,532	515,350	548,415	582,115
Türkiye	261,484	233,258	225,196	223,068	225,403	231,013	236,831	242,895	248,960
Corporate Owned Stores	235,929	209,879	202,679	200,254	201,945	206,587	211,230	215,872	220,514
Average sqm per store	1020	984	952	938	928	928	928	928	928
Franchise	25,555	23,379	22,517	22,815	23,458	24,426	25,601	27,024	28,446
Average sqm per store	807	793	763	748	733	718	711	711	711
International	162,872	164,398	175,278	198,203	224,520	251,520	278,519	305,519	333,155
Corporate	116,474	114,181	122,023	135,903	149,760	164,300	178,839	193,379	207,919
Average sqm per store	1065	1006	984	974	969	969	969	969	969
Franchise	46,398	50,217	53,255	62,300	74,760	87,220	99,680	112,140	125,236
Average sqm per store	611	629	636	623	623	623	623	623	623
Retail Sales/ Average sqm (TL)	46,934	52,522	54,474	55,712	57,434	57,204	56,925	56,697	56,468
Türkiye	44,535	56,135	60,916	65,085	67,610	69,227	70,159	71,067	71,975
Corporate Owned Stores	47,302	59,726	64,803	69,339	72,112	73,915	75,024	76,149	77,274
Franchise Stores	18,990	23,899	25,930	27,745	28,855	29,576	30,020	30,470	31,001
International	50,784	47,396	46,197	45,163	47,218	46,161	45,672	45,272	44,493
Corporate Owned Stores	37,284	58,442	56,893	56,068	59,471	58,772	58,663	58,574	58,485
Franchise Stores	14,598	22,281	21,690	21,376	22,673	22,407	22,365	22,331	22,308

Source: Company and İş Yatırım

All figures are indexed to 2024YE

• Retail Revenues

Türkiye: Based on above assumptions, retail revenues of Türkiye operations is projected to grow at a CAGR of 4.7% during the projection period. Corporate store revenues is expected to grow at a CAGR of 4.6%, while the franchise revenues is expected grow at a CAGR of 6.7%.

International: We anticipated retail revenues of International operations to grow at a CAGR of 10.0% in the next six years. Corporate store revenues is expected to grow slower at a CAGR of 9.2% due to relatively less new store openings, while the fast pace at franchise store revenues is expected to continue at an estimated CAGR of 14.4%.

• E-commerce Revenues

E-commerce has a critical position in Koton's growth strategy, which has made a significant inroads in recent years with strong track record increasing the share of e-commerce revenues especially in the international arena. We believe e-commerce revenues is poised to grow further considering the significant headroom for increasing e-commerce share to similar levels with global and local players in the sector. We estimated that Koton will be able to increase its share of domestic e-commerce revenues from 10% in 9M24 to 13% in 2029 driven by expected increase in domestic online penetration through recently renewed website and online application, and fully integrated omnichannel loyalty program Koton Club.

Koton Mağazacılık Tekstil Sanayi Ticaret

As for international e-commerce revenues we see larger potential for growth thanks to planned roll-out of koton.com in key geographies, entry into new international marketplaces and scaling up in existing marketplaces by expanding product offerings. Therefore we projected share of e-commerce revenues in total international revenues to surge from 12% in 9M24 to 16% in 2029. As a result, domestic e-commerce revenues is expected to grow at a CAGR of 7.0%, while international e-commerce revenues is expected to grow at CAGR of 23.9% (in real terms). The total e-commerce share is expected to gradually rise from 11% in 9M24 to 15% in 2029. (Management's mid-term target: +15%)

- **Wholesale Revenues**

The Company is planning to continue its wholesaler network with premium brands. Koton is currently covering 32% of the total wholesale stores in Türkiye. There is a total of 976 stores in Türkiye that includes Koton's existing wholesale points and whitespace potential according to Company's definition. We expect the Company to gradually increase its coverage to 47% by 2029YE as the Company aims to add new wholesale clients into its network, particularly focusing on top 20 players. The top 20 wholesales in Türkiye have 362 stores and 6 of them are Koton's existing clients. The Company also planning to increase penetration in the existing wholesaler relationships and further support its wholesale network through new partnerships with strategically located corner stores. Accordingly, we project wholesale revenues to deliver a CAGR of 3.5% in our forecast period, Türkiye operations making the major contribution.

Overall, we estimate top-line to grow at a CAGR of 7.5% between 2024 and 2029. We believe Koton is well-positioned with its defensive business profile offering fast-fashion products with affordable prices.

Table 2: Revenue Breakdown (mn TL)

	2021	2022	2023	2024E	2025E	2026E	2027E	2028E	2029E
Revenues	20,712	23,351	24,759	26,035	28,227	31,214	33,556	35,839	38,170
Türkiye	13,510	14,210	16,204	16,740	17,772	18,726	19,763	20,664	21,601
Retail Revenues	10,633	11,645	13,094	13,718	14,518	15,240	15,992	16,616	17,262
Corporate Owned Stores	10,057	11,160	12,535	13,134	13,885	14,563	15,270	15,847	16,438
Franchise Stores	576	485	559	584	633	677	722	769	823
E-commerce Revenues	1,918	1,410	1,908	1,804	2,004	2,205	2,426	2,640	2,867
Wholesale Revenues	959	1,155	1,202	1,218	1,250	1,282	1,345	1,408	1,471
International	7,201	9,141	8,555	9,295	10,455	12,488	13,793	15,175	16,569
Retail Revenues	6,656	8,271	7,792	8,097	8,951	10,601	11,610	12,721	13,831
Corporate Owned Stores	5,954	7,155	6,673	6,942	7,620	8,906	9,656	10,491	11,327
Franchise Stores	701	1,116	1,119	1,155	1,332	1,695	1,954	2,229	2,504
E-commerce Revenues	503	747	750	1,185	1,488	1,869	2,163	2,433	2,715
Wholesale Revenues	43	122	13	13	15	18	19	21	23

Source: IS Investment, Company

All figures are indexed to 2024YE

Koton Mağazacılık Tekstil Sanayi Ticaret

- **Gross Margin**

We expect Koton to maintain its high level of gross margins. We expect high sell-through rates, further optimization in mark-up and mark-down and ability to keep inventory purchases below inflation to continue to contribute profitable growth. The Company is also aiming to improve e-commerce margins with operational improvements, product category optimizations and further capitalizing on renewed online structure and IT investments. We expect gross margins to range between 52% and 54% during the projection period. Note that gross margins are sensitive to IAS-29 adjustments and interest rate fluctuations.

- **EBITDA**

In our DCF analysis, we included other operational income/expense figure into our EBITDA calculation. The company records imputed interest, Turquality incentive income, net operational fx gains that comes from intra-company transactions under other operational income/expense. After excluding IFRS-16 impact, we finally adjust the EBITDA figure by deducting credit card commission expenses. Accordingly, we forecasted adjusted EBITDA (excl. IFRS-16 impact) to grow at a CAGR of 8.5% in real terms in our projected period. We expect the slowdown in domestic market, relative TL strength and high interest rate environment to weight on margins in the short-run. Accordingly, we projected adjusted EBITDA margin to decrease from 13.6% in 2023 to 11.5% in 2024 (10.2% in 9M24) and to 12.3%/12.6% in 2025/2026.

The Company has recorded sizable amount of net operational fx gains stemming from intra-company balances in the past few years. The depreciation of TL against the foreign currencies of the countries in which international subsidiaries of the Company are located, has driving fx gains. The time lag between the sales of inventories to these subsidiaries for the corporate stores and the collection of subsequent payments (in hard currency) made to Koton Türkiye causes the Company to recognize operational fx gains/losses. Going forward, we expect the impact of these fx gains on EBITDA to normalize, in-line with the stabilization in our USD/TL rate assumptions, leading to relatively lower margin contribution.

On the other hand, starting from 2025 we projected a gradual pick up in the margins up to 14.4% in 2029. This improvement is expected to be driven by increasing sales density in stores with ongoing renovations and omnichannel support, improvement in e-commerce margins, as well as some operational leverages on fixed cost items. If we exclude the impact of aforementioned fx gains/losses the improvement in the EBITDA margins would be more visible. Note that, IAS-29 had a negative impact on Koton's EBITDA margins. Therefore, this impact is expected to ease as inflation normalizes, going forward.

Koton Mağazacılık Tekstil Sanayi Ticaret

- CAPEX**

We assume Capex/Sales ratio to rise from 3.0% in 2023 to 3.2% in the next three years and gradually stabilize at 1.8% in the rest of our projection period. The anticipated acceleration in new store openings and ongoing store renovations is expected to keep the capex/sales relatively high in the short-term. Capex/sqm requirement was around USD450 in Türkiye and around USD600 in International markets in 2023.

- Working Capital**

We forecast WC/Sales ratio of 17% on average during our projection period, indicating a slight improvement compared to 2023 (WC/Sales: 20%).

Table 3: DCF Table

DCF (TL mn)	2023	2024E	2025E	2026E	2027E	2028E	2029E
Revenues	17,194	26,035	35,283	46,236	58,154	72,669	89,006
<i>growth</i>	6%	51%	36%	31%	26%	25%	22%
Gross Profit	8,948	13,651	19,042	25,350	31,687	39,558	48,403
<i>Gross Margin</i>	52.0%	52.4%	54.0%	54.8%	54.5%	54.4%	54.4%
Opex	7,264	10,689	14,894	19,275	24,293	30,259	36,670
Other Income/(Expense)	-97	-724	-747	-1,523	-1,008	-1,197	-1,690
EBIT	1,587	2,238	3,401	4,552	6,385	8,102	10,042
<i>EBIT Margin</i>	9.2%	8.6%	9.6%	9.8%	11.0%	11.1%	11.3%
Amortization	2,041	2,873	3,893	5,102	6,417	8,019	9,821
EBITDA (Inc. IFRS 16)*	3,628	5,111	7,294	9,654	12,802	16,120	19,863
EBITDA Margin	21.1%	19.6%	20.7%	20.9%	22.0%	22.2%	22.3%
<i>IFRS 16 Adjustment (Rent Expense)</i>	1,094	1,729	2,454	3,202	3,950	4,857	5,936
<i>as of Sales</i>	6.4%	6.6%	7.0%	6.9%	6.8%	6.7%	6.7%
EBITDA (Exc. IFRS 16)*	2,534	3,381	4,840	6,451	8,853	11,263	13,927
EBITDA Margin	14.7%	13.0%	13.7%	14.0%	15.2%	15.5%	15.6%
<i>(+/-) Adjustments**</i>	-199	-383	-514	-627	-743	-922	-1,121
<i>as of Sales</i>	1.2%	1.5%	1.5%	1.4%	1.3%	1.3%	1.3%
Adjusted EBITDA (Exc. IFRS 16)	2,335	2,998	4,326	5,824	8,109	10,342	12,806
Adjusted EBITDA margin	13.6%	11.5%	12.3%	12.6%	13.9%	14.2%	14.4%
Amortization (Exc. IFRS 16)	488	521	706	925	1,163	1,453	1,780
Taxes	-359	-372	-724	-1,127	-1,598	-2,044	-2,536
<i>(+/-) Change in NWC</i>	-1,262	-1,602	-1,499	-1,598	-1,678	-2,271	-2,499
<i>as of Sales</i>	-7.3%	-6.2%	-4.2%	-3.5%	-2.9%	-3.1%	-2.8%
<i>(-) Capex</i>	-520	-829	-1,104	-1,475	-1,578	-1,896	-1,568
<i>as of Sales</i>	-3.0%	-3.2%	-3.1%	-3.2%	-2.7%	-2.6%	-1.8%
Free Cash Flow	194	195	999	1,624	3,256	4,130	6,203
<i>growth</i>		1%	411%	63%	100%	27%	50%
Free Cash Flow Margin	1.1%	0.8%	2.8%	3.5%	5.6%	5.7%	7.0%
Discount Factor	1.00	0.87	0.67	0.55	0.45	0.37	0.31
Discounted Free Cash Flow	194	170	669	888	1,464	1,527	1,901

Source: IS Investment

Figures are in terms of purchasing power at the end of each year.

*EBITDA figures are calculated as follows; Gross Profit - Operational Expenses + D&A + Other Income/(Expenses)

**Adjustments: credit card commissions expenses

Koton Mağazacılık Tekstil Sanayi Ticaret

Table 4: Upside Potential

Sum of PV of FCF	6,534
Terminal Growth	10%
PV of Terminal Value	19,704
EV	26,237
Net Debt (3Q24)	1,880
Current Equity Value	24,357
Current Mcap	14,909
12M Target Equity Value	32,371
# of Shares	830
12m Target Share Price	39.0
Current Share Price	18.0
Upside Potential	117%

Source: IS Investment

Table 5: Macro Assumptions

Macro Assumptions	2023	2024	2025	2026	2027	2028	2029
CPI Inflation (e.o.p.). %	64.8	44.0	25.0	18.5	17.0	17.0	15.0
CPI Inflation (average). %	53.86	58.3	30.2	20.3	17.75	17.00	16
GDP growth. %	4.52	3.10	3.50	5.50	4.50	4.50	4.50
TL/\$ (average)	23.74	32.95	39.60	48.33	54.25	62.42	70.96
TL/\$ (eop) *	29.40	36.20	46.20	50.45	58.05	66.79	75.13
TL/€ (average)	25.68	36.07	44.68	51.94	57.75	65.83	74.51
TL/€ (yıl sonu)	32.69	39.46	49.90	53.98	61.53	70.13	78.89
Sepet (average)	24.71	34.51	42.14	50.13	56.00	64.12	72.73
Sepet (eop)	31.05	37.83	48.05	52.22	59.79	68.46	77.01
GDP (TL million)	26,276	42,885	57,790	73,345	90,251	110,345	133,760
GDP (\$ billion)	906	1,107	1,302	1,459	1,518	1,664	1,768

Source: IS Investment

Table 6: WACC Assumptions

	2024E	2025E	2026E	2027E	2028E	2029E
Risk Free	28%	25%	18%	17%	17%	16%
Equity Risk Premium	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
Beta	0.9	0.9	0.9	0.9	0.9	0.9
Cost of Equity	33%	30%	23%	22%	22%	21%
Cost of Debt	35%	33%	23%	22%	22%	21%
After tax Cost of Debt	30%	26%	18%	17%	17%	16%
Weight of Debt	15%	15%	15%	15%	15%	15%
Weight of Equity	85%	85%	85%	85%	85%	85%
WACC	32%	30%	23%	22%	22%	21%

Source: IS Investment

Koton Mağazacılık Tekstil Sanayi Ticaret

Peer Analysis

We selected international and domestic apparel retailers as our peer group. In our peer analysis, we used forward looking Bloomberg multiples of international peers and Turkish retailer, Mavi. Our focus has primarily centered on evaluating the P/E ratio rather than EV/EBITDA ratio as we think EBITDA figures can be misleading due to IFRS-16 impacts and operating cost items that may not be included in EBITDA calculation such as imputed interest on payables and credit card commission expenses.

Table 7: Developed Countries

Company	EV/EBITDA			P/E			SALES CAGR	EBITDA Margin	NI CAGR
	2024E	2025E	2026E	2024E	2025E	2026E	2024-2026E	3Y Average	2024-2026E
H & M HENNES MAURITZ AB	7.6x	7.0x	6.7x	21.2x	17.7x	16.0x	1.7%	16.2%	6.4%
INDITEX	16.2x	14.8x	13.7x	30.7x	27.5x	25.0x	9.4%	23.6%	11.4%
OVS SPA	11.4x	10.7x	10.4x	10.4x	9.8x	9.0x	3.6%	12.7%	5.7%
FAST RETAILING	21.0x	19.3x	17.7x	41.1x	38.7x	35.0x	9.1%	21.8%	11.5%
NEXT PLC	12.1x	10.9x	10.4x	17.3x	15.6x	14.4x	9.3%	20.3%	9.4%
LEVI STRAUSS-A	8.7x	8.2x	7.3x	13.9x	12.2x	10.9x	3.6%	13.2%	10.9%
ABERCROMBIE & FI	9.5x	6.9x	6.7x	21.6x	12.8x	12.4x	11.5%	8.9%	49.4%
AMER EAGLE OUTF	6.0x	5.2x	4.9x	13.9x	11.0x	10.4x	3.9%	9.3%	16.7%
GUESS INC	4.1x	4.4x	4.0x	6.3x	6.8x	6.0x	6.6%	9.3%	-0.3%
URBAN OUTFITTER	5.0x	4.6x	4.4x	10.9x	9.8x	9.3x	6.4%	7.3%	17.8%
PVH CORP	5.8x	6.1x	5.7x	9.4x	8.4x	7.8x	-0.4%	9.5%	3.5%
UNDER ARMOUR-A	7.2x	11.4x	9.5x	16.4x	37.2x	24.1x	-3.9%	9.2%	-8.2%
BURBERRY GROUP PLC	5.3x	10.2x	8.5x	10.6x	330.3x	32.8x	-5.8%	28.3%	-19.8%
Median	7.6x	8.2x	7.3x	13.9x	12.8x	12.4x	3.8%	11.1%	10.1%
Average	9.2x	9.2x	8.5x	17.2x	41.4x	16.4x	3.9%	13.8%	10.9%

Source: Bloomberg (01.11.2024)

Table 8: Developing Countries

Company	EV/EBITDA			P/E			SALES CAGR	EBITDA Margin	NI CAGR
	2024E	2025E	2026E	2024E	2025E	2026E	2024-2026E	3Y Average	2024-2026E
MR PRICE GROUP	9.3x	8.3x	7.7x	20.4x	18.5x	16.1x	13.0%	23.9%	12.1%
LOJAS RENNER SA	7.2x	6.6x	5.6x	13.8x	11.7x	10.1x	3.1%	14.4%	17.8%
ZHEJIANG SEMIR-A	7.6x	6.4x	5.7x	13.1x	11.4x	10.2x	9.0%	13.3%	5.8%
LPP	8.1x	6.8x	6.0x	16.6x	13.9x	11.9x	17.3%	14.8%	28.4%
NINGBO PEACEBI-A	7.8x	7.2x	7.0x	15.1x	12.4x	11.0x	3.8%	39.9%	2.0%
TRUWORTHS INTL	8.1x	7.8x	7.1x	13.5x	13.0x	11.9x	8.8%	27.7%	11.6%
MAVI	5.7x	3.2x	2.0x	10.6x	7.5x	4.6x	48.0%	19.4%	43.9%
Median	7.8x	6.8x	6.0x	13.8x	12.4x	11.0x	9.0%	19.4%	12.1%
Average	7.7x	6.6x	5.9x	14.7x	12.6x	10.8x	14.7%	21.9%	17.4%

Source: Bloomberg (01.11.2024)

Koton Mağazacılık Tekstil Sanayi Ticaret

Given that Mavi has a similar business model (operating in Türkiye with international presence), investors are likely to use Mavi as the key benchmark for valuation of Koton. Therefore, we compared key figures of the two names using historic data and our house estimates. Before comparing the KPI'S, we would like to remind that there are some differences in their product categories. Mavi positions itself as jeans-centered fashion brand. As of 2023 ended January 31st, according to the company's figures covering the 12 months of a fiscal year, 38% of its total retail sales consisted of denim products. For Koton, according to figures for the spring-summer 2023 period, denim accounted for 6% of revenue from women's products, while it had a 20% share in menswear. In the same period, this ratio was realized as 9% in the children's clothing category. According to Mavi's 2023 figures, international sales accounted for 12% of total revenues, while share of e-commerce was 10%. In 2023, Koton's international and e-commerce revenues accounted for 35% and 11%, respectively.

Table 9: Koton & Mavi Comparison

Koton	2022	2023	2024E	2025E	2026E
Number of Stores (Eop)	440	437	455	494	536
Türkiye	248	241	242	246	253
International	192	196	213	248	283
Average sales area (K sqm)-TR Corp.	236	210	203	200	202
Average sqm per Store -TR Corp.	1020	984	952	938	928
Revenues (mn TL)	23351	24759	26035	28227	31214
Türkiye	14210	16204	16740	17772	18726
Retail Revenues	11645	13094	13718	14518	15240
E-Commerce Revenues	1410	1908	1804	2004	2205
Wholesale Revenues	1155	1202	1218	1250	1282
International	9141	8555	9295	10455	12488
Share of International Revenues (%)	39%	35%	36%	37%	40%
Revenue growth (%)		6%	5%	8%	11%
Türkiye		14%	3%	6%	5%
Retail Revenues		12%	5%	6%	5%
E-Commerce Revenues		35%	-5%	11%	10%
Wholesale Revenues		4%	1%	3%	3%
International		-6%	9%	12%	19%
Gross Margin (%)	53%	52%	52%	54%	55%
Opex/Sales (%)	42%	42%	41%	42%	42%
Rent/Sales (%) - (Exc. IFRS 16)***	15%	12%	11%	11%	11%
EBITDA (Inc. IFRS 16)*	4742	5225	5111	5835	6517
Margin (%)	20%	21%	20%	21%	21%
growth (%)		10%	-2%	14%	12%
EBITDA (Exc. IFRS 16)*	3093	3649	3381	3872	4355
Margin (%)	13%	15%	13%	14%	14%
growth (%)		245%	18%	-7%	15%
Adjusted EBITDA**	2895	3362	2998	3461	3932
Margin (%)	12%	14%	12%	12%	13%
growth (%)		109%	16%	-11%	15%
WCR (Inc. other rec. and pay.)	3114	4931	5026	5220	5484
as of sales (%)	13%	20%	19%	18%	18%
Capex	544	749	829	883	996
as of sales (%)	2%	3%	3%	3%	3%
FCFF		195	999	1624	3256
Margin (%)		1%	4%	6%	10%
growth (%)			411%	63%	100%
EBITDA Conversion %	81%	78%	72%	74%	75%
Net Income	2517	2599	1839	1657	2056
Margin (%)	11%	10%	7%	6%	7%
growth (%)		211%	3%	-29%	-10%
P/E @ Mcap			8.6x	9.5x	7.6x
Adj EV/EBITDA @ Mcap (pre-IFRS 16)			6.9x	6.0x	5.2x

*EBITDA figures are calculated as follows; Gross Profit - Operational Expenses + Other Income Expenses + D&A

**adjustments include credit card commission expenses

*** Total Rent Expense + utilities and building management expenses

Source: IS Investment

Mavi	2022	2023	2024E	2025E	2026E
Number of Stores (Eop)	459	471	489	507	525
Türkiye	396	405	420	435	450
International	63	66	69	72	75
Average sales area (K sqm)-TR Corp.	166	171	180	190	200
Average sqm per Store -TR Corp.	510	519	527	532	537
Revenues (mn TL)	30295	37862	40679	42226	46393
Türkiye	25175	33144	36221	38086	42213
Retail Revenues	19073	24896	28599	30693	34640
E-Commerce Revenues	2259	2841	3290	3398	3481
Wholesale Revenues	3844	5407	4333	3995	4093
International	5120	4719	4458	4140	4180
Share of International Revenues (%)	17%	12%	11%	10%	9%
Revenue growth (%)		25%	7%	4%	10%
Türkiye		32%	9%	5%	11%
Retail Revenues		31%	15%	7%	13%
E-Commerce Revenues		26%	16%	3%	2%
Wholesale Revenues		41%	-20%	-8%	2%
International		-8%	-6%	-7%	1%
Gross Margin (%)	49%	48%	49%	50%	50%
Opex/Sales (%)	37%	36%	35%	35%	35%
Rent/Sales (%) - (Exc. IFRS 16)***	8%	8%	6%	7%	6%
EBITDA (Inc. IFRS 16)*	5666	6359	6249	7133	8238
Margin (%)	19%	17%	15%	17%	18%
growth (%)		12%	-2%	14%	15%
EBITDA (Exc. IFRS 16)*	4646	5318	5020	5537	6317
Margin (%)	15%	14%	12%	13%	14%
growth (%)		14%	-6%	10%	14%
Adjusted EBITDA**	4445	4924	4429	4795	5463
Margin (%)	15%	13%	10.9%	11.4%	12%
growth (%)		11%	-10%	8%	14%
WCR (Inc. other rec. and pay.)	811	2019	2167	2012	1578
as of sales (%)	3%	5%	5%	5%	3%
Capex	835	858	2034	1056	1160
as of sales (%)	3%	2%	5%	3%	3%
FCFF		1627	1140	2696	3372
Margin (%)		4%	3%	6%	7%
growth (%)			0%	0%	0%
EBITDA Conversion %	81%	83%	54%	78%	79%
Net Income	2775	2530	3261	4304	5542
Margin (%)	9%	7%	8%	10%	12%
growth (%)		594%	-9%	29%	32%
P/E @ Mcap			10.2x	7.7x	6.0x
Adj EV/EBITDA @ Mcap (pre-IFRS 16)			6.7x	6.2x	5.4x

*EBITDA figures are calculated as follows; Gross Profit - Operational Expenses + Other Income Expenses + D&A

**adjustments include credit card commission expenses

*** Total Rent Expense + utilities and building management expenses

Source: IS Investment

Table 10: Peer Definitions

Company	Country	Mcap (mn US\$)	Description
H & M HENNES MAURITZ AB	Sweden	24,123	H & M Hennes & Mauritz AB designs and retails fashions for women, men, teens, and children. The Company sells a variety trendy, sporty, and classic garments in addition to accessories such as jewelry, bags, scarves, and cosmetics. H & M Hennes & Mauritz serves customers worldwide.
INDITEX	Spain	178,861	Industria de Diseno Textil SA functions as a prominent player in the fashion industry, providing an extensive array of apparel. As the largest fast fashion conglomerate globally, Inditex manages a network of over 7,200 stores spanning 93 markets worldwide. Zara stands out as the flagship brand under the company's umbrella.
OVS SPA	Italy	896	OVS, previously known as Oviessse, is an Italian apparel company with a presence in 35 countries across Europe, Latin America, and Asia, boasting a collective 1,285 locations. Holding the position as the foremost clothing retailer in Italy, OVS commands approximately 5% of the country's clothing retail market share.
FAST RETAILING	Japan	100,302	Fast Retailing Co., Ltd. designs, manufactures, and retails its own line of clothing. The Company offers men's casual clothing, women's casual clothing, children's casual clothing, and other products. Fast Retailing also provides leasing of real estate.
NEXT PLC	Britain	15,896	Next plc, stylized as NEXT, is a British multinational retailer specializing in clothing, footwear, and home products. The company, headquartered in Enderby, England, operates approximately 700 stores globally. Within the United Kingdom, Next boasts around 500 stores, with an additional 200 spread across Europe, Asia, and the Middle East. Notably, Next secured its position as the United Kingdom's leading clothing retailer by sales.
LEVI STRAUSS-A	United States	6,786	Levi Strauss & Co., based in San Francisco, is a global fashion company known for its diverse range of apparel and accessories for men, women, and children. The brand portfolio includes Levi's, Dockers, Beyond Yoga, Signature by Levi Strauss & Co., and Denizen. Levi Strauss & Co. remains a prominent player in the fashion industry with approximately 3,200 brand-dedicated stores and shop-in-shops across Americas, Europe, and Asia.
ABERCROMBIE & FI	United States	6,732	Abercrombie & Fitch Co. operates as a stores and conducts direct-to-consumer operations. The Company sells casual sportswear apparel, including knit and woven shirts, graphic t-shirts, fleece, jeans and woven pants, shorts, sweaters and outerwear, personal care products, and accessories for men, women, and kids. Abercrombie & Fitch serves customers in the United States.
AMER EAGLE OUTF	United States	3,763	American Eagle Outfitters, Inc. is a global specialty retailer providing clothing, accessories, and personal care products under the American Eagle and Aerie brands. Their offerings include jeans, apparel, intimates, activewear, and swim collections for women and men. The company also sells menswear under the Todd Snyder New York brand and fashion items under the Unsubscribed brand. Sales take place through retail stores and various applications.
GUESS INC	United States	874	Guess, Inc. designs, markets, distributes, and licenses a collection of casual apparel, accessories, and related consumer products. The Company offers clothing for men and women, as well as markets other fashion accessories such as watches, jewelry, perfumes, bags, and shoes. Guess? serves customers worldwide.
URBAN OUTFITTER	United States	3,317	Urban Outfitters, Inc. operates as a lifestyle products and services company. The Company sells fashion apparel, accessories, and household and gift merchandise. Urban also designs and markets women's casual wear. Urban Outfitters serves customers worldwide.
PVH CORP	United States	5,495	PVH Corp. operates as a clothing and apparel accessories company. The Company designs, manufactures, and markets men's, women's, and children's apparel, footwear, and accessories. PVH offers products such as dresses, shirts, sportswear, neckwear, and footwear.
UNDER ARMOUR-A	United States	3,548	Under Armour, Inc. develops, markets, and distributes branded athletic performance apparel, footwear, and accessories. The Company designs and sells shorts, tops, pants, socks, belts, shoes, sport gloves, sunglasses, water bottles, backpacks, and hats, as well as baseball, basketball, football, golf, hockey, hunting, fishing, and running products.
BURBERY GROUP PLC	Britain	3,672	Burberry Group plc, with its subsidiaries, is a luxury goods manufacturer and retailer operating globally under the Burberry brand. The company offers a range of products, including clothing, accessories, beauty items, and leather goods. Distribution channels include Burberry stores, concessions, outlets, digital commerce, franchisees, and department stores. The company also licenses third parties to produce and distribute products with the Burberry trademarks. Burberry has a presence in Asia Pacific, Europe, the Middle East, India, Africa, and the Americas.

Source: IS Investment, Bloomberg, Company websites

Table 10: Peer Definitions (cont'd)

Company	Country	Mcap (mn US\$)	Description
MR PRICE GROUP	South Africa	3,842	Mr Price Group Limited is a global fashion retailer, serving women, men, and children. Operating through segments like Apparel, Home, Financial Services, and Telecoms, it offers a diverse range of products, including clothing, footwear, cosmetics, furniture, and home decor. The company also provides financial and telecom services. With 2,702 corporate-owned stores, 8 franchised stores, and online channels, Mr Price Group delivers an omni-channel retail experience to its customers worldwide.
LOJAS RENNER SA	Brazil	3,089	Lojas Renner S.A. designs, develops and sells women's, men's, teen and children's quality and fashionable apparel, footwear and intimate apparel under the eleven private brands of its Lifestyle concept. The Company also sells accessories and cosmetics through two private brands and offers third-party branded merchandise in certain of its product categories.
ZHEJIANG SEMIR-A	China	2,258	Zhejiang Semir Garment Co., Ltd. is a Chinese company specializing in casual and children's apparel products, distributed under brands like Semir, Balabala, and Juicy Couture. They utilize both online and offline channels, including specialty stores, supermarkets, malls, outlets, and e-commerce, for global distribution.
LPP	Poland	6,709	LPP S.A. designs and distributes clothing in Central and Eastern Europe. The Company designs and markets the product mix and branding, and develops distribution channels. It offers apparel, accessories, and footwear under the Reserved, Cropp, House, Mohito, and Sinsay brands. LPP outsources the production to clothing manufacturers located in China.
NINGBO PEACEBI-A	China	848	Ningbo Peacebird Fashion Co., Ltd. functions as a fashion brand retailer in China with a focus on consumer satisfaction. The company designs and markets fashion products under various brands, including PEACEBIRD WOMEN, PEACEBIRD MEN, LEDIN, MATERIAL GIRL, Mini Peace, PETIT AVriL, COPPOLELLA, and PEACEBIRD LIVIN'. Distribution is through both self-operated and franchise stores, as well as an e-commerce platform.
TRUWORTHS INTL	South Africa	2,591	Truworths International Limited, a holding and management company, is involved in the retail of fashion apparel, footwear, homeware, and related merchandise. Its operations encompass Truworths and Office segments, serving customers in various countries, including South Africa, the United Kingdom, Germany, the Republic of Ireland, Namibia, Botswana, and Swaziland. The company reaches its customers through a network of stores, concession outlets, and an e-commerce channel.
MAVI GIYIM	Türkiye	881	Mavi, is a denim-centric fashion brand, incorporated in 1991 in Istanbul. Mavi has a presence in 37 countries, including Türkiye, the USA, Canada, Germany, and Russia, selling its products through approximately ~4,000 points, including 471 Mavi shops.

Source: IS Investment, Bloomberg, Company websites

**COMPANY
OVERVIEW****KOTON in Brief**

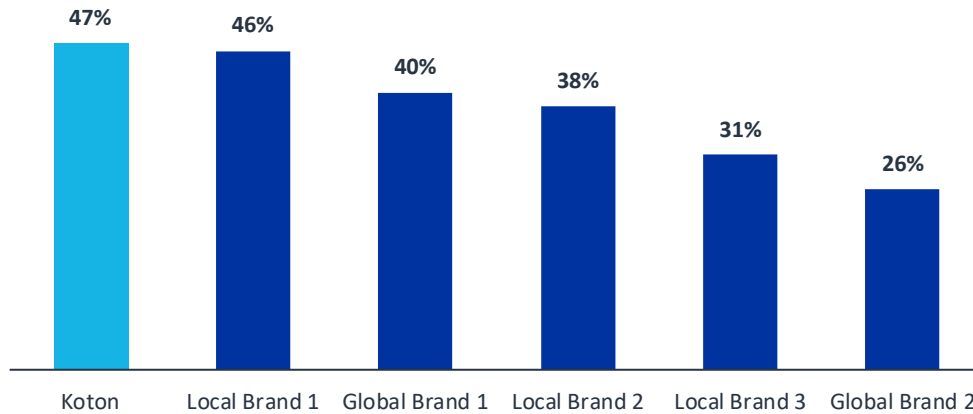
Koton is a leading Turkish fashion retailer with a strong presence in Türkiye while expanding internationally. The Company offers affordable and trendy apparel for women, men, and children across all age groups, targeting a broad customer base.

Koton started to operate in a 25 sqm boutique opened in Kuzguncuk back in 1988. In 1991, the Company opened its second store in Besiktas, and in 1993 it rented a garment workshop and began manufacturing. In 1996, the Company opened its first showroom in Munich to sell its collection. The company reached the break-even point in the second year of its operations abroad. After opening its 11th store, the Company decided to conduct a customer survey covering 10,000 people. The survey revealed that customers want to shop for fashionable products at reasonable prices and in well-decorated big stores. In 2000, in response to the survey results, the Company opened its 12th store with a 1,300 sqm store area. In 2005, the number of stores in Türkiye and abroad reached 100 and 39, respectively. The online shopping channel Koton.com was launched in 2015.

BRAND

Koton is a one-stop shop fashion brand offering wide range of products for all ages and genders, with more than 30k SKUs. The Company's brand management strategy consists of three pillars: i) increasing brand awareness ii) providing affordable fashion for mass-market customers iii) expanding and diversifying the customer base.

According to OC&C Analysis' Market Survey 2023 report, Koton has the highest unaided brand awareness of 47% among all brands in the women's ready-to-wear category. Around 48% of Koton female customers in Türkiye are frequent customers who have shopped at Koton three or more times in the previous year.

Figure 5: Brand Awareness (Unaided)

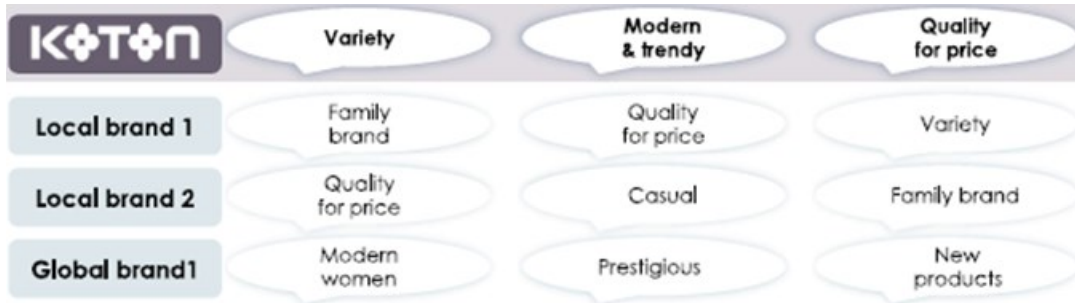
Source: OC&C Analysis, Market Survey 2023

Koton Mağazacılık Tekstil Sanayi Ticaret

According to the same OC&C survey, the Company ranked first in five key purchasing criteria (high quality, value for money, breadth of choice, good fit, and, new products/innovation) and customer satisfaction scores(NPS), surpassing its local competitors.

In the same survey, the first three words that come to mind about the brands asked to women are stated as variety, modern and trendy, and quality for price for Koton.

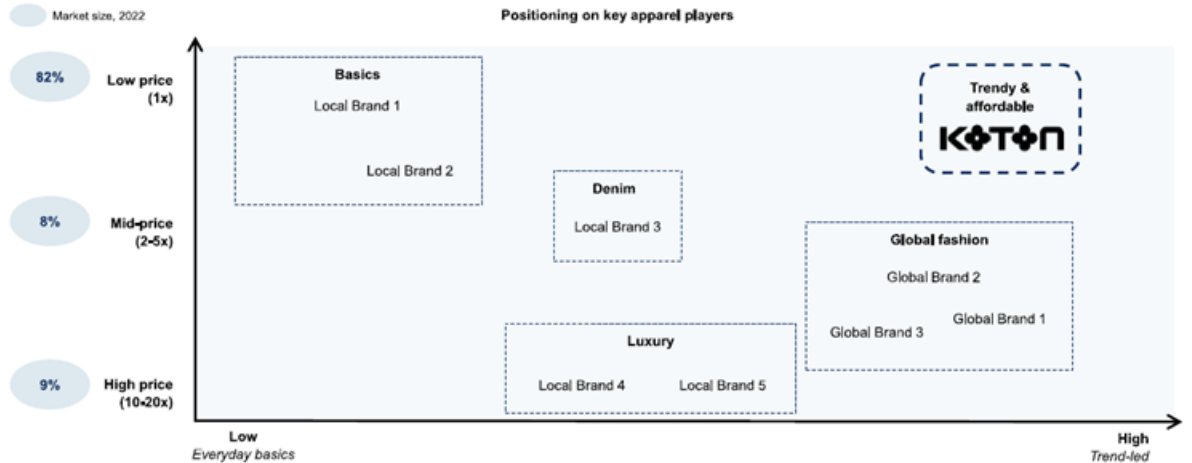
Figure 6: Customer Definition of Koton



Source: OC&C Analysis, Market Survey 2023

Customer demand in Türkiye is to be able to buy trendy products at affordable prices. Based on the OC&C Report, Koton is perceived as a brand that offers a wider range of fashionable products than its local peers and a portfolio of more affordable products than international brands.

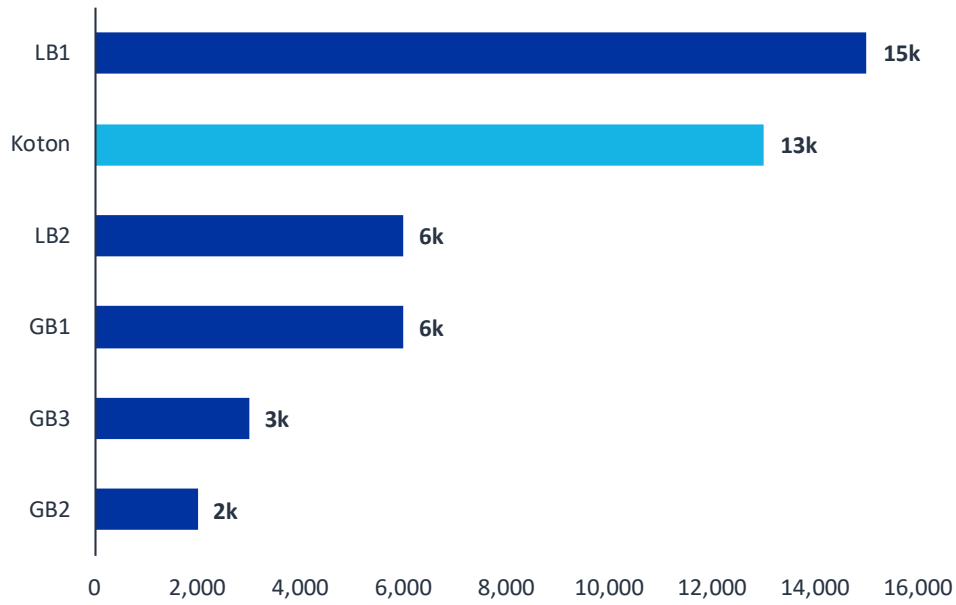
Figure 7: Positioning of Key Apparel Brands by Market size (2022)



Source: OC&C Analysis (including Euromonitor data), Company

Compared to international players, Koton offers a wide range of men's and women's apparel at more affordable prices. According to OC&C report (based on webscraping as of September 2023),it provides approximately 13,000 men's and women's product options compared to approximately 15,000, 6,000, 6,000, 3,000, and 2,000 for Domestic Brand 1, Domestic Brand 2, International Brand 1, International Brand 3, and International Brand 2, respectively.

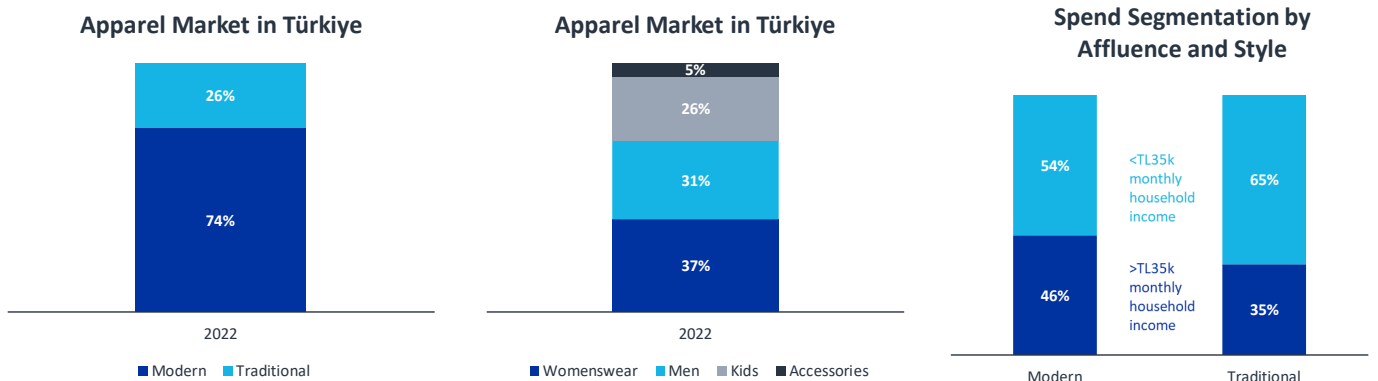
Figure 8: Total Number of Womenswear and Menswear Products by Players



Source: OC&C Analysis (as of September 2023)

According to the OC&C Report, women represent the largest customer group in the apparel market. Koton predominantly targets female customers as they follow fashion trends and is the largest customer segment in the market. In 2022, 37% of the apparel market belongs to womenswear, 31% to menswear, 26% to kidswear, and 5% to accessories. Furthermore, according to OC&C market research report, 74% of apparel customers define their clothing style as modern in 2022. While 46% of apparel shoppers who define their clothing style as modern have a monthly household income of more than 35,000 TL, the proportion is 35% for customers with traditional clothing style.

Figure 9: Segmentation of Apparels in Türkiye



Source: OC&C Analysis, Market Survey 2023

Based on the results of OC&C's Market Survey 2023 made with local shoppers, 34% of Koton customers are between the ages of 35-44, 25% between the ages of 25-34, 23% between the ages of 45-54 and 18% are aged between 18-24. Meanwhile, 57% of the customer portfolio consists of women, while the remaining 43% consists of men in Türkiye. The breakdown of the brand's customer portfolio by age and gender shows that it appeals to a wide and diversified customer base. Besides, 75% of Koton customers in Türkiye define their style as modern.

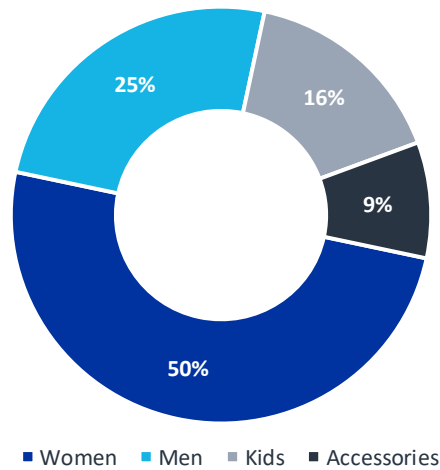
Koton Mağazacılık Tekstil Sanayi Ticaret

This pattern is similar in other countries where the Company operates. For example, in Kazakhstan, 77% of Koton customers are between the ages of 25-44, 69% of them are female, and 75% of them define their fashion sense as modern.

PRODUCT OFFERINGS

In 2023, 50% of the Company’s revenues consist of women's products, 25% of men's products, 16% of children's products, and 9% of accessories.

Figure 10: Company’s Revenues Across Major Product Categories



Source: Company

Koton designs and develops its products for different body types and lifestyles, with a variety of colors, patterns, and designs for different occasions and environments. The products offer a wide variety, ranging from casual wear to office styles, outerwear to beachwear, and innerwear to sportswear, catering to a diverse range of occasions for customers.

More than half of the Company's products focus on the women's category. In the womenswear category for the spring/summer 2023 season, tops, bottoms, dresses, accessories, denim, and beachwear accounted for 33%, 19%, 13%, 11%, 6% and 4% of total revenues in the women's category, respectively. The remaining 14% is composed of outerwear, underwear, knitwear, and sleepwear. In the women's category for the fall/winter 2023 season, outerwear, tops, knitwear, bottoms, accessories, and workwear represented 21%, 18%, 13%, 11%, 10% and 9% of total revenues in the women's category. The final category, which corresponds to 18% of products, includes denim, sportswear, dresses, sleepwear, and underwear.

The breakdown of the sub-products that the Company's menswear generates revenue from varies from season to season. In the spring/summer 2023 season, tops, denim, bottoms, sportswear, beachwear, and accessories generated 47%, 20%, 17%, 5%, 1%, and 7% of total menswear category revenues, respectively.

Koton Mağazacılık Tekstil Sanayi Ticaret

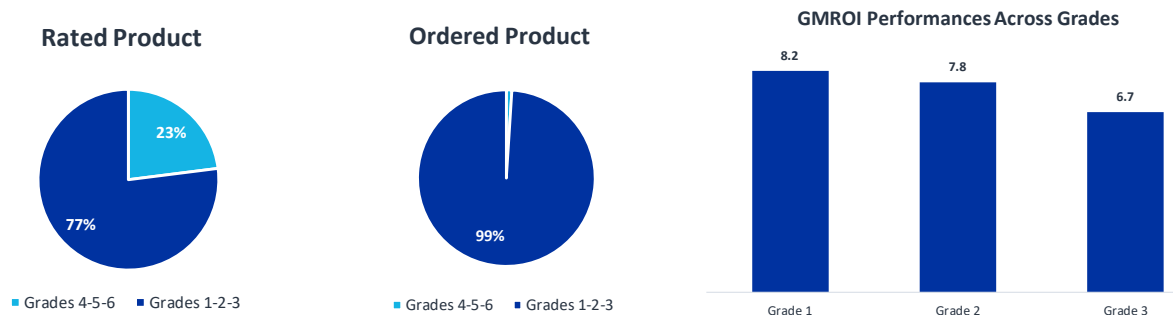
The remaining part includes sleepwear and outerwear. In the fall/winter 2023 season, denim, tops, outerwear, bottoms, accessories, and knitwear comprised 28%, 24%, 17%, 7%, 7%, and 5% of the total revenues of the men's category, respectively. Other categories that represented the remaining share of revenues included workwear, sportswear, and underwear been sold.

Licensed products are a vital component of Koton's kidswear category. The Company has license agreements with brands such as Disney, Warner Bros, Paramount, Marvel Studios, Harry Potter, Batman and Superman, WildBrain, Pixar, and Smiley. In 2023, over one million licensed products have been sold. In the spring/summer 2023 season tops, bottoms, dresses, denim, accessories, and sportswear represented 42%, 29%, 13%, 9%, 4%, and 1% of total revenues in the kidswear category, respectively. Other product categories of the season are beachwear and jackets. In the fall/winter 2023 season, topwear, bottom wear, outerwear, accessories, denim, and knitwear products accounted for 40%, 25%, 17%, 5%, 4% and 4% of total kids category revenues, respectively. The remaining 5% of total revenues were generated by the dress category.

- Product Development Process

The Company has a dynamic product development process. In the design process of the products, global brands and events are followed in order to follow the trends and determine key details such as color, design, and fabric type. In addition, technology-supported social media scanning systems gather and provide information every two weeks. After the materials to be used for the product are determined, a prototype is created within 48 hours. Koton is capable of creating around 100 product prototypes per day and designs more than 24,000 products per year.

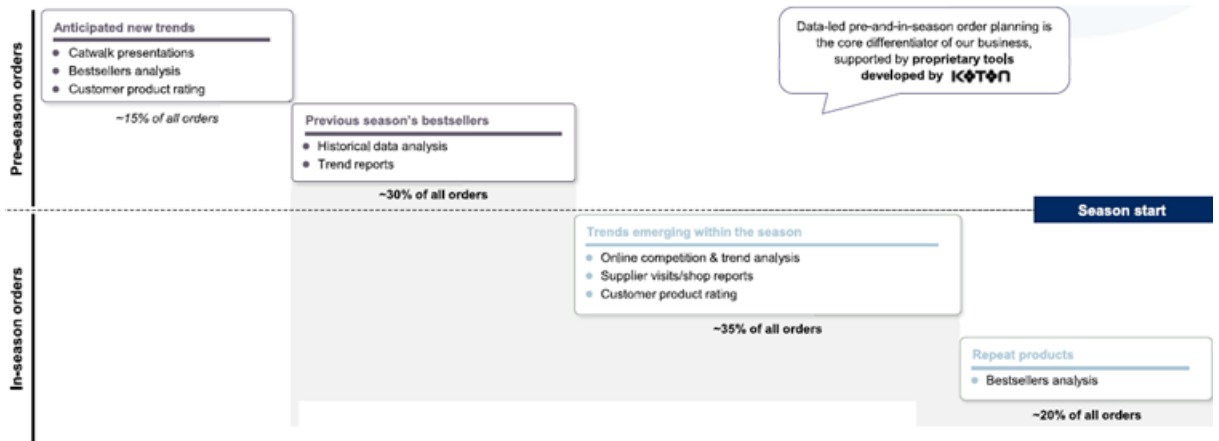
Figure 11: The Effect of Rating System on Production and GMROI



Source: Company

New products are introduced to customers for evaluation. Customer responses are converted into six product grades and entered into the ordering system; products rated one to three are allowed to be ordered. Products with a rating between four and six are eliminated. The GMROI (gross margin return on investment) performance of each category is tracked to fine-tune the customer rating process.

Figure 12: Ordering Process for a Season*



Source: Company

*This is an illustration of the Company's pre-season and in-season order breakdown for womenswear. Proportions could change based on the product category .

The Company follows new trends to minimize fashion risk, which represents about 15% of total orders. About 30% of the orders consist of the best-selling products of the previous season. Within the season, 35% of the orders are entered into the according to online competition and trend analysis, supplier visits/shop reports, and customer product ratings. The remaining 20% consists of repeat products.

MARKETING

Koton implements its marketing strategy through three interrelated channels. The first one is advertising management, which is defined as advertising campaigns increasing interaction with the brand. Another channel is collaborating with designers and influencers and licensing agreements. The last one is to collect customer feedback under a database and develop a loyalty program for increasing interaction with customers.

First of all, Koton aims to share its message with its consumers through advertising campaigns to attract customer attention and increase the brand's awareness and visibility. The brand's marketing strategy not only emphasizes fashion sense but also includes an underlying social message. After the advertising campaign attracts attention and delivers clear and understandable messages to the consumer, the positive impact on consumer perception and growing brand appreciation results in increased store traffic and targeted product sales.

In 2020, for instance, the Company launched the "#nomoretags" campaign, collaborating with people who have been subjected to discrimination. This campaign enabled Koton to take an important step in differentiation in various fields both within and outside the sector. Following this campaign, e-commerce traffic increased by 44% QoQ in 4Q20, while campaigned product sales increased by 146% in the same period. With this campaign, the Company started to be active on TikTok, and the TikTok campaign launched on November 14, 2020, in response to the campaign achieved 1.5 billion video views, 6.1 million page views, and 1.7 million videos in six days.

Koton Mağazacılık Tekstil Sanayi Ticaret

Secondly, the Company has signed important collaborations to attract consumers and reach the right audiences. The celebrities, designers, and social media influencers that the Company collaborates with, all have the following common traits: interest in fashion, successful careers, and a high number of followers. The Company has worked with social media influencers such as Arzu Sabancı and Rachel Araz, nationally and internationally recognized celebrities such as Fahriye Evcen, Tuba Ünsal, and Teoman, and fashion designers such as Jean-Pierre Braganza, Hakan Yıldırım, Bora Aksu, Zeynep Tosun, Dilek Hanif, Zeynep Bastık and Inji.

The Company's collaboration projects with six social media influencers in the spring/summer 2023 season covered approximately 500 products and 20% higher category revenue growth vs Koton average. Moreover, to adapt to the changing era and increase brand awareness, Koton is increasing its presence on social media day by day. As of November 30, 2023, Koton has approximately 1.5 million Facebook followers and approximately 2.8 million Instagram followers. Between January and October 2023, the brand generated over 500 million social media impressions including 449 million on Instagram, 39 million on Facebook, 21 million on TikTok, 15 million on YouTube, and one million on X. The Company aims to reinforce its brand identity, raise awareness of its activities and values, and establish a closer relationship with its customers. Accordingly, it produces content, including videos, for social media channels for each collection.

The Company has license agreements with brands such as Disney, Warner Bros, Paramount, Marvel Studios, Harry Potter, Batman and Superman, WildBrain, Pixar, and Smiley. In 2023, sales growth of licensed products was 7% higher than other product categories. As licensed products correspond to more than 6% of total kidswear revenues, the Company has a special focus on children's apparel and is able to adapt to seasonal developments through frequent meetings with licensees.

Lastly, the customer insight focuses on customers' shopping habits, including i) the last time a customer shopped at Koton, ii) the number of purchases made at Koton in a year, and iii) the value of purchases made by customers. Based on these criteria, the Company has categorized customers into five main segments and 11 sub-segments. Thanks to its established retail presence and direct access to customer data through its online capabilities, the Company has collected approximately 12 million mobile customer data. Through the data collected, campaigns could be organized to activate inactive customer accounts. For example, in the 2023 Father's Day campaign, a 20% discount was offered through personalized SMSs to customers who had churned their accounts for more than 15 months and ROI reached 200 times in dollar terms within 4 days.

In April 2023, the Company pre-launched its loyalty program 'Koton Club' in order to gain and benefit from an extensive customer assessment. Through this loyalty program, the Company aims to generate much higher response rates and customer traffic, increase customer loyalty, and enhance customer value. Koton Club is valid both in stores and online. Points accumulated from purchases in all product groups and could be redeemed in any sales channel throughout the year.

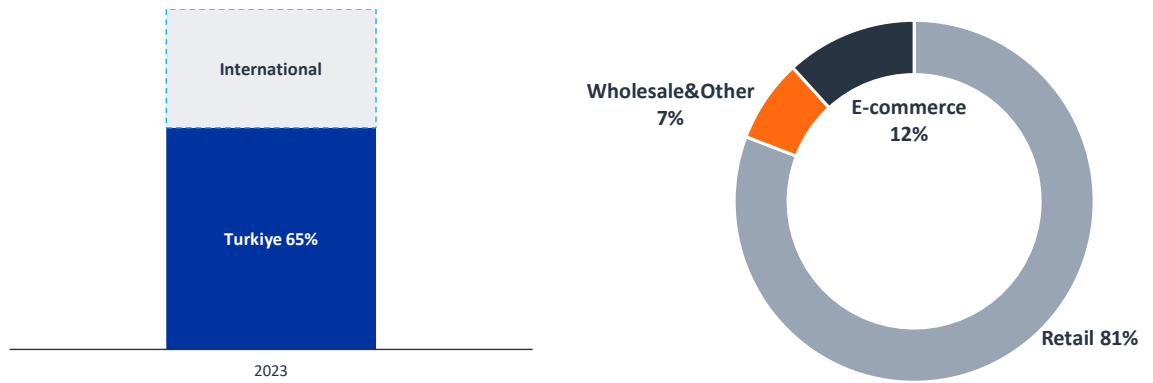
Koton Mağazacılık Tekstil Sanayi Ticaret

Each loyalty point provides the Company with nine times more return. Since the launch of the loyalty program, the number of active Koton Club members has exceeded 2.7 million. Data for the six-month period after the pre-launch shows that the average basket size and frequency of Koton Club members are 15% and 10% higher than non-members, respectively, and the number of items per invoice is approximately 10% higher for Koton Club members. Koton Club's share in-store and online sales is 43%.

MULTI-CHANNEL SALES PLATFORM

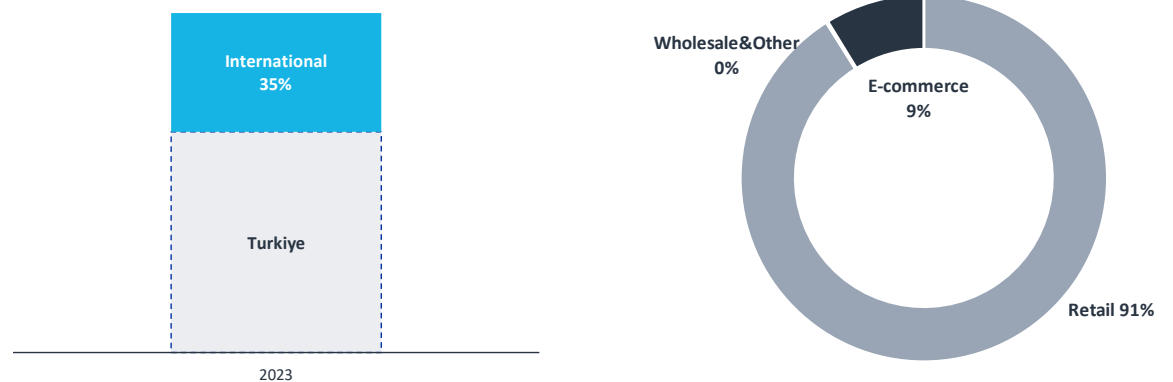
Koton carries out its retail operations in Türkiye and 69 other countries through 433 company-owned and franchised stores in total, while also carrying out wholesale and e-commerce activities. This multi-channel strategy creates synergies both domestically and internationally and supports the Company's profitability and sustainable growth policy. In 2023, Türkiye sales represent 65% of the Company's consolidated revenues, with the remaining 35% coming from international operations.

Figure 13: Revenue Breakdown of Türkiye Operations (2023)



Source: Company

Figure 14: Revenue Breakdown of International Operations



Source: Company

Koton Mağazacılık Tekstil Sanayi Ticaret**- Retail Operations**

As of 2023YE, Koton's retail network consists of 433 stores in 28 countries, including Türkiye. The Company's total number of stores in Europe and CIS region is 124 and their contribution to consolidated retail sales is around 30%. The Company's sales strategy in this region is carried out through both corporate-owned and franchised stores. The number of stores in the Middle East and Africa is 68 and their contribution to consolidated revenue is around 5%. The Company continues its sales in the MENA region mainly through franchise partnerships. Türkiye, the core market of the Company's retail operations, contributes 65% to the total retail sales and the Company reaches its customers with 241 stores in 66 of 81 cities in Türkiye. Koton's retail sales strategy in Türkiye is to increase sales efficiency and profitability in existing stores, with select store openings.

(% of revenues across geographies are in LTM).

Figure 15: Koton in Türkiye and Koton in the World



Source: Company

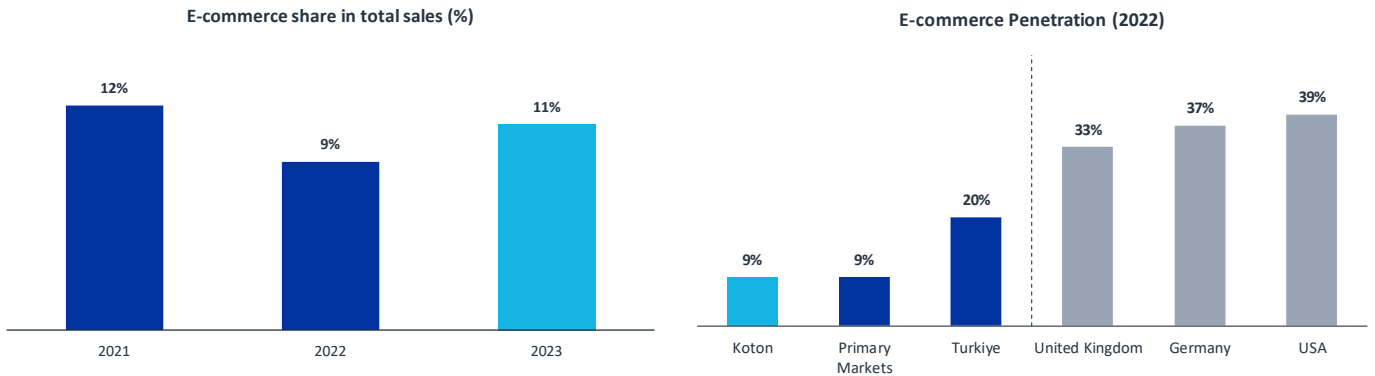
The Company does not charge any royalty fee and does not accept inventory returns as part of its international franchise business model. It introduces a business model to franchise stores and provides information on store location, product selection, pricing policy, visual merchandising, inventory management, etc. While sales to international franchisees are final, sales to Turkish franchises are on a consignment basis.

- E-commerce

The Company has been operating in e-commerce since 2015 when it launched its website koton.com in Türkiye. In addition to Koton's own website, it also operates in 28 online marketplaces in Türkiye and abroad. The e-commerce operations of the Company cover 57 countries in 28 different marketplaces worldwide, including Namshi, Myntra, Amazon, Trendyol, Hepsiburada, Dante, Fashion Days, Zalora, Zalando, and Jumia. The Company aims to further improve its relationships and integrations with Walmart, Amazon (France, UK, Spain, and Poland), AboutYou, Limango, VanGraff, Azadea, and Noon in the following years.

Koton's approach to marketplaces covers both B2B and B2C business, with multiple models being used across countries, including drop shipping, cross-dock, consignee, and hybrid models. In the 9M23 period, about 63% of the marketplace sales were realized within the category of the B2C model, and the remaining 37% of the marketplace sales were realized within the category of the B2B model. The Company expects the proportion of sales realized under the B2C model to increase in the upcoming periods. Koton has approximately 2.2 million store followers on Trendyol and is a pioneer in the women's category. Revenue generated from e-commerce, including marketplaces, increased by 11% YoY in 2023. In Türkiye, sales on koton.com increased by 168% in 2023. The Company's target is for e-commerce to reach 14% of total revenue in the medium term. The Company aims to launch koton.com in Kazakhstan, Romania, Saudi Arabia, and Serbia in 2024 and then open websites for other countries in the region.

Figure 16: E-commerce Share in Total (%) and E-commerce Penetration



Source: Company

Primary markets includes all primary markets for which Euromonitor provides e-commerce and retail offline splits, excludes Morocco.

Koton Mağazacılık Tekstil Sanayi Ticaret

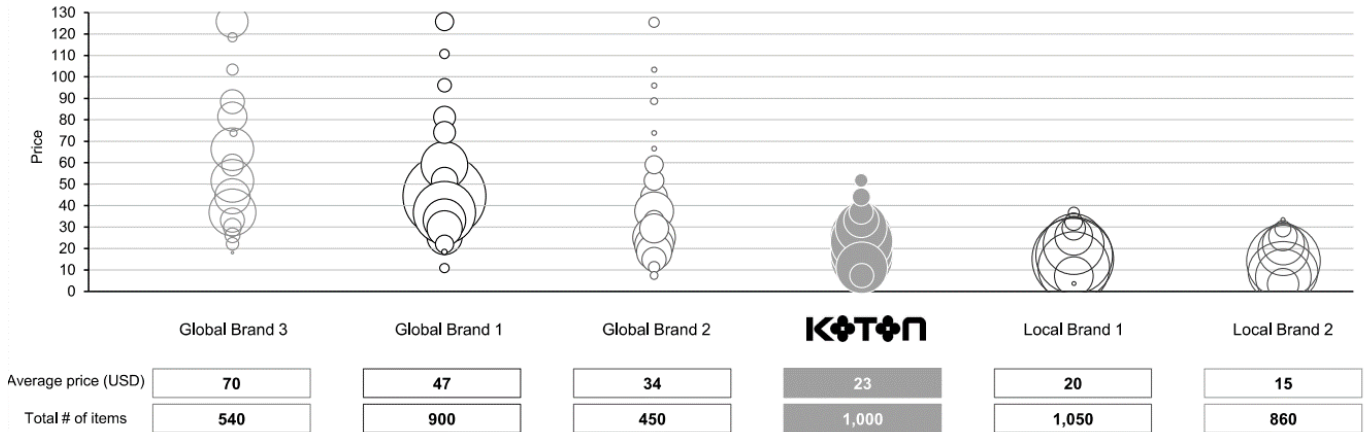
- Wholesale

The Company's wholesale business could be summarized into four categories: corner store sales, department store sales, B2B sales, and international sales. The corner store channel represents the domestic multi-brand point of sales operation. The Company has 187 customers in 59 cities in Türkiye. Department stores represent major chain stores including Boyner, Özdilek, Gencallar, and Çetinkaya operating in more than 45 cities across Türkiye. As of end-2023, the Company has 23 active customers in the B2B sales channel which is the fastest-growing wholesale channel in recent times. The Company's operations in the B2B sales channel include product sales, physical gift cards, and digital gift certificates. The Company supplies wholesale products abroad through the international wholesale channel. Products are delivered to consumers through this channel at more than 200 points of sale in around 27 countries, including Europe, CIS, the Middle East, and Africa.

PRICING STRATEGY

Koton is able to offer its customers a wide range of products at highly competitive prices. While global competitors are sold at prices 2-3 times higher than Koton products in the domestic market, they have not matched Koton in terms of the number of items. A similar trend of reasonable prices and a high number of products is observed in other regions that Koton operates.

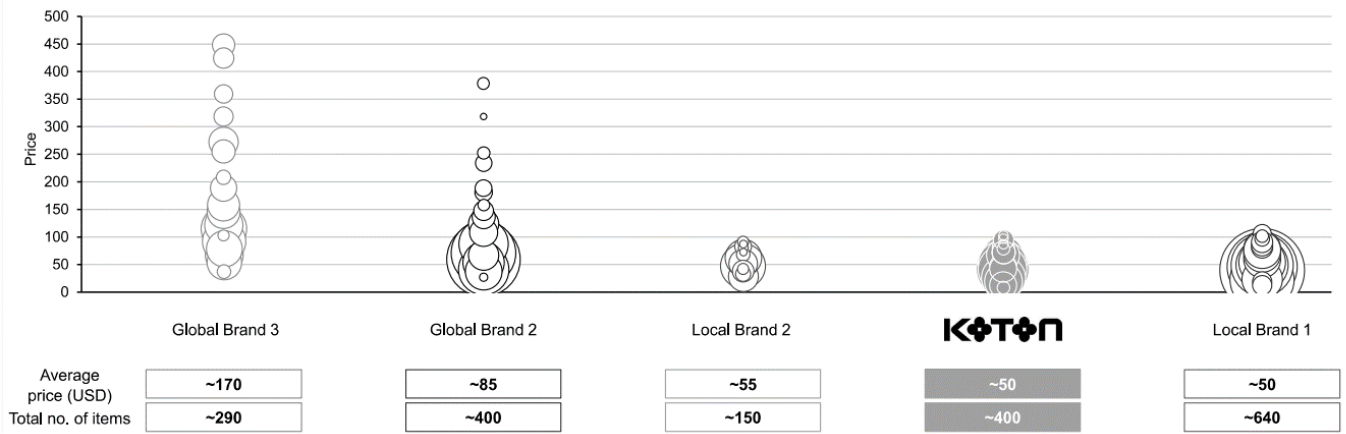
Figure 17: Pricing Strategy of Koton in Türkiye for Womenswear



Source: Based web scraping as of September, 2023, OC&C Analysis

Koton Mağazacılık Tekstil Sanayi Ticaret

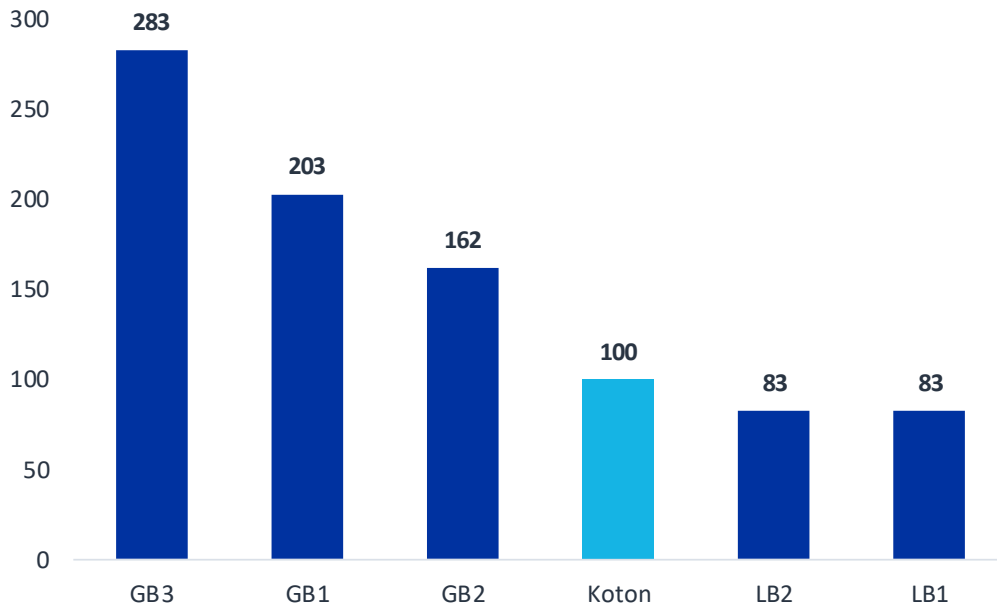
Figure 18: Pricing Strategy of Koton in Kazakhstan for Womenswear



Source: Based web scraping as of September, 2023, OC&C Analysis

As of September 2023, as compared to its competitors in women's, men's and children's categories, the Company's average pricing index is positioned right in the middle of domestic brands and global brands.

Figure 19: Average Pricing Index*



Source: OC&C Analysis

*Based on OC&C's web scraping sample which includes, Womenswear (dresses, sweaters, jeans, shirts and blouses, shorts and trousers), Menswear (shirts, tshirts, sweaters, jeans), Kidswear (girls' dresses, boys' sweaters), as of September 2023.

SUPPLY CHAIN

Koton obtains approximately 85% of its product supply from local suppliers. Locating in Türkiye gives the Company access to a flexible supplier force with short (4-8 weeks) lead times. The Company has around 50 suppliers overseas and around 250 in Türkiye. According to 2023 year-end figures, the Company's top 10 suppliers represent 25% of its purchases.

The Company has been working with 8 of these 10 suppliers for more than 5 years. In 2023, 89% of the Company's procurement was from Türkiye, 7% from North Africa, 2% from China, and the remaining 2% from other Asian countries.

The Company audits suppliers periodically monitors their performance closely, and provides support for their performance improvement. The Supplier Assessment Form, which consists of approximately 20 criteria, is completed by suppliers. Based on the results, problems are identified. At this point, if the supplier fails to improve, it is eliminated from the system.

Koton acts as a bridge between suppliers and raw material producers. The Company, at first, makes order planning and after negotiations with raw material producers, reaches a compromise, and orders are placed. Then, the raw materials received by the suppliers are made into products and delivered to the Company. In this way, the Company engages in effective cost management with a wide network of suppliers. In addition to cost management, suppliers can effectively manage their capacity and have access to the international fabric market.

In the production process, each department is responsible for reporting its fabric requirements. However, by using the method called fabric consolidation, the Company obtains a rough figure in advance, makes big purchases, and is able to supply its fabric requirements below the market price. In addition, the textile industry has peak and low seasons by nature. The Company places some of its orders at times when its manufacturers are off-peak, thereby both producing affordable products and saving manufacturers from idle capacity.

SECTOR OVERVIEW

MARKET

According to OC&C analysis report, in 2022, the apparel retail sector had a total size of USD11bn in Türkiye, USD34bn in N.Macedonia, Kazakhstan, Serbia, Bosnia, Morocco, Georgia, KSA, and UAE, which are grouped under primary markets of Koton, and USD45bn in Romania, Ukraine Russia, Belarus, Albania, Azerbaijan, Iraq, Libya, Moldova, etc., supplementary markets subgroup of Koton. In sum, as of 2022, the total apparel market size in the countries in which Koton operates is around USD90bn.

Advantages of Koton’s primary markets vis a vis mature EU markets may be outlined as i) young and fast-growing population, ii) high year-on-year GDP growth, iii) increasing female labor force participation rate, iv) rising product prices, v) increasing share of consumption in GDP, and vi) higher growth of the apparel industry.

Mature EU Markets includes Germany, Italy and France.

Figure 20: Population Growth, 2013-2022 CAGR

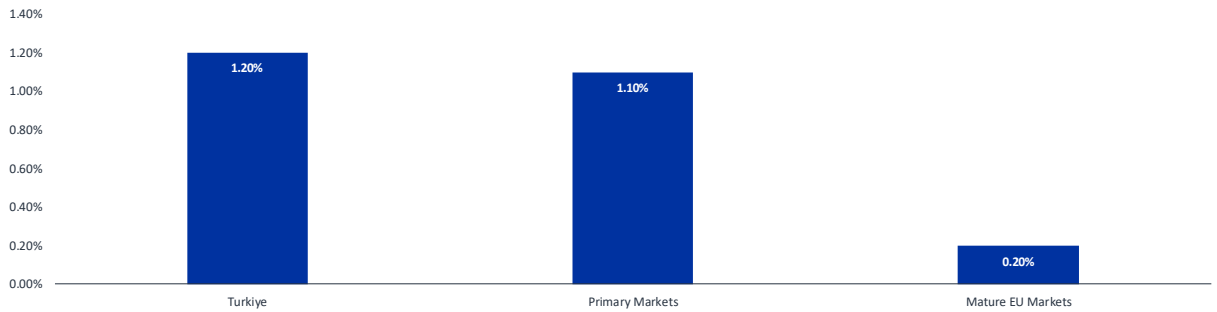


Figure 21: Real GDP Growth, 2013-2022 CAGR*

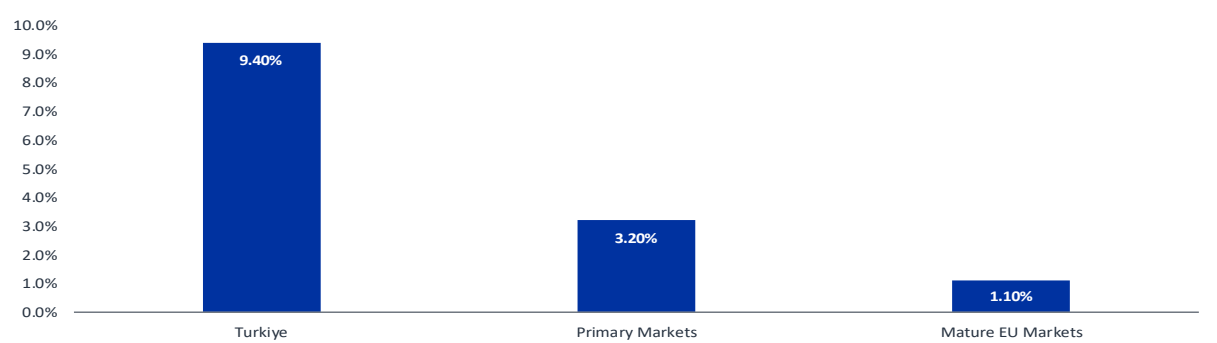
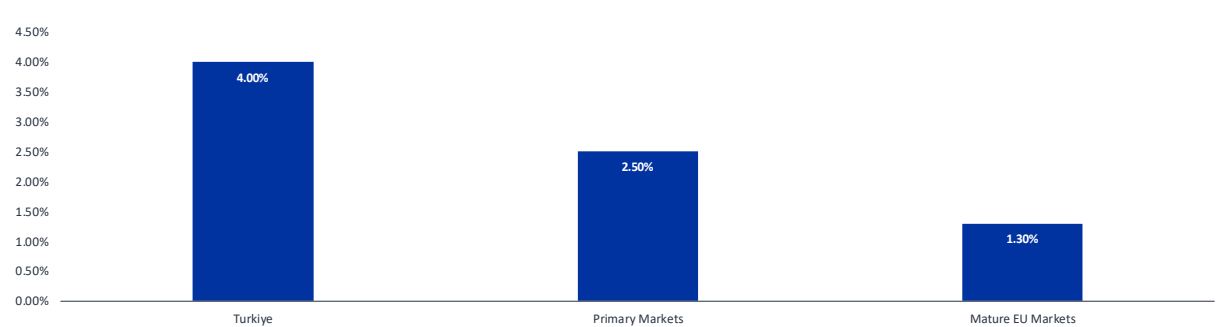


Figure 22: Female labour force participation increase as a % of total workforce, 2013-2022 (pp)**



Source: World Bank, OC&C Analysis

*GDP is back calculated using real growth (nominal growth-inflation) for each year from 2022 nominal GDP value

**Based on World Bank labour force participation rate, female (% of female population ages 15+)(Modelled ILO estimate)

Koton Mağazacılık Tekstil Sanayi Ticaret

The population growth of Türkiye, primary markets, and European countries for the period 2013-2022 showed CAGR rates of 1.2%, 1.1%, and 0.2%, respectively. In apparel retail, a young population is a key driver of demand, and Türkiye's relatively young population is an advantage in this sense. The fact that Koton's core market is Türkiye and that its customer base is predominantly young and middle-aged places the Company in an advantageous position.

In terms of real GDP growth, Türkiye has the highest CAGR of 9.4% between 2013 and 2022. Primary markets have a CAGR of 3.2%, while the EU average is 1.1% (Between 2013-2021, the growth rates have been calculated by eliminating inflation from the nominal growth rates but for 2022, the calculation has been based on the nominal figures).

The female labor force participation rate has risen faster in Türkiye and the Primary Markets, with increases of 4% and 2.5% in the period from 2013 to 2022, respectively, compared to 1.3% in developed European markets. Since women are the most demanding group for apparel products, the increase in women's participation in the labor force and thereby their purchasing power contributes to the growth of the sector.

Figure 23: Apparel unit price real growth, 2013-2022 CAGR*

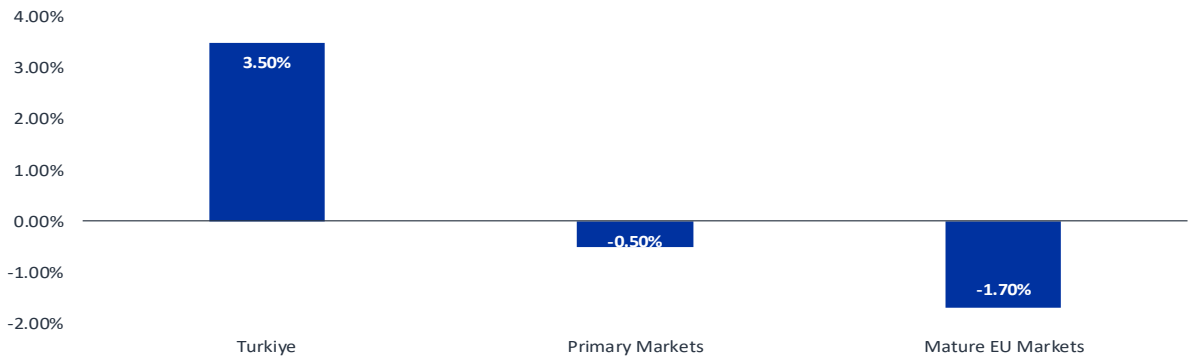
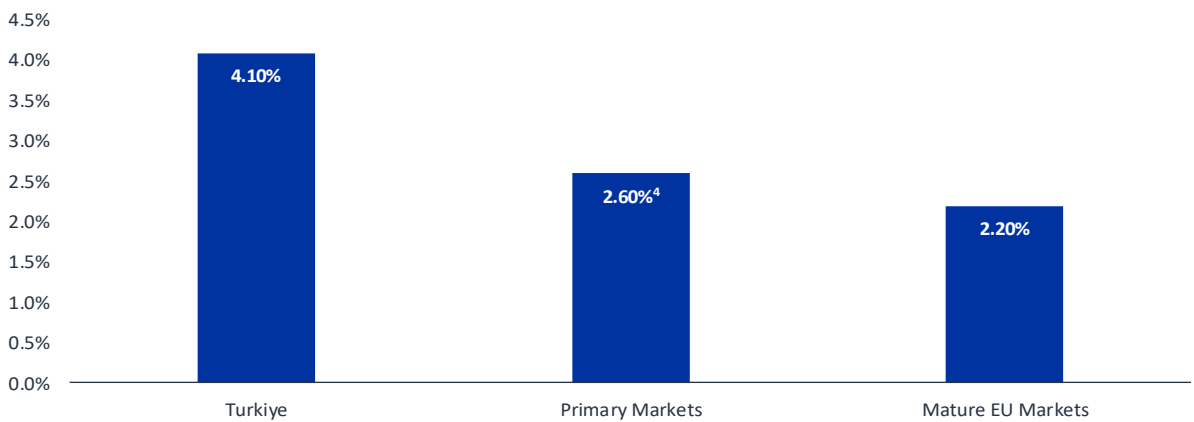


Figure 24: Consumer spend as share of GDP**

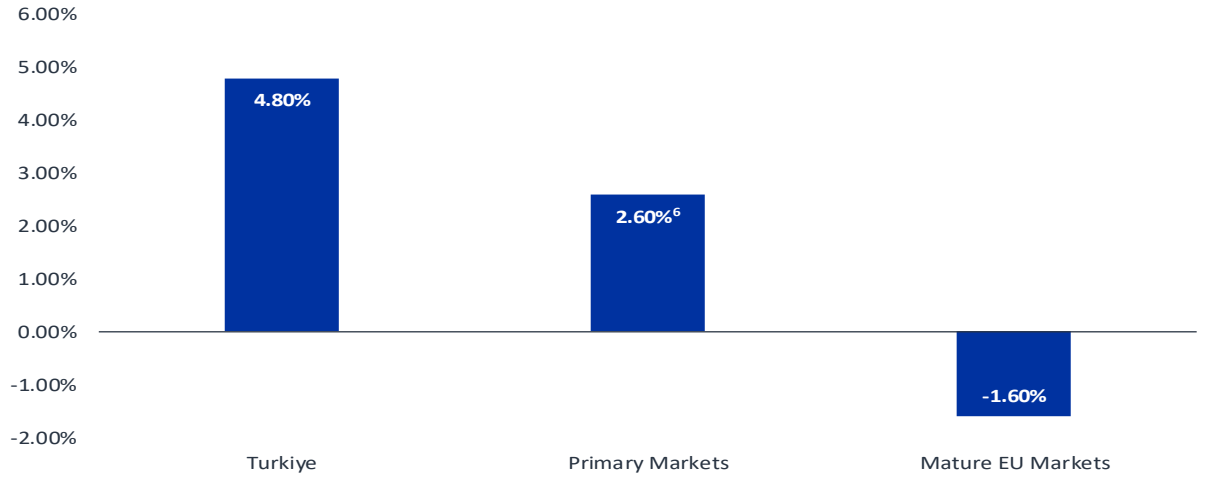


Source: World Bank, OC&C Analysis

*CAGRs are calculated by subtracting the annualised inflation rate from unit price change in local currency. For Georgia, Kazakhstan, Bosnia and Serbia which are modelled in USD by Euromonitor, the real rates were computed after conversion to LCU using period exchange. No available healthy data for Kazakhstan and Georgia in the periods of 2013-2022 and 2019-2022 respectively (Primary Markets)

**For apparel and footwear in 2021

Figure 25: Apparel Market Growth*



Source: World Bank, OC&C Analysis

*Real growth CAGR in LCU, 2013-2019.

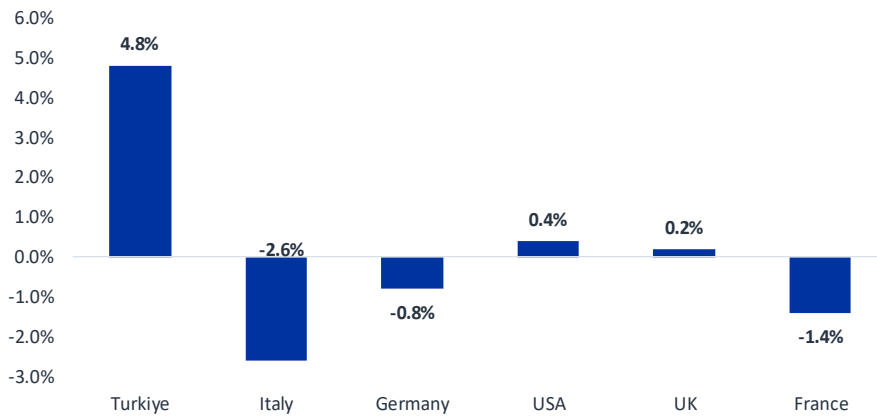
Primary markets only include UAE, KSA, Serbia, Bosnia and N.Macedonia (latest available data for 2019 for N. Macedonia)

In the same period, the unit price of apparel contracted by 0.5% and 1.7% in real terms in primary markets and Europe, respectively. On the contrary, it grew by 3.5% in Türkiye.

In 2021, the share of apparel and footwear spending in GDP is 4.1% for Türkiye, compared to 2.6% and 2.2% for the primary markets and the European markets, respectively.

And finally, the apparel sector grew by 4.8% CAGR for Türkiye and 2.6% CAGR for primary markets in the 2013-2019 period, while European markets contracted by 1.6% CAGR.

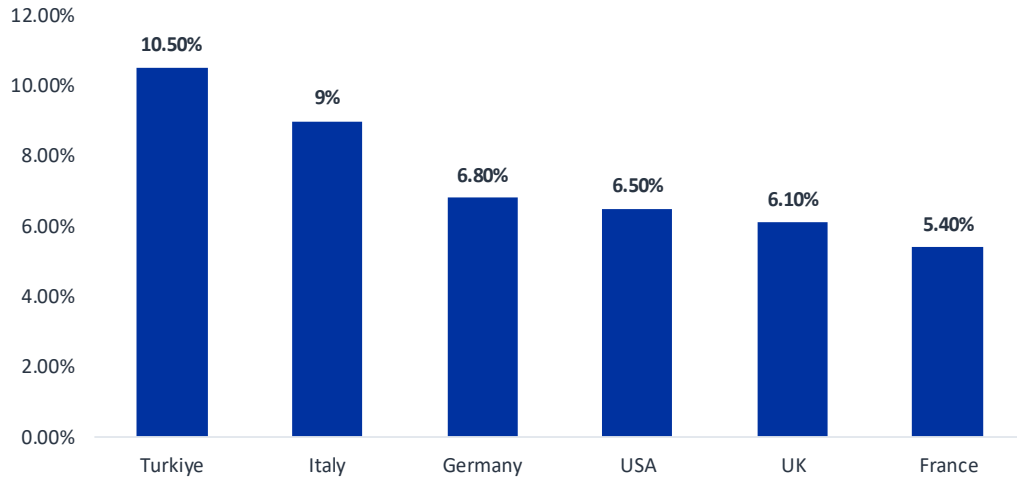
Figure 26: Apparel market, pre-Covid 2013-2019 %CAGR



Source: Euromonitor, World Bank, OC&C Analysis

Before the COVID-19 pandemic, Türkiye's apparel market grew by 4.8% CAGR between 2013 and 2019, while this rate was limited to 0.4% and 0.2% in the US and the UK. In Italy, Germany and France, on the contrary, the apparel sector contracted by 2.6%, 0.8%, and 1.4% CAGR, respectively. In the same period, CAGR of the GDP had been 4.3%, 1.3%, 2.5%, 2.5%, 2.5%, 2.3%, and 1.6% for Türkiye, Italy, Germany, the US, the UK and France respectively. Consequently, the highest real GDP and apparel market growth rates were observed in Türkiye.

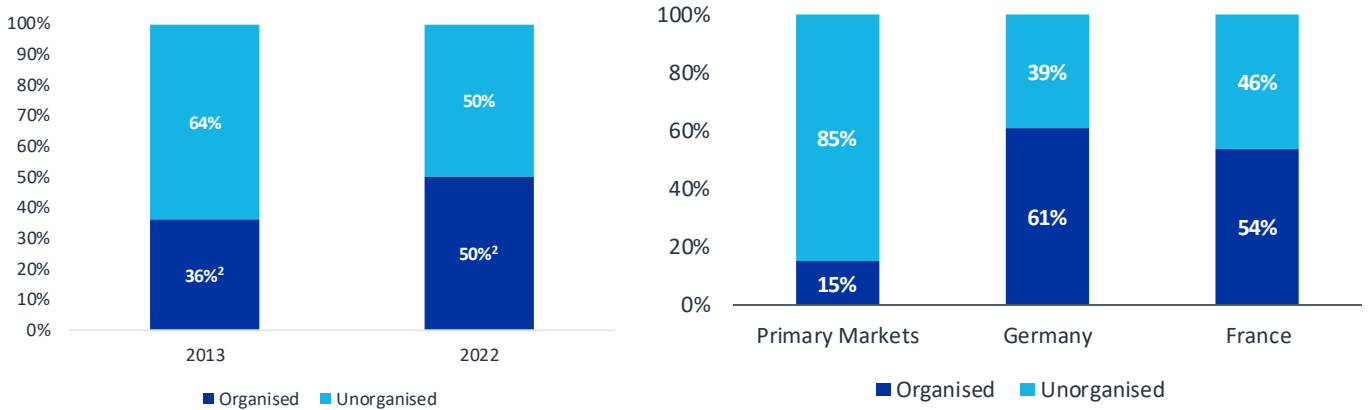
Figure 27: Apparel market, post-Covid 2013-2019 %CAGR



Source: Euromonitor, World Bank, OC&C Analysis

Between 2020-2022, the apparel market grew at a CAGR of 10.5%, 9%, 6.8%, 6.5%, 6.1% and 5.4% in Türkiye, Italy, Germany, the US, the UK and France, respectively. The strongest increase in the COVID-19 period was recorded in Türkiye.

Figure 28: Organized vs Unorganized Retail Türkiye* and Overall**



Source: Euromonitor, World Bank, OC&C Analysis

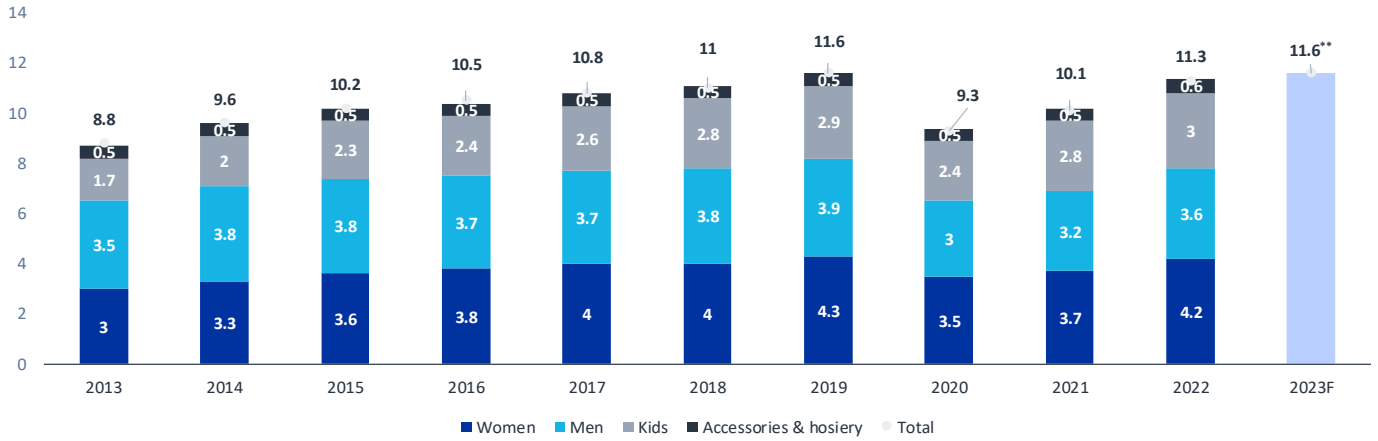
*Assumed apparel sales mix aligns with total A&F specialist sales mix. Based on Euromonitor 2023 Retailing edition data. Organised players are defined by store numbers: 20 or more active stores

**In 2022

The structural breakdown of the Apparel market shows that while 36% of the total size of the market in 2013 consisted of organized players and 64% of unorganized players (20 or more active stores), in 2022 the ratios equalized at 50%-50%. From 2013 to 2022, the unorganized segment grew at a CAGR of 14%, while the organized segment grew at a CAGR of 22%.

In 2022, the share of organized apparel retail is 61% in Germany and 54% in France, compared to 15% in primary markets where Koton operates. The fact that the share of organized is relatively limited in primary markets points to the room for growth and growth opportunities for Koton as an organized retailer.

Figure 29: Turkish apparel market evolution (inflation adjusted with 2022 prices)* USD bn



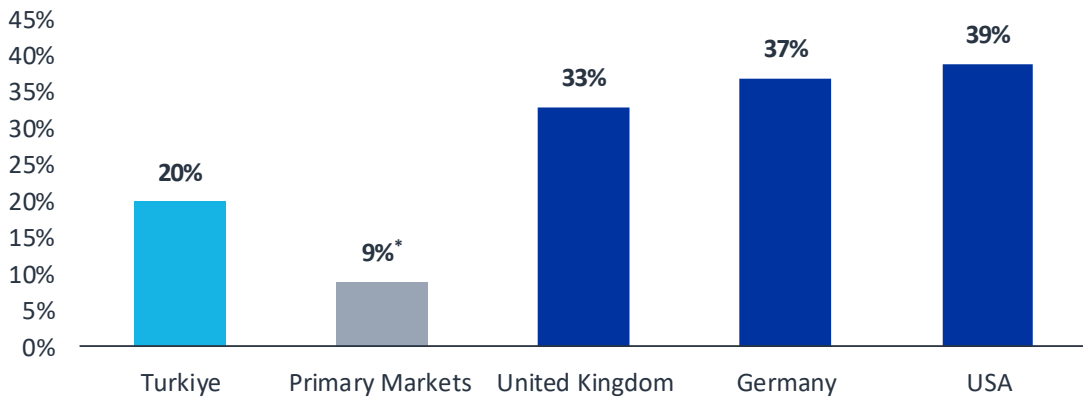
Source: Euromonitor, World Bank, OC&C Analysis, CBRT

*Implied and constant 2022 FX rates by Euromonitor to real LCU apparel market figures (2022 as the base year) are applied to obtain the constant USD market figures, LCU apparel market category breakdowns are applied to the USD converted apparel market value to obtain the category breakdowns in USD.

**Based on the OC&C's market forecast of TL 280-290bn inflation adjusted with 2022 prices

From 2013 to 2019, the apparel market in Türkiye showed consistent YoY growth, and the contraction in 2020 due to the pandemic started to be compensated in 2021 and the sector regained its growth momentum. In the OC&C report, it is estimated that by the end of 2023, the market size will reach the pre-pandemic level.

Figure 30: Apparel online penetration (2022)

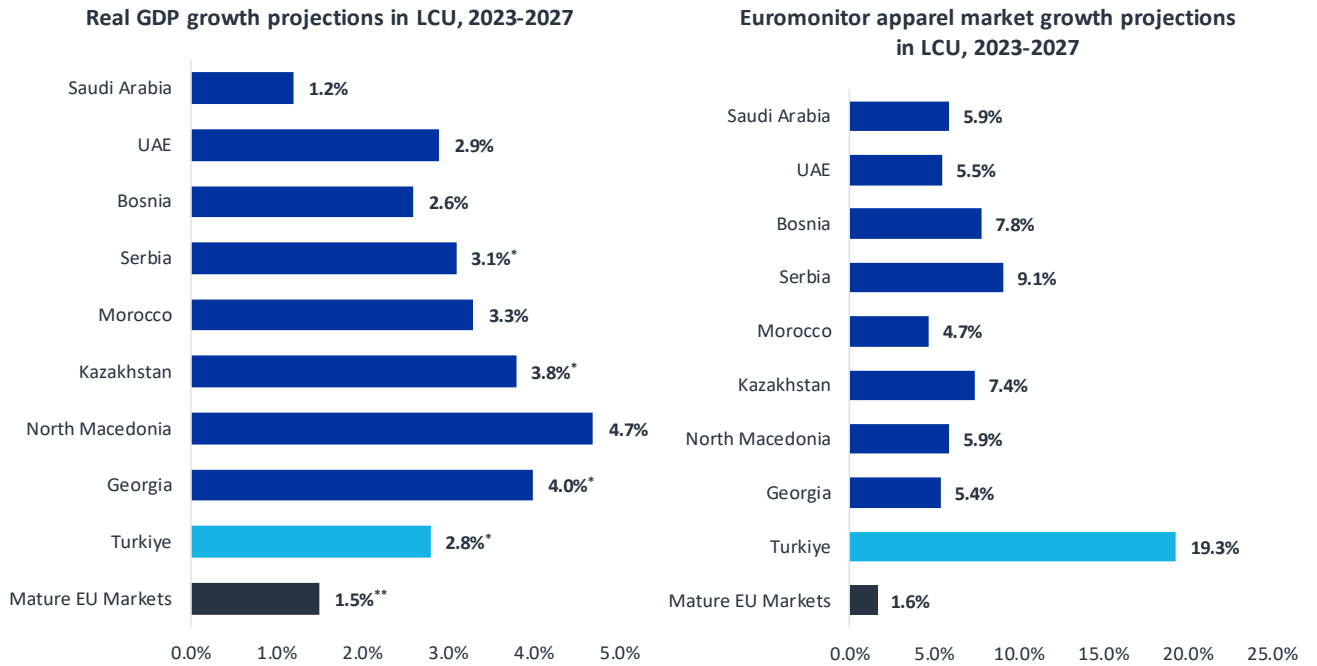


Source: Euromonitor, OC&C Analysis, Company

*Includes all primary markets for which Euromonitor provides e-commerce and retail offline splits, excludes Morocco

In addition, online apparel sales' share in total were reported as 20% in Türkiye and 9% in the primary markets. This rate was 33% for the UK, 37% for Germany and 39% for the US.

Figure 31: GDP and Market Growth Projections



Source: IMF, EIU, Fitch, IHS, Euromonitor, World Bank, OC&C Analysis

*Based on the median of EIU, Fitch and HIS, remaining countries are based on IMF projections

**Average of Germany, France, Italy

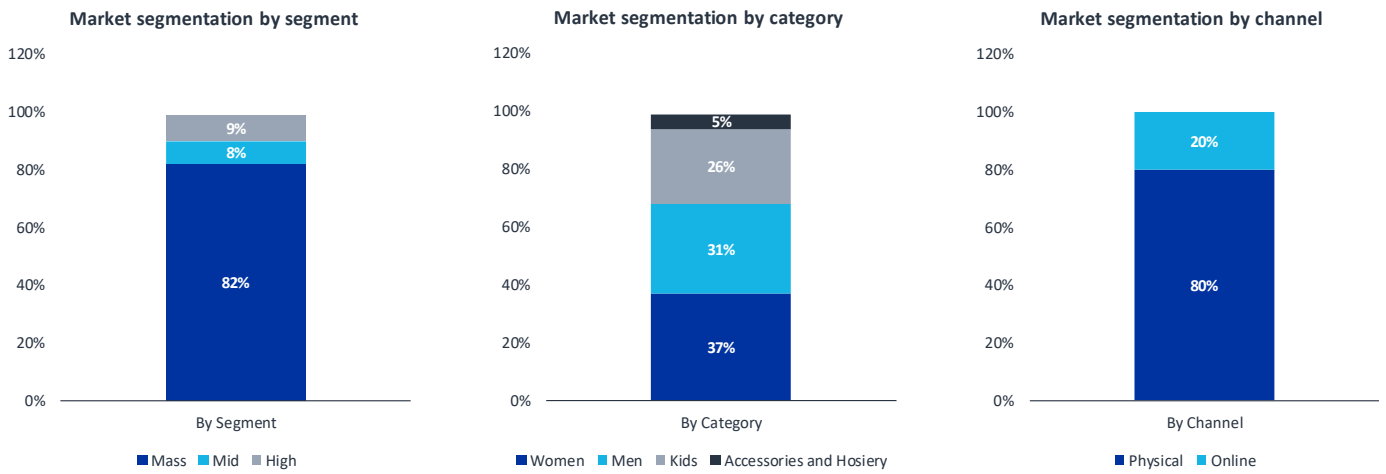
According to the OC&C report, Türkiye’s GDP growth between 2023 and 2027 estimated at 2.8%, almost double that of European countries (1.5%). GDP growth in most of the primary market countries where Koton operates is projected to be higher than the GDP growth in Türkiye.

In the same period, according to Euromonitor's projections, Türkiye has the highest apparel market growth expectations at 19.3% , while the European apparel market is expected to grow by 1.6%. In the primary market, growth expectations range from 4.7% (Morocco) to 9.1% (Serbia).

MARKET POSITIONING OF KOTON

Koton's core operations are carried out in Türkiye. The increasing momentum of Türkiye's growth potential in apparel retail is one of the main contributors to the Company's growth. The value of the Turkish apparel market reached US\$11.3bn as of 2022. 82% of the market consists of mass fashion, which is relatively affordable, easily accessible, and appeals to large consumption groups. 8% of the market is in the mid category and 9% in the high category. The higher the category level is, the more prominent the product brands are, the narrower the scope and product range, and therefore the audience is limited. On this scale, Koton positions itself in the mass and mid categories. In this way, it is addressing a large portion of the market.

Figure 32: Türkiye's Apparel Market Segments (2022)



Source: Euromonitor, World Bank, OC&C Analysis, Company

High: Euromonitor categorisation with premium and designer apparel brands with brands that are widely viewed as being more exclusive than the rest of the market owing to higher price positioning, selective distribution, and exclusivity.

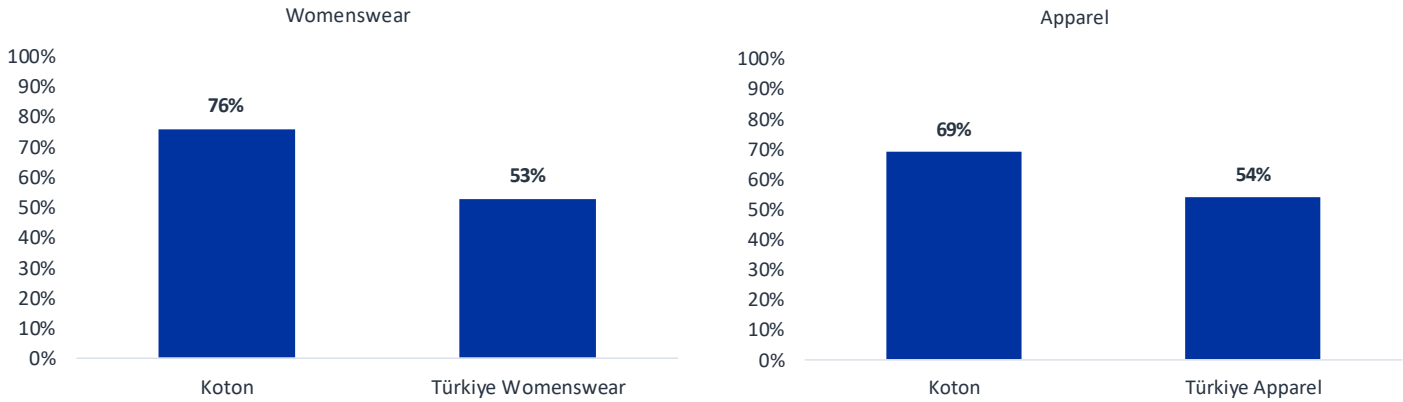
Mid: Refers to moderately priced apparel with brands that are generally viewed as more premium in terms of price quality than mass but not as exclusive or high priced as premium.

Mass: Refers to moderately priced apparel with brands that are generally viewed as more premium in terms of price quality than mass but not as exclusive or high priced as premium.

In 2022, womenswear, menswear, kidswear, and accessories categories accounted for 37%, 31%, 26%, and 5% of the apparel market in Türkiye, respectively. For Koton, these percentages were 47%, 28%, 17%, and 8% respectively for the same year.

Looking at the sales channel breakdown, 80% of customers in Türkiye preferred to buy physically, while 20% used online purchasing in 2022. While 91% of Koton customers preferred to buy in stores, only 9% purchased online. In 2019, this rate was 12% for Türkiye and 6% for Koton. The increasing share of online shopping after the pandemic and Koton's relatively lower share, led the Company to set online as one of the key pillars of its future growth strategy.

Figure 33: Türkiye’s Womenswear and Apparel Retail Selling Value (2020-2022)*



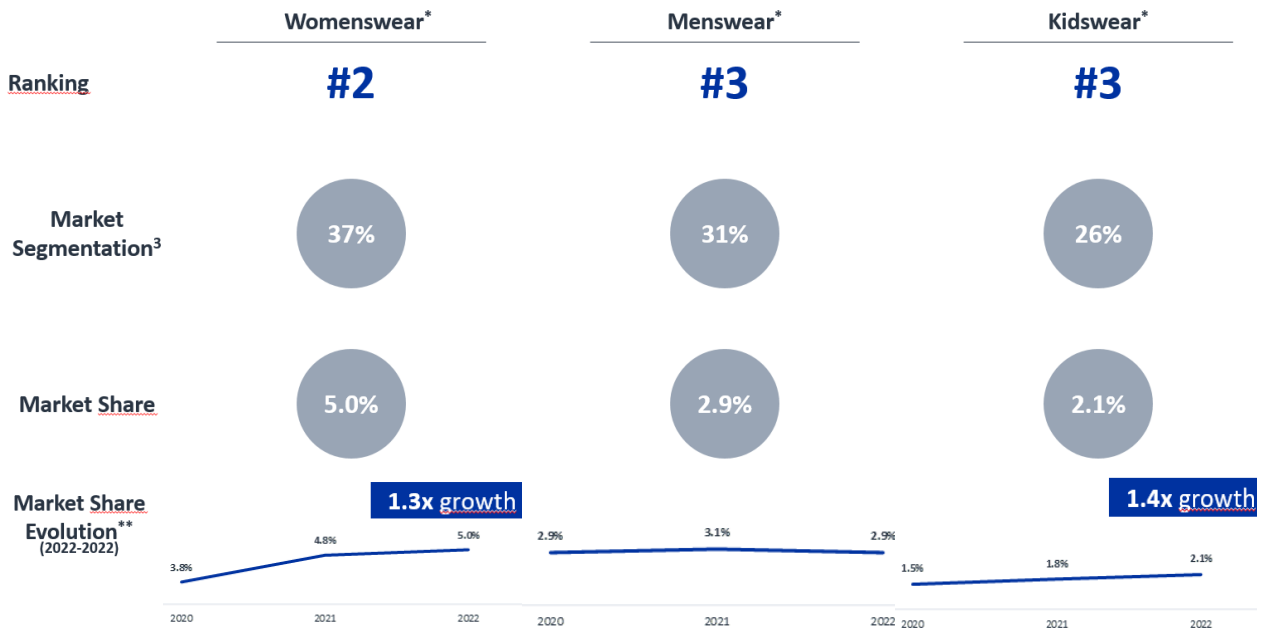
Source: Euromonitor, World Bank, OC&C Analysis, Company

*In TL terms, excludes sub-category specific local players.

Retail Selling Value: Revenues at retail selling price including VAT

According to the OC&C Report, between 2020 and 2022, the Company's retail sales value in the womenswear category grew at a CAGR of 76%, compared to the 53% CAGR growth seen in the total womenswear market. In addition, the Company's total retail sales in all apparel categories grew at a CAGR of 69%, compared to a CAGR of 54% for the total apparel market. This indicates that Koton has been gaining market share in the domestic market.

Figure 34: Koton’s Market Share and Position

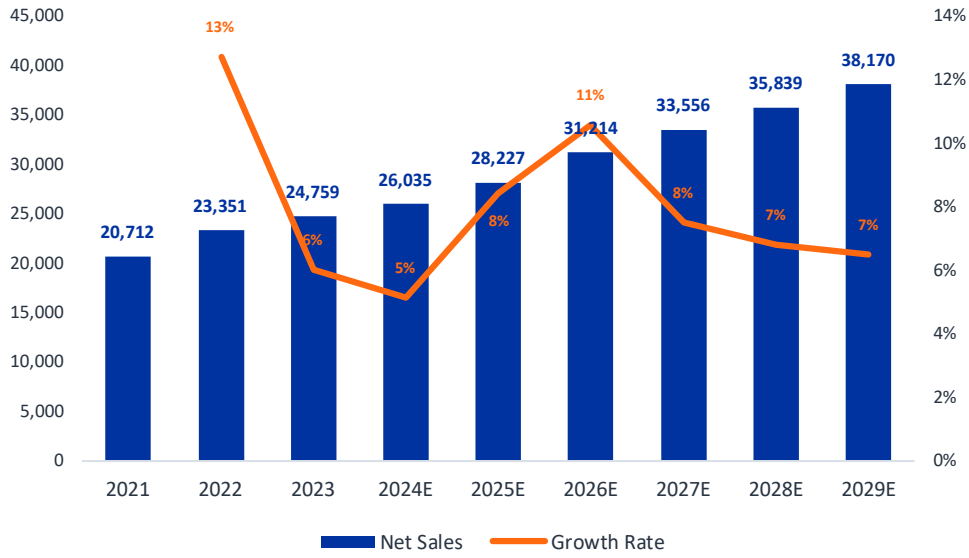


Source: Euromonitor, World Bank, OC&C Analysis, Company

In 2022, Koton ranked 2nd in the womenswear category in Türkiye, and 3rd in menswear and kidswear. In the same year, the Company acquired a 5% share of womenswear, a 2.9% share of menswear, and a 2.1% share of kidswear in the domestic apparel market. Although the Company's market share in the menswear category showed a year-on-year decline, its market share in the womenswear and kidswear categories increased YoY.

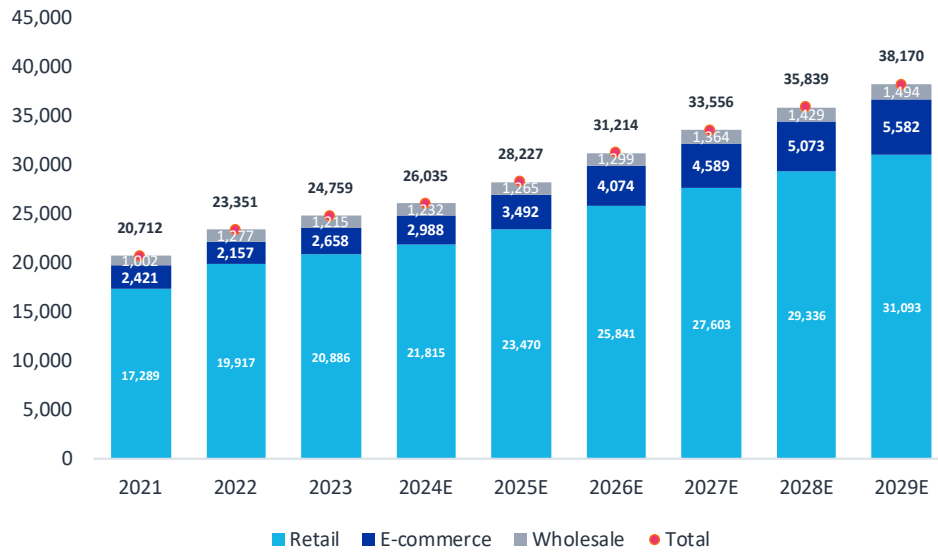
**FINANCIAL
ANALYSIS**

Figure 35: Revenues



Source: IS Investment, Company

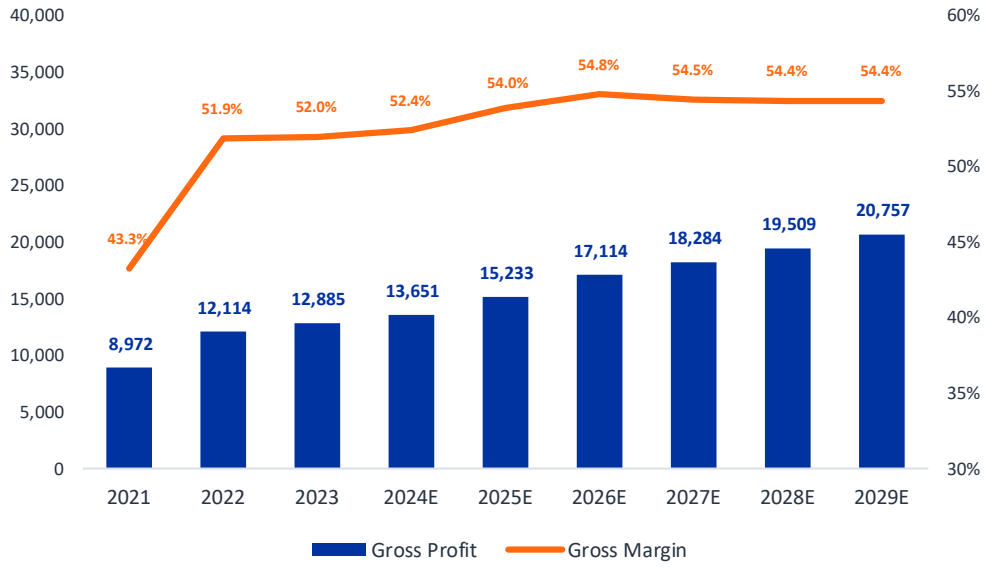
Figure 36: Revenue Breakdown



Source: IS Investment, Company

Although retail sales remain the backbone of sales revenues, the contribution of e-commerce and wholesale sales to total sales will continue to increase over the years.

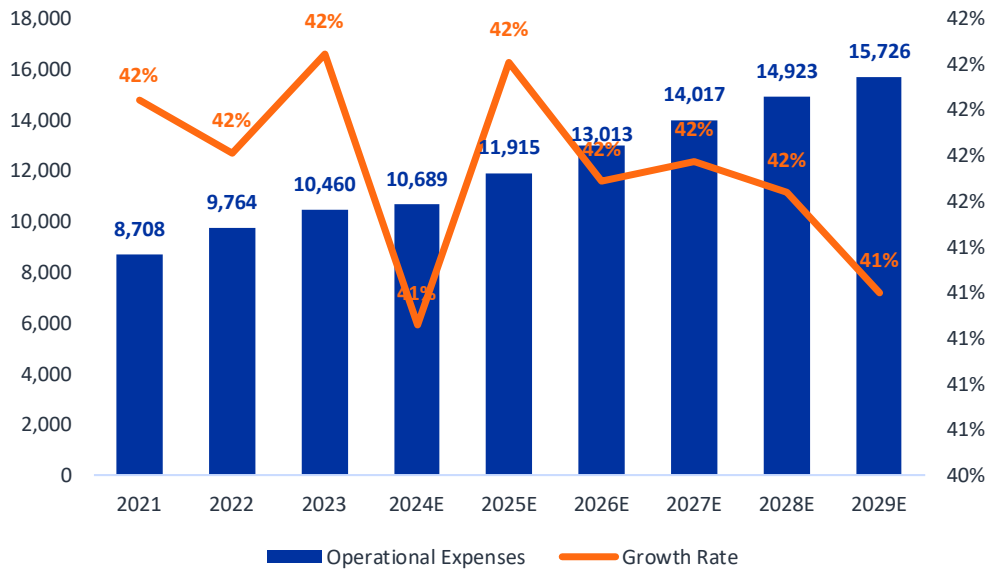
Figure 37: Gross Profit and Gross Margin



Source: IS Investment, Company

We assume that gross margin to hover around at 54% during our forecast period.

Figure 38: Operational Expenses

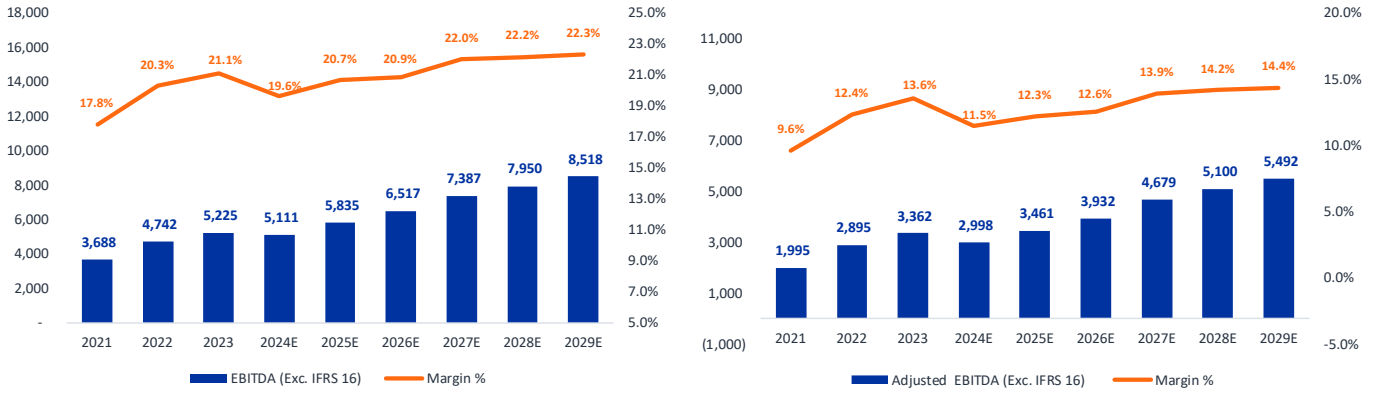


Source: IS Investment, Company

The majority of the Company's operational expenses consist of personnel expenses. This is followed by depreciation expenses, rent expenses, and energy expenses.

Koton Mağazacılık Tekstil Sanayi Ticaret

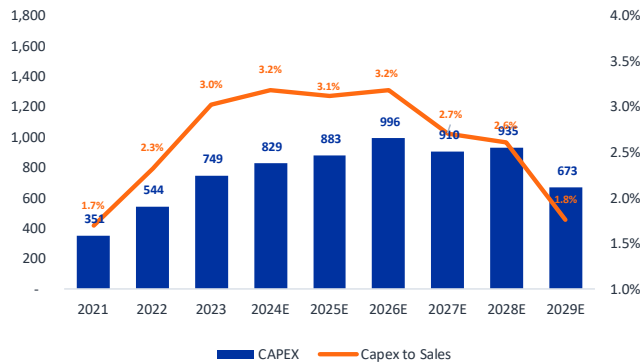
Figure 39: EBITDA and EBITDA Margin



Source: IS Investment, Company

*EBITDA figures are calculated as follows; Gross Profit - Operational Expenses + Other Income/ (Expense) + D&A

Figure 40: Capital Expenditures

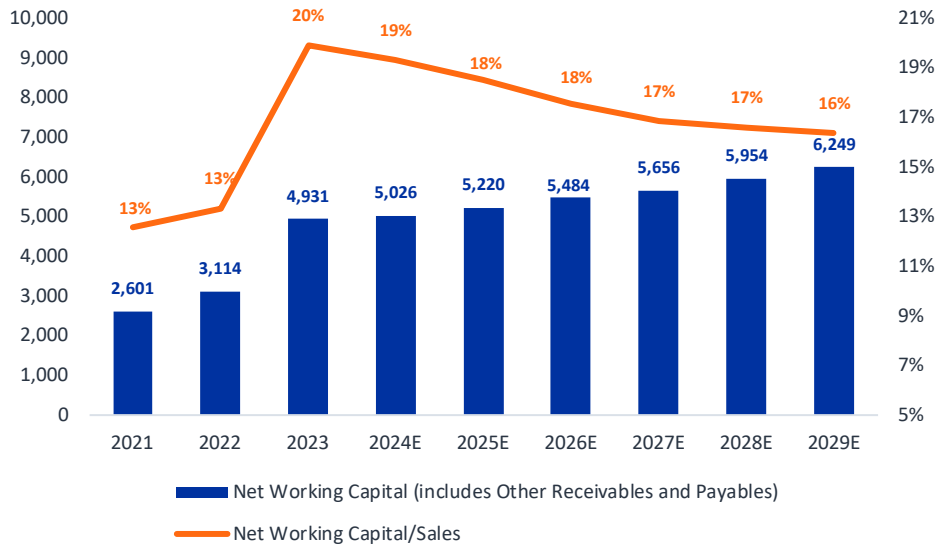


Source: IS Investment, Company

Koton's capital expenditures consist of new store openings, renovation of existing stores, and other items. We expect capex to sales ratio to peak at 3.2% in 2024 and gradually normalize at 1.8% in 2029.

We expect relatively higher capex/sales over the next three years on expected acceleration in new store openings. Asset light franchise growth is expected to limit capex requirements.

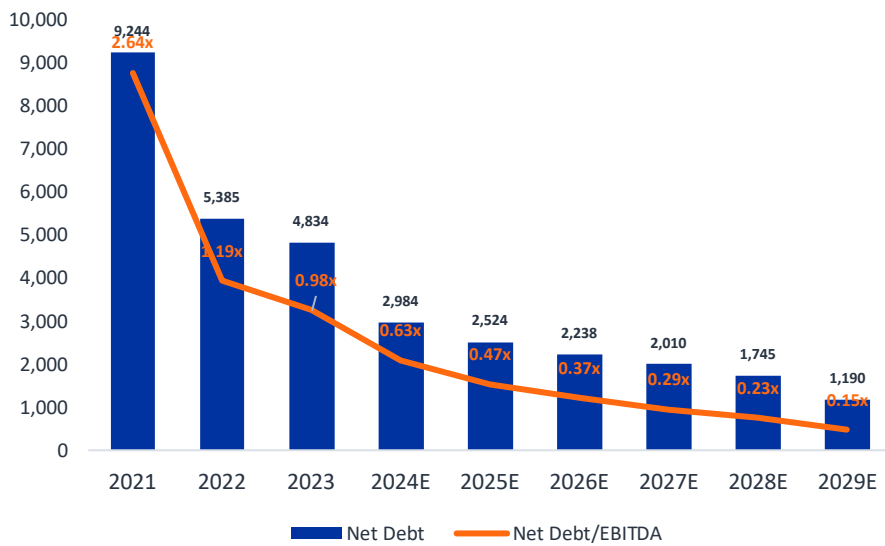
Figure 41: Net Working Capital



Source: IS Investment, Company

The Company's WCR/Sales ratio had a peak in 2023 due to decrease in payable days. We expect a gradual improvement in net working capital to sale ratio to 16% at the end of our projection period with efforts to increase payable days.

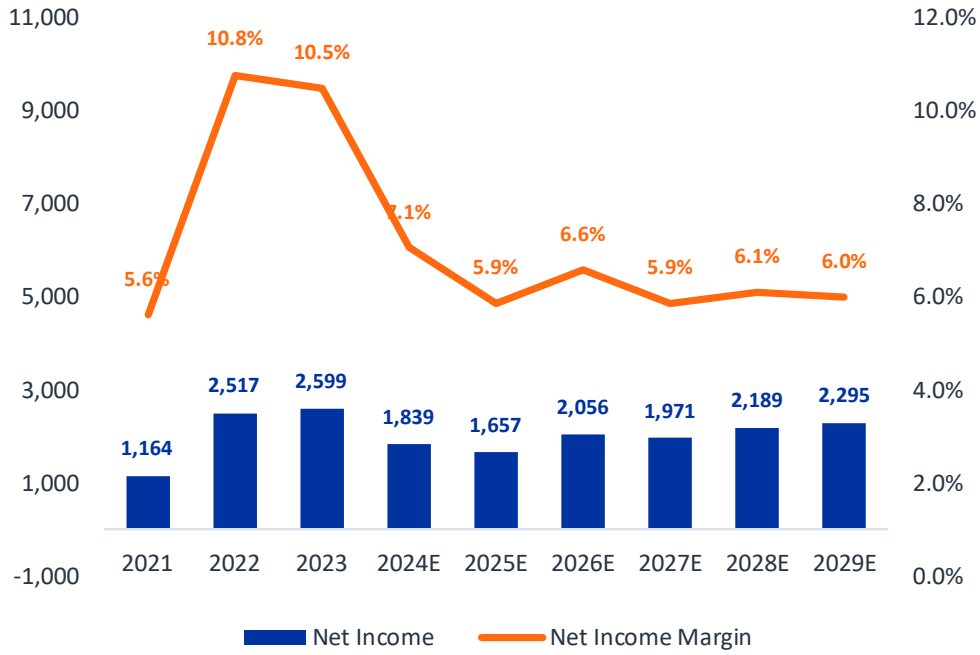
Figure 42: Net Debt and Net Debt/EBITDA



Source: IS Investment, Company

The Company closed 2023 with a net debt of TL4,83mn and Net Debt/Adj. EBITDA of 1.0x. During our projection period, we expect the Net Debt/EBITDA ratio to further decline to 0.15x thanks to IPO funds and strong cash generation.

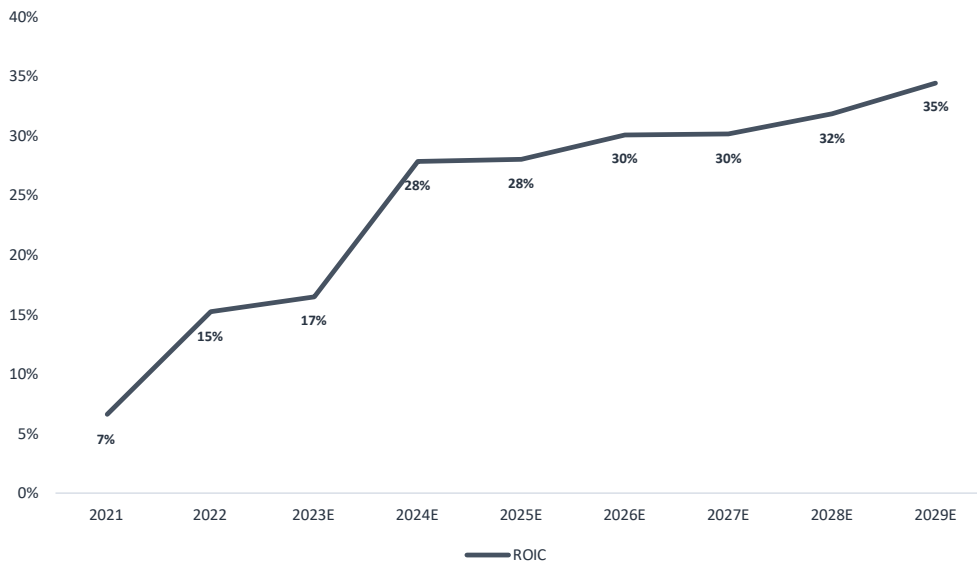
Figure 43: Net Income and Net Income Margin



Source: IS Investment, Company

In 2022 and 2023, in addition to strong operational performance, the Company's financial expenses remained at the same level as the previous year, which supported profit before tax and pushed the net profit margin above 10%. We expect a normalization in the net margin in 2024 due to weaker operating margins and lower monetary gains.

Figure 44: ROIC



Source: IS Investment, Company

This report has been prepared by “İş Yatırım Menkul Değerler A.Ş.” (İş Investment) solely for the information of clients of İş Investment. Opinions and estimates contained in this material are not under the scope of investment advisory services. Investment advisory services are given according to the investment advisory contract, signed between the intermediary institutions, portfolio management companies, investment banks and the clients. Opinions and recommendations contained in this report reflect the personal views of the analysts who supplied them. The investments discussed or recommended in this report may involve significant risk, may be illiquid and may not be suitable for all investors. Investors must make their decisions based on their specific investment objectives and financial positions and with the assistance of independent advisors, as they believe necessary.

The information presented in this report has been obtained from public institutions, such as Istanbul Stock Exchange (ISE), Capital Market Board of Türkiye (CMB), Republic of Türkiye, Prime Ministry State Institute of Statistics (SIS), Central Bank of the Republic of Türkiye (CBT); various media institutions, and other sources believed to be reliable but no independent verification has been made, nor is its accuracy or completeness guaranteed.

All information in these pages remains the property of İş Investment and as such may not be disseminated, copied, altered or changed in any way, nor may this information be printed for distribution purposes or forwarded as electronic attachments without the prior written permission of İş Investment. (www.isinvestment.com)