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PRESENTATION

Operator

Good day, and welcome to the Global Fashion Group Q4 Results 2022 Conference Call. Please note this call is being recorded. I'll hand over to Christoph Barchewitz (technical difficulty) go ahead.

Christoph Barchewitz - Global Fashion Group S.A. - CEO & Member of Management Board

Thank you. Good morning, everyone, and welcome to Global Fashion Group's Q4 and Full Year Results Presentation. I am Christoph Barchewitz, CEO of Global Fashion Group, and I'm joined today by our CFO, Matthew Price; and our new COO, Gunjan Soni.

Last month, we announced a leadership transition. After 10 years with our business and 5 years as co-CEO, Patrick stepped down from the Management Board. I want to thank him for his substantial contribution to building our Global team and business over these years. As part of our succession planning, Gunjan, CEO of our SEA business, Zalora, has taken on additional responsibilities as group COO and joined the Management Board. During her tenure, she has built a strong platform business, which she will be talking about later today in our Capital Markets Day presentation. I'm really happy to have her expertise on the Management Board.

Back to the results. I will start with the second half business update. Matthew will then take us through the group and regional metrics and outlook for the year. After that, we'll open it up for Q&A. Taking a step back to the start of 2022, we are really excited about the year ahead and expect it to continue on our trajectory of delivering strong double-digit growth. We, therefore, invested accordingly across technology, inventory and marketing. The year played out very differently as geopolitical factors and macro headwinds converged with sector-specific pressures. This required us to adapt and refocus the group.

The most significant impact to our business was from the war in Ukraine. We worked hard to support our colleagues there during this challenging time. As the conflict made operating a business in CIS very uncertain, we chose to exit the region, successfully selling the business in the last quarter of 2022. We wish the new owner and our former colleagues, all the best and thank them for their dedication over the last 11 years.

Through the year, we experienced the weakening of consumer sentiment and demand in all our markets due to a combination of inflationary pressures, political uncertainties, rising interest rates, as well as the continuous shift back to physical retail. As our experienced team has done before, we took action to adapt and I am proud of how we have faced these challenges.

We reduced our inventory intake and closed 2022 with lower levels than a year before. This means we are in a much better position going into 2023. We reduced our costs across marketing, technology and admin and focused on optimizing sales (technical difficulty) and profits from our existing customers. We also adjusted our capital spend plan and investments into technology. Across the group, we took proactive steps to control all hiring, especially in G&A functions and targeted initiatives to redeploy or reduce the overall size of the workforce.

These actions have allowed us to navigate an uncertain environment and prioritized profitability and cash flow, whilst continuing to invest in our strategy so that we are well placed for when growth returns.

Let's now take a look at how this develops in the current year. Looking at our markets today, they all are facing an uncertain macro with worsening consumer sentiment. Inflation remains a feature running higher than what we have become accustomed to over the last few years. As a consequence, we will continue to manage inventory carefully and will look to increase marketplace share, which carries no balance sheet risk. We will continue to control costs, restricting capital expenditure and overhead and improving our marketing efficiency. These actions will allow us to continue on the path to profitability without relying on growth and associated cost leverage.

Let's now take a look at our full year results. We achieved EUR1.6 billion in net merchandise value, broadly in line with the prior year on a constant currency basis. Compared to 2019, the last normal comparative year, we have grown by 49%. Despite the volatile environment, we maintained a strong gross margin, supported by the expansion of platform services. Our adjusted EBITDA margin declined by 1.9 percentage points from deleverage across key areas, including fulfillment, which more than offset our improved marketing efficiency. Our active customer base was EUR11 million. Our customers make 28 million orders with an average order frequency of 2.5x.

Taking a look at Q4 performance. We achieved net merchandise value of EUR452 million. Looking back to Q4 2019, we have grown our NMV 40% on a constant currency basis. Our gross margin of 43% was broadly stable. Our adjusted EBITDA margin was impacted by cost deleverage and additional fulfillment center costs in Australia and New Zealand, leading to a 3.9 percentage point decline. Active customers and orders declined across all regions as a result of reduced marketing and software demand.

Let's now have a look at our progress against our strategic priorities in H2. We continue to deliver progress against our strategic priorities, which are to build the best-in-class customer experience to be the partner of choice for Global and local brands and finally, to be people and planet positive.

Let me walk you through a few updates on how we are executing in line with these priorities, starting with our LatAm investment plan. Similar to H1, we included the latest status update on our key LatAm initiative that we outlined a year ago. We've seen positive indicators across all initiatives. The fastest progress is evident in the areas in our direct control, such as improving service and delivery times, which quickly increased our NPS to its highest in the last 2 years. We also continue to progress the app by ensuring we're rolling out a top-quality interface across the region. Improving our unique and differentiated assortment is the area that will take the longest as the team needs to work season by season with key brands. Assortment continues to be critical to ensure we deliver a best-in-class experience.

On the right, you can see our value being recognized by large international brands, choosing to be available exclusively on Dafiti in Brazil. We recently added Mango, Topshop and Topman to our exclusive brand less. Beyond scaling our exclusive brand, the team has improved stock quality by growing our premium assortment and remains focused on expanding women's apparel. These

initiatives have led to stronger management of our retail budget, which improved our stock position as we enter 2023. We remain committed to executing our investment plan.

Moving on to what makes us the partner of choice for brands. We continue to offer flexible business models to help our brands reach more customers. Most of our top 30 brands take advantage of this and operate on both our retail and marketplace offerings. Our marketplace participation remained stable in H2 at 34%. While SEA grew marketplace materially and that success with their higher-margin own brands resulted in a slight decrease in share. In LatAm, we deliberately rationalized our marketplace sellers to the larger operators to offer a better customer experience. Demand from our brand partners for our fulfillment services remains strong, with a 10 percentage point increase in the number of items Fulfilled by GFG and cross-docking. As a reminder, for cross-docking, we collect, consolidate and provide last mile delivery, while storage is managed by the brand. In the Fulfilled by GFG model, we covered the entire fulfillment cycle, including storage.

Let's now look at the progress of our people and planet positive agenda. Our commitment to our people and planet positive agenda remains steadfast. In a time of continued uncertainty, we remain committed to prioritizing the well-being of all our people, our greatest asset. We aspire for all our team members to be happy, healthy and engaged at work as reflected in our continuous high levels of employee engagement and inclusion as seen on the left. On the planet positive side, our carbon accounting process has undergone a significant transformation via the introduction of unraveled carbon in AI-based tool. This tool provides more real-time information to enable greater access speed and faster decision-making to drive reduction in our footprint. We are happy to report that we've reduced our total emissions by at least 36% since 2019, while growing NMV by 49%. Our 2022 people and planet positive report will be published on the 4th of April. Now, I will hand it over to Matthew to take you through our financial performance.

Matthew Price - Global Fashion Group S.A. - CFO & Member of Management Board

Thanks, Christoph. Good morning, everyone.

Starting with the group KPIs. We reduced customer acquisition spend during a period of lower demand, and this meant our active customers came down 17% to EUR11 million. We also saw a typical level of churn within our recent cohorts as e-commerce adoption normalized after the pandemic. And our order frequency was up slightly to 2.5x, and we continue to see a significant opportunity to grow this.

In Q4, NMV was down 7%, driven by lower order volumes. Looking at the full year, NMV was largely stable, coming in at EUR1.6 billion. The number of orders declined in line with active customers, offsetting the full year by the 16% increase in order value. This increase in order value has 4 components: customers ordering more items in each order, country mix, category mix, including premiumization and price inflation net of discounting. Each of these components makes a broadly equal contribution to the overall increase.

Let's now look at our key financial metrics. In Q4, revenue declined 8.5%, and our gross margin was solid, just 0.5% lower than last year. Looking at adjusted EBITDA, the group fell to a loss of EUR4 million in the quarter. Both ANZ and SEA remained profitable, whilst LatAm was loss-making. Profitability in ANZ reduced as fulfillment costs increased in the quarter. Looking at the full year performance, our revenue was EUR1.1 billion, broadly the same as last year. We were able to maintain a relatively stable gross margin at 43% with the benefit of our developing platform services. Our retail margin was weaker with price investment in ANZ and in LatAm. Adjusted EBITDA margin for the year was negative 3.7%. The adjusted EBITDA margin declined more than gross margin as lower order volumes resulted in fixed cost deleverage.

Let's now turn to the longer-term trends in our margins and our operating costs. This slide looks at our track record on cost. With the disruption from COVID, it's helpful to look at a 4-year trend. We look at these cost metrics as a percentage of NMV. Our fulfillment costs reduced as we delivered scale efficiencies in 2020 and '21, and we experienced a step back in 2022 as throughput fell. In 2022, we moved our marketing costs down to a level last seen at the start of COVID by implementing more efficient strategies across the group. As a result, our marketing spend as a percent of NMV is at the lower end of our normal run rate, which is typically around 7%. Our tech and admin costs have reduced to scale improved fixed cost leverage and we deliver efficiency programs. In 2022, we chose to protect investment in technology to support our future growth strategy, especially for those central products that power marketplace and platform services.

Let's now take a look at our cash position. The cash flow presented on this page excludes the CIS business for both years, which is different to the IFRS cash flow statement in our annual report, where CIS cash flow was recorded up until we completed the sale. The left of the slide shows our normalized free cash flow. This is our measure of the operational cash invested in the business, excluding funding interest and other non-operating items like exceptional items and one-off tax payments. During the year, we spent EUR41 million to fund our adjusted EBITDA loss, and we improved working capital management to generate EUR7 million of cash inflow from working capital.We focused on reducing inventory in the face of lower demand. Excluding currency movements, our inventory is EUR12 million lower than last year. And within this, older inventory represents just over 20% of our balance. Finance lease payments increased slightly for minor fulfillment center projects in ANZ and SEA. We spent EUR44 million on CapEx with 1/3 related to technology, mainly from capitalized payroll. The other cash outflows include operating tax payments and interest on working capital facilities. Our normalized free cash outflow for the year was EUR111 million. That's a EUR34 million improvement on 2021.

We closed the year with EUR562 million of pro forma cash and a net pro forma cash position of EUR265 million. This net value takes account of our convertible bond.

Now, let's take a look at our regional performance in the next slide.

In LatAm, we continue to execute our investment plan. Our focus on marketing efficiency is evident in the NMV and the active customer decline. Gross margin saw a 2 percentage point reduction from pricing activity. In SEA we continue to manage marketing investment very carefully, resulting in a 20% reduction in active customers and an 8% drop in NMV. We're cautious about the acquisition of broader affluence customer cohorts at the moment. And so, we are focusing on our core more affluent groups. Gross margin improved 1.7 percentage points to 42%, supported by increasing marketplace participation and additional platform service revenue. In ANZ, our active customers grew despite reduced marketing spend. We [upweighted] our promotional activity in the quarter, reflecting more cautious consumer sentiment, and this slightly reduced gross margin to 45%.

Now, let's move on to the full year financial performance across the regions. In LatAm, despite the significant improvements in the customer proposition, our full year NMV declined by 12%. LatAm profitability stepped back by EUR8 million in the year. We are executing well against the backdrop of a challenging environment for our customers. Returning the LatAm business to profitable growth is a primary focus. SEA mitigated the impact of the reduced top line on profitability through improved gross margin and cost control, resulting in an adjusted EBITDA improvement of EUR2.1 million. ANZ grew NMV robustly, delivering 16% growth. Adjusted EBITDA stepped back by EUR4 million. This reflects higher discounting levels throughout the year to reduce inventory and to respond to the market, compounded by higher fulfillment costs. The economic environment became more challenging through 2022, and the group responded strongly, reducing inventories and costs.

Now, I'll walk you through the outlook for 2023. Before outlining the guidance, I will explain how we're thinking about the business and its priorities for the year ahead. The group will continue to adapt to the current demand-constrained environment, prioritizing cash flow and profit ahead of growth. Practically, this means we will continue to manage and improve our inventory efficiency using the marketplace lever if demand surprises on the upside. Marketplace enables us to offer our customers a great assortment and also derisks our balance sheet. We are taking a disciplined approach to customer acquisition focused on lifetime value, and we're driving cost efficiencies to offset the impact of inflation across our cost base. We are optimistic about future growth potential and continue to invest thoughtfully in our technology. We will innovate for our customers and develop our marketplace and platform service offering for our brand partners. We are impacted by external factors outside of our control. The economic outlook remains highly uncertain. We expect weaker consumer sentiment alongside higher interest rates to dampen demand in ANZ.

So what does this mean for guidance? Taking NMV first, we're not managing the group for growth in 2023. On a constant currency basis, we expect NMV growth between negative 5% and flat year-on-year, which equates to around EUR1.5 billion to EUR1.6 billion. Revenue is expected to be around EUR1 billion. We continue to carefully manage our gross margin, and we are focused on driving cost actions. We expect to deliver an adjusted EBITDA margin of negative 3% to negative 1% for the year. We are planning CapEx of around EUR35 million for the year, with the majority of that going on technology. And then looking further ahead, we expect to deliver adjusted EBITDA breakeven in 2024. In the absence of significant growth in the near term, we can deliver this with cost and margin action alone. After achieving this, cash flow breakeven is an important milestone. I'll explain how we intend to meet this ambition more fully at our Capital Markets Day later today, but we see this occurring when we've grown NMV by 40% to 50% to EUR2.2 billion to EUR2.5 billion. In the first 2 months of the year, we've seen a continuation of Q4 trading trends. We expect these trends should start to reverse in the second half of the year. The actions we've taken to set the business up to trade in the current demand environment give us the opportunity to make year-on-year gains in gross margin and adjusted EBITDA across H2. In addition to this, we have plans to expand third-party volumes in some of our fulfillment centers, which will improve fixed cost leverage.

I'll close this presentation by reiterating that we come into 2023 with strong liquidity, meaning that we are able to navigate the current environment and keep investing carefully so that we are well placed for future growth. We'll now open the call up to your questions. If you'd like to submit a written question, please click on the speech bubble at the bottom of the screen and type it in. Thank you.

QUESTIONS AND ANSWERS

(Operator) We'll take the first question from Nicolas Katsapas from BNP Paribas Exane.

Nicolas Katsapas - BNP Paribas Exane, Research Division - Research Analyst

I have 2 to start with. The first one is on the shape of growth throughout the year. It sounds like you're anticipating a weaker H1, but then possibly a return of growth in H2. And that -- if demand does surprise that you'd lean on your marketplace inventory, can you just explain sort of what gives you that kind of outlook for an improved H2 in a bit more detail? And why you think the marketplace partners will be there when growth -- if growth does return? Should I carry on with my second question or...

Christoph Barchewitz - Global Fashion Group S.A. - CEO & Member of Management Board

Yes, sure. Why don't you finish up and then we'll take them one by one.

Nicolas Katsapas - BNP Paribas Exane, Research Division - Research Analyst

Okay. Yes. And then so linked to that growth, I'm thinking about development of the fulfillment costs. You've guided flat to down 5% on NMV. But I'm thinking volumes will be deepening in that because you have some inflation in the product costs there. So should we expect further deleverage in performing costs?

Christoph Barchewitz - Global Fashion Group S.A. - CEO & Member of Management Board

Maybe I'll take the first one and attempt the second one and Matthew can build on it. So in terms of the demand expectation for the second half, I think our point around the strength of our business in the combination of the retail business, which last year was 2/3 and the marketplace being 1/3 is that, we can really balance and adapt demand much more quickly relative to only having a retail business. I think what we have seen on the marketplace side that we have very good availability, much of the supply chain challenges that the industry was facing a year ago or so have now been addressed or the demand environment has softened so much that actually plenty of our brand partners have rather more stock than not enough stock. And so, the availability we're getting through the marketplace is very healthy and very strong, and we're obviously continuing to improve that availability constantly also by bringing more of our partners into the fulfilled by or cross-docking fulfillment models, which then help the overall order economics. So I think we're quite optimistic that while we're very cautious on the retail side, on the inventory side, on intake and future buys throughout the year, if there is upside from a demand perspective, we can meet a good amount of that either through more opportunistic buys into the market in retail or certainly through the marketplace side and especially since many of our brand partners now operate on what we call hybrid. So across retail and marketplace, there can really be stocked from the same brand, sometimes the same items even coming through the marketplace model. And I think that flexibility that we have developed over the last couple of years is very helpful in this type of environment. And so, we are optimistic about the ability to cater to demand, both when it is softer than expected, but also when it is maybe a bit stronger than we currently expect and having that flexibility. On the fulfillment cost side, I think it's fair to say that, yes, we would expect that volumes are worse or lower than NMV growth given the trend in higher average order values and average selling prices that we have seen last year. At the same time, we are bringing in more customers into our fulfilled by product. And also, there are some brands that we're working with to, not only fulfill orders that are made on our platform, but also on their platform or other platforms. And so, those extra orders are helping us with the fulfillment cost as well. Certainly, what we do want to achieve in the medium term is, we want to drive overall volume so that we get better fixed cost leverage in our fulfillment centers. A part of the cost base is clearly variable, but there is the leases and overhead costs in the fulfillment center that is fixed. And so, we are complementing the volume on our own platform with volumes through the brand.com and other platforms where we service brand in that business model.

Operator

The next question comes from Volker Bosse from Baader Bank.

Volker Bosse - Baader-Helvea Equity Research - Co-Head of Equity Research

This is Volker Bosse, Baader Bank. A couple of questions from my side. First, on the fiscal year '22, I mean, the market has been challenging and demanding, we all know that. But according to your own assumptions, have you been able to gain market share in any of your 3 regions? Second question would be on the double-digit increase of average order value in '22. Is it driven by inflationary trends? Or can you provide some background how you achieved that, please? The third question would be on fiscal year '23 means roughly [spoken], do you expect sales to decline by minus [3%] to EUR1 billion according to your guidance. Do you expect a decline of sales in all of your 3 regions? Or can you give a little bit of split here in regards to regions? And last but not least, on your guidance for

fiscal year '24, it's about the adjusted EBITDA breakeven. Is it fair to assume that you expect the positive [FCA] to be achieved in Southeast Asia and Australia and New Zealand and that LatAm would be still negative? So what's the background of the breakeven to make my math?

Christoph Barchewitz - Global Fashion Group S.A. - CEO & Member of Management Board

Thank you, Volker, for the 4 questions. So I'll take the first 2 with regard to market share and AOV growth, and then I'll let Matthew comment on the guidance for '23 around the revenue number, as well as the '24 adjusted EBITDA breakeven and what that does in the different regions. So in terms of market share, obviously, the data in our markets tend to be relatively patchy. And so, it is really hard to see market share trends reliably. Our overall take is that, we've actually done quite well in terms of market share when it comes to Australia and New Zealand and Southeast Asia. But we have given up some market share in Latin America, probably across the markets, including in our main markets of Brazil. In terms of the AOV, we have basically 4 factors that play into that. One of them is the country mix. So, obviously, when we do better or growing faster in Australia and New Zealand, which has a much higher order value, it has an impact. Secondly, the category mix. We are seeing more premium products and higher price point products, but also [high sense] in the more going out categories that are doing better. And so, that category mix is the second factor. The third factor is around inflation. And then, Matthew, you remind me of the fourth factor. We always talk about 4, which one is the one I'm forgetting?

Matthew Price - Global Fashion Group S.A. - CFO & Member of Management Board

Category mix, country mix, inflation and...

Christoph Barchewitz - Global Fashion Group S.A. - CEO & Member of Management Board

And item per order is the last one. It's come back to me.

Matthew Price - Global Fashion Group S.A. - CFO & Member of Management Board

Yes.

Christoph Barchewitz - Global Fashion Group S.A. - CEO & Member of Management Board Exactly.

So it's a combination. And the items per order, I think, is interesting because it goes a little bit together with minimum order value and delivery fees and those types of policies where we've made some tweaks, some not dramatic changes. But as a result, we've seen people put a few more items per order. And those 4 factors, Volker, they explained roughly 1/4 of the change each. So they're relatively balanced between those 4 in the overall change of average order value. Matthew on guidance?

Matthew Price - Global Fashion Group S.A. - CFO & Member of Management Board

Yes. I mean, just taking down on revenue, Volker. The revenue number, of course, is a euro number, and we are not a single red cent of revenue in euros. So most of that 10% decline you're talking about in terms of EUR1 billion is actually FX changes across the year-on-year. And we do everything at FX rates as at the 31 December 2022 at this point, then we obviously update as we go through guidance later in the year. So really if you're trying to think about where the underlying volume is going and where our sales are going, you look at that NMV number, which is flat to minus 5%. So that's the way we are thinking about the business. And then there's a bit of FX, which could go up or could go down. I make no forecast on FX other than to explain how we're putting the number together. In terms of the 2024 adjusted EBITDA breakeven and what that would look like by region, it's a really good question, so thank you. Without giving detailed numbers on it, I think that we clearly have a fantastic market position in our ANZ business. We see that the profitability of that was a bit challenged by the shape of the year where the slower demand really came in actually later in

Australia in '22 than in other markets. So it's much more of an H2 thing, which meant that we were making those adjustments to intake, clearing inventory, et cetera, sort of later in the year and therefore, in well, those key trading periods, which, of course, is also a key profit-generating period. So that didn't help the numbers for this year nor did some additional fulfillment cost. Therefore, we really do see that Australia has the ability to increase its margin significantly, even without material growth. It can increase that margin significantly and can do so quite quickly. Southeast Asia has been on a really positive trend. And we would certainly see that sort of trend line improving. So some of the profit improvement will definitely come from there. LatAm, we are really delighted with the progress that we've made in improving the customer proposition. It's been against a very challenging customer backdrop, and therefore, just not seeing it in the numbers at the moment. Therefore, we would certainly expect in '24 that LatAm will undoubtedly remain loss-making, but we would want to expect it to be closing that gap in order to deliver the guidance. I hope that was helpful

Volker Bosse - Baader-Helvea Equity Research - Co-Head of Equity Research

Yes. Just a clarification on the fiscal year '23 top line outlook perhaps I was a bit misunderstood. I don't want to speak about FX changes. Here, I was most looking into your expectations in regards to top line growth region by region. So also here the question is saying minus 5% to flat means in total negative NMV expectation. So how do you split the NMV growth expectations than by the region? So on which regions you are more positive than on others just to get your feeling on the momentum going into '23 (technical difficulty)?

Matthew Price - Global Fashion Group S.A. - CFO & Member of Management Board

Sure. I'll go into that. I think the main thing about momentum to call out, to think about is actually the timing of the year. So you saw a set of sales and profitability trends in Q4. I think we've been very clear that in the first 2 months of the year, i.e., the data that we have, we're seeing those trends continue. So that's your starting point for the year. We then very much see that the second half of the year is when we can start to make significant improvements to deliver the overall guidance for the year. Why is -- and that's about the way that we now have the business set up, having come out of the second half of last year where we were facing that [challenge in] demand environment. We're setting ourselves up for the whole of this year, expecting flat to minus 5% NMV. Therefore, we've got that focus on buying that focus on margin, that focus on control that would drive a much more consistent gross margin and cost base throughout the shape of the year, whereas last year was, say, for Australia was pretty good H1, quite a bit weaker H2. So that's -- it's the shape of the year is the key thing actually in terms of guidance, as well as the region by region. Clearly, looking at where we came out of Q4, Australia is performing strongly. We have called out in the guidance that we don't know how Australia was going to perform in the second half of the year because there's weakened consumer sentiment and issues around interest rates impacting the consumer there. So in our guidance, we're being relatively conservative about that, which is, I think, what you'd expect us to be. Southeast Asia is a complicated market with many moving parts. And therefore, again, we're just being careful with it. The LatAm business, we are lacking a lot of visibility. We also have a huge amount of different things happening with the customer in terms of the physical market, demand for clothing overall -- fashion overall, the economic situation of the customers in some of our biggest markets and indeed political uncertainty and how that political uncertainty will impact people's pockets. So we are very much setting that business up focusing on marketing efficiency, cost and keeping improving the proposition to our customers. Therefore, we're not focused on trying to drive a particular top line there.

Volker Bosse - Baader-Helvea Equity Research - Co-Head of Equity Research

Okay. Got the message. All the best.

Operator

Next question from Michael Benedict from Berenberg.

Michael Benedict - Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst

Just a couple from me. Firstly, could you just remind us if there are any sort of major physical infrastructure projects required to get to that EUR2.2 billion to EUR2.5 billion NMV for cash breakeven? And then secondly, your thought process around buying back or indeed not buying back the convertible bond. So what's your thoughts?

Christoph Barchewitz - Global Fashion Group S.A. - CEO & Member of Management Board

Thanks, Michael. I'll take the first one and let Matthew answer the question on the convertible. So in terms of physical infrastructure, we've obviously done a bunch of significant investments in the last couple of years. And with the volume last year down and the associated cost deleverage, the upside of all of that is that, we have good capacity, and we do not foresee any major investments into capacity to achieve that longer-term goal of EUR2.2 billion to EUR2.5 billion that Matthew has talked about is the size we need to get to get to a cash flow breakeven business. So on the journey to that, we would see CapEx as being primarily focused on technology with a little bit of PP&E around, obviously, maintenance and maybe some smaller adjustments, but nothing in the tens of millions that a new facility usually would be if you would do something major. So that is not expected on the journey to that scale. Matthew?

Matthew Price - Global Fashion Group S.A. - CFO & Member of Management Board

I mean, just to pick up on the -- on a possible bond buybacks. So thanks, Michael. I mean, the way we think about it is, we actually have a strong liquidity and a strong funding position. But then as you've seen, we also have negative cash flow last year, and it will take -- we have some time to go before we turn that into a positive operating cash flow. And whilst we've set the business up carefully, and we're confident about the strong actions we've taken, there's still a lot of volatility and uncertainty taken over a 2-, 3-year view in our markets. So we are thoughtful about this. We certainly have opportunities or can see opportunities for liability management on the convertible bond, which is EUR280 million in total at the moment if they present themselves well. So it's something that we will continuously review and we certainly have the capacity to do if the right opportunity and the right price offers itself. Is that okay, Mike?

Operator

There are no further phone questions. I will hand over to Saori for any webcast questions.

Saori McKinnon – Global Fashion Group S.A. – Strategy & Investor Relations Manager

Great. First question is from Phil from antipodes. The question is, why should GFG remain a group? What value is added to customers, brands and shareholders through the group structure?

Christoph Barchewitz - Global Fashion Group S.A. - CEO & Member of Management Board

Yes, I'll take that. Thanks for the question, Phil. So certainly, we set up our center in terms of the group for a larger business that included the CIS region, which we obviously just sold. In light of that, we have reviewed our central structure and made adjustments to that. Just to remind everyone what the cost in the center basically do, there are critical components of our overall business. The #1 item is around technology where all our platform-related technology services, so be it marketplace or also much of our marketing data operation tools are built by a global tech team and then providing that across all of our end markets. So that is certainly highly synergistic to do in this way. Secondly, we obviously manage many of our global brand partnerships on a truly global basis, and that has enabled us consistently over the years to bring international global brands into our markets, which

for many of our brand partners are not necessarily their core markets, but very exciting growth opportunities and even some of the brands that we mentioned in the presentation, I think a good proof point of our ability to leverage our central team to drive the expansion of brands into our market. And then certainly, we also have finance, legal, people and culture, sustainability team, enabling our overall group and the fact that we're a public company and all the obligations that come with that. So that's what we're doing with the group structure. Ultimately, I think it is about looking at the overall business and what needs are sitting in maybe different places from a cost structure, but we believe that we have the right setup, which is, as you know, very heavily local in many respects, but there are a few elements that we do on a global basis, technology being #1.

Saori McKinnon – Global Fashion Group S.A. – Strategy & Investor Relations Manager

Another question from Phil.

What is the competitive edge associated with being well capitalized? How does this translate into actual cash flow generation?

Christoph Barchewitz - Global Fashion Group S.A. - CEO & Member of Management Board

Yes. I think we believe that, especially in the current environment where many -- both online and offline retailers around us are facing significant challenges coming from their balance sheet, having a very strong balance sheet and being able to leverage that as a reliable partner to brand is a real advantage in our business. And we're seeing that consistently when we look at our payment terms, when we look at how we do business, that the financial strength behind the group with the balance sheet that we have is something that is seen as very positively. And I think it's even more top of mind in 2023 than it has in the last couple of years. So I think that advantage of that confidence that we are a well-capitalized, strong company is something we'll continue to benefit from, in particular, in the current environment.

Saori McKinnon – Global Fashion Group S.A. – Strategy & Investor Relations Manager

The next question is from Giacomo. The first on corporate costs has been covered. The remaining question is, how much of the corporate costs can be reduced?

Christoph Barchewitz - Global Fashion Group S.A. - CEO & Member of Management Board

Matthew, do you want to take that?

Matthew Price - Global Fashion Group S.A. - CFO & Member of Management Board Yes, sure.

So I think when we look -- when I'm thinking about our cost base, clearly, we have a presentation around segments, which highlights the center. But actually, we are a local first business, and that's been really important to the way that we trade, the way we set up and the way that we've always been. So when I look at my total overhead, which is all the technology and as well as normal overhead, 80% of that is actually in the regional business, 20% in the central teams, which are in London, Berlin and Vietnam, in particular. When we're looking at this, we, therefore, because of that decentralized nature, it's as much about getting scale in each region, particularly around SEA and LatAm that have smaller countries in them with dedicated FCs and some local teams, less so in Australia and New Zealand, which is much more a single large country. It's about driving scale into those. So it's about optimizing those businesses rather than just cost management. We have done cost management. We've made very meaningful and significant changes to our tech and other G&A costs, both at the center and in the regions and bringing things together and combining and making sure that we are being as efficient as we can be. There's an awful lot more we can do with this. We are looking and working on a number of projects to make this better and better, but it's much about actually driving this multi-region scale in rather than just thinking about it as a single cost reduction

program. So it's a little bit complicated, and we've got that really clear focus on cash, and we'll continue to set ourselves up to be thinking about the business in a new demand environment.

Saori McKinnon – Global Fashion Group S.A. – Strategy & Investor Relations Manager

One more question from Giacomo. Would you consider selling or spinning off any assets to create shareholder value?

Christoph Barchewitz - Global Fashion Group S.A. - CEO & Member of Management Board

Yes, I'm happy to take that. I mean, I think the #1 point on this would be in my mind that I think we're in a market environment where any form of disposals would very unlikely generate a lot of value. And I think what we're focused on is delivering long-term value to our shareholders. Clearly, we've had a significant setback in that in '22, but that was clearly driven by external circumstances in terms of the war in Ukraine. But I think as we think about the rest of the group going forward, we are very committed to delivering the financial targets that we set, returning to profitability in '24, moving towards cash flow breakeven as growth comes back in our industry. And we think also that over time, valuations in our broader sector will recover, it is certainly not unique to us that valuations are quite low. And therefore, as that recovery happens, we think there will be plenty of ways of how we crystallize shareholder value through our share price or otherwise in the future.

Saori McKinnon – Global Fashion Group S.A. – Strategy & Investor Relations Manager

One question from a Gerard Quilligan from Palmerston. How much will cash lease would be in 2023?

Matthew Price - Global Fashion Group S.A. - CFO & Member of Management Board

Sure. I'll pick this up. Thanks. Good question. Year-on-year, we haven't carried out any major expansions or changes in the fulfillment assets, which are the biggest part of this. We don't have any major projects planned for next year. So it will be a relatively modest change more in line with inflation.

Saori McKinnon – Global Fashion Group S.A. – Strategy & Investor Relations Manager

As we have no further questions, thank you all for joining today. If you have any further questions, please reach out to the Investor Relations team directly.