# Q4 & FY 2023 Global Fashion Group SA Earnings Call Transcript

*6 March 2024 / 8:00AM GMT*

## CORPORATE PARTICIPANTS

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## PRESENTATION

**Christoph Barchewitz – Global Fashion Group S.A. – CEO**

Good morning, everyone, and welcome to Global Fashion Group's Q4 and full year 2023 results presentation. I'm Christoph Barchewitz, CEO of GFG, and I'm joined today by our COO, Gunjan Soni and our CFO, Helen Hickman. I will start with the highlights and then Gunjan and I will cover our regional results and key developments. Helen will then take us through the group results and outlook. After that, we'll open it up for Q&A.

2023 was another year of significant change for GFG, and I'm grateful to our global team for what we have achieved in this environment. We started the year anticipating lower demand and acted accordingly. The market proved to be more challenging, so we took further steps to adapt by prioritising the expansion of our marketplace and platform services offering. We offset the challenges facing our retail business and maintained a stable gross margin for the year.

We reduced our cost base by 82 million Euros with approximately half of this due to cost initiatives. These actions are helping us in 2024, and we are pursuing further opportunities. Together the impact from our gross margin and cost initiatives outweighed volume declines in Q4, enabling us to achieve Adjusted EBITDA breakeven.

We improved our normalised free cash flow with careful inventory management, improved supplier payment terms and reduced capital expenditure. Though we anticipate continued challenges this year, our proven ability to adapt to external developments has prepared us to navigate various scenarios. We strengthened our foundation and improved our customer and brand proposition in 2023 to ensure we are well positioned to capitalize on our long-term potential.

Let's now take a closer look at our Q4 results. In Q4, we achieved 369 million Euros in Net Merchandise Value. NMV was better than expected during peak trading events in ANZ and LATAM. As you know, from our trading update in January, despite facing topline declines, our initiatives executed throughout 2023 resulted in year-on-year improvements to both gross profit and Adjusted EBITDA margins in Q4. We delivered a strong 43.6% gross margin and breakeven Adjusted EBITDA, setting ourselves up for continued improvement in profitability.

Moving on to our full year 2023 results. We achieved 1.3 billion Euros in NMV, representing a 14% year-on-year decline on a constant currency basis. This reflects the persistent pressures our customers faced throughout the year. Careful inventory management remained a priority in this environment, and we successfully reduced our levels of aged inventory. This had some impact on our Retail margin, which we offset with increases in Marketplace and Platform Services share. Particularly in SEA, leading to a stable Gross Margin of 42% for 2023.

On Adjusted EBITDA, we countered our margin decline from fixed cost deleverage with cost actions to mitigate the impact of lower volumes that saw orders down 23%. This resulted in a 2.9-percentage-point decline in Adjusted EBITDA margin. We ended 2023 with an active customer base of 8.8 million, who placed 20.8 million orders in the year at an average order frequency of 2.4 times.

Efficiency has been a major focus for us and we have looked for opportunities across our total cost base, including fulfilment, marketing, tech, OpEx and CapEx, admin, as well as our office and fulfilment centre leases. We proved this focus with our total cost base reducing by 11% on a constant currency basis in 2023.

We saw an even greater impact in Q4 with a 15% year-on-year reduction as testament to our incremental actions taken throughout the year. This efficiency program is continuing in 2024 and beyond as we pursue our longer-term ambitions. Beyond our cost base, we have particularly focused on our working capital, improving inventory efficiency and payment terms across the business. Through all our strategic actions in this transitional year, we improved normalised free cash flow by 45 million Euros to negative €68 million despite a year-on-year decline in Adjusted EBITDA. Further demonstrating the effectiveness of our efforts, we achieved a €33 million inflow in our seasonally strong fourth quarter.

Next, we have our segment results and business updates. We anticipate the demand environment to remain subdued as consumers regain disposable income. We have already adjusted our marketing investment strategy to reflect this market dynamic and ensure we remain competitive in the evolving fashion landscape.

Our core priorities – creating a best-in-class customer experience, being the brand partner of choice and operating people and planet positive remain our key pillars for continuous improvement. Naturally, we adapt our approach within each pillar to reflect current realities.

Before I go into the regional updates, I wanted to share our progress on transitioning to a platform business. Despite facing declining topline KPIs, all regions benefited from our efforts to increase participation in Marketplace and Platform Services, leading to each region, improving gross margins in Q4.

We are optimising our business models and are pleased to see that our Marketplace participation grew by 5-percentage-points to account for 38% of NMV in 2023. This is a result of strong customer adoption and traction, particularly in SEA where half of NMV came from Marketplace. In light of this latest progress, we have increased our Marketplace share goal from 40% to 45%, reflecting our brand partner preferences and continued development of our platform capabilities. We believe 45% is an optimal mix that balances the benefits of Retail and Marketplace from both the commercial and customer perspective.

Fulfilled by GFG and cross-docking now accounts for 36% of Marketplace shipped items. We expect this to increase to around 50% over time. These fulfilment methods directly support our cost control initiatives as both our Retail and Marketplace business models can make use of our shared fulfilment assets. Platform Services scaled to 4% of revenue last year, driven primarily by a step-up in SEA. SEA has well surpassed our group target with 12% of its revenue from Platform Services.

Now let's dive deeper into each region's performance and key developments starting with LATAM. We have continued to deliver on our LATAM investment plan, but the region still faced high inflation and weak consumer spending throughout 2023. This has made it difficult for the impact of our initiatives to come through the financial performance results. For example, our full year Adjusted EBITDA margin fell by 4-percentage-points. But if you were to take a closer look at the second half of 2023, you could see our streamlining and cost cutting efforts started to show through with Adjusted EBITDA improving by 2.7 million Euros year-on-year. Both the H2 Adjusted EBITDA improvement and the significant full year normalised free cash flow improvement gives us confidence that we are on track to deliver stronger financial results in the region.

Looking at some of the key highlights, enabling this transformation. We have been prioritising our assortment to ensure we have a carefully curated selection of the most relevant local and global brands. We rationalised our platform with fewer brands and products and in Brazil saw a 45% year-on-year increase in NMV per SKU and more efficient inventory, which was down 30% compared to year end 2022.

To drive engagement and sales, we have launched a new and improved Dafiti app, enabling lower cost customer acquisition and retention. Since the launch of the new Android app last July, Brazil's app share of NMV has increased by 5-percentage-points from H1 to H2 2023.

In 2024, we are completing the Android and iOS app migration for all countries and customers solidifying our foundation for an app centric marketing and customer engagement model. To build a stronger Dafiti, we have taken further decisive actions in 2023 to streamline the business and reposition for growth. We have reduced our operational footprint, both through the closing of operations in Argentina and subletting and reducing excess capacity in our fulfilment centres in Brazil and Colombia.

We consolidated our separate platforms, Kanui and Tricae into the main Dafiti platform to simplify and have one single branded platform in Brazil. We have also implemented several working capital initiatives, including reducing credit card receivables by starting to charge interest on customer instalment plans and integrating new low-cost instant payment methods to reduce payment delays and cancellations. With this streamlined and cost-efficient structure in place. The GFG new CEO has begun executing our strategy with a fresh focus and clear plan for 2024.

I will now hand it over to Gunjan.

**Gunjan Soni – Global Fashion Group S.A. – COO**

Thank you, Christoph. This past year has brought significant change to board GFG and me personally, as I've now completed my first year as Chief Operating Officer, it has been a huge privilege to witness firsthand the Group's business delivery across our regions and the team's strong resilience in the face of challenges.

Let's turn our attention to SEA, where I'm based and also serve as CEO. Similar to the rest of the group, SEA prioritised levers within its own control last year as the weak consumer demand following inflation and rising interest rates put significant pressure on our top line. By increasing Marketplace participation and generating additional revenue through Platform Services, we consistently improved gross margin each quarter. Additionally, our SEA business was breakeven in the second half of the year and delivered a normalised free cash flow improvement for the full year, demonstrating our resilience through these challenging market conditions.

One key lever we focused on in 2023 was increasing customer loyalty. We doubled down on our paid subscription program called ZALORA VIP that offers several privileges such as priority delivery, exclusive access to products, early access to sale events and a personalized app journey. The ZALORA VIP programme doubled its subscription base last year and within a very short span, has scaled to contribute 18% of NMV in Q4. Customers subscribing to the programme increased their order frequency by about 50% within the first 90 days of taking the subscription, a very promising signal of their increased loyalty.

As mentioned earlier, another key lever was expanding our Marketplace, allowing for a broader assortment without inventory risk with support from our brand partners. We achieved a 50% Marketplace share exceeding the Group's long-term goal of 45%. We added several marquee brands via this route last year like Next, MCM and Sandro further strengthening our assortment as well. A key factor in SEA's improved gross margin was the expansion of our Platform Services, particularly the marketing solutions and operations offering called single stock solution.

Since 2021, this offering has enabled our brand partners to fulfil orders seamlessly from various channels, including Zalora, their own brand site and apps as well as third party. In a short span in 2023 the number of brands using the service has scaled to 50, and we had four times more orders processed from the single stock solution compared to 2022, demonstrating the strong value, we are delivering to our brand partners.

Moving on to Australia New Zealand. ANZ was the region that faced unexpected pressure due to a highly discount led market in the first half of the year as customers adjusted to rising cost of living and interest rates. Despite the subdued environment, the team delivered encouraging results. Whilst the full year Adjusted EBITDA margin dropped 3-percentage-points, ANZ delivered a margin improvement and was profitable in the second half.

We achieved this through some exciting strategic developments since launching THE ICONIC in 2011. We have established a clear position as the leading multi-brand fashion e-commerce platform in ANZ to strengthen brand awareness and articulate our customer proposition. We have launched two full funnel marketing campaigns in October and February.

The campaigns are designed to deliver platform engagement, particularly through our app and complement our paid advertising and CRM marketing activities. Whilst these efforts result in incremental marketing spend, we believe it is a strategic and timely step to reignite growth in the region.

We also continued to strengthen our assortment with the launch of a number of powerhouse brands, including & Other Stories and COS from the H&M Group, PULL & BEAR from Inditex and British brand SOSANDAR.

To unlock efficiency and growth in ANZ, we have been preparing the business to leverage SEA's expert operations and warehouse management system in 2024. We are incurring primarily CapEx to support this project with a quarter already invested in 2023 and the remainder planned for 2024. This investment will bolster our capabilities in Marketplace fulfilment and Platform Services whilst generating cost savings in the warehouse starting from H2 onwards.

I will now conclude our business updates with the latest developments on our people and planet positive agenda. During 2023 we prepared for the EU's Corporate Sustainability Reporting Directive that takes effect for 2024 reporting. Our team has been successfully navigating the evolving ESG landscape while also progressing toward our 2030 targets.

Our 2023 People & Planet Positive report was published today and is available on our website with more detail on this progress. We are continuously monitoring best practices and adapting our reporting accordingly to ensure alignment with our evolving business and regulations. We are committed to communicating our progress transparently as we execute our agenda.

To name a few highlights from the regions, in LATAM, dafiti ranked number three in Brazil's Fashion Transparency Index. This reflects our strong disclosure about our approach toward human rights, environmental practices and our supply chain impact. In SEA, we launched Snap & Drop, a clothing donation campaign in partnership with Life Line Clothing in Singapore. This initiative is part of our commitment to building circularity. We are expanding the same campaign and launching it in Malaysia this year. In ANZ, we joined Seamless, a national clothing stewardship scheme, as a foundation member, to directly contribute to transforming Australia's clothing production, use and recycling.

I will now hand it over to Helen to take you through our Group results and outlook.

**Helen Hickman – Global Fashion Group S.A. – CFO**

Thank you, Gunjan, and thanks, everyone, for joining today. I will start with the group KPI's. We closed the year with an active customer base of 8.8 million. Our 19% decline compared to 2022 aligns with industry trends and reflects our disciplined approach to marketing investment in an uncertain environment. We saw a smaller decline in order frequency to an average of 2.4 times during the year, though a challenging year, we have seen strong performance in key areas like customer satisfaction and repeat purchases by our top spenders, indicating a loyal and engaged core customer base.

As mentioned for ANZ, we have also recalibrated our marketing investment strategy Groupwide towards the end of last year to more directly address the competitive environment. We are shifting spend from paid performance to campaigns that reignite and remind our customers of the value in our platforms. We will see some elevated spend in Q1 as these campaigns launch to then stabilise over the course of the year.

In 2024, we expect this marketing approach, combined with enhanced customer experience initiatives to revitalise the customer base, which has seen greater decline than in previous years. Our order decline slowed slightly in Q4 from our previous two quarters to 20% with a full year reduction of 23%. The majority of this decline was driven by lower conversion rates, reflecting weak consumer sentiment in our markets. Despite the fall in orders, we've maintained growth in average order value to partially offset declines in NMV. The growth in average order value has moderated over the course of the year with the increase driven primarily by inflation, followed by shifts in category mix.

Now looking at revenues and margins. Our revenue for 2023 was 838 million Euros, a decline of 18% on a constant currency basis with a 17% decline in the quarter. In Q4, we achieved Adjusted EBITDA breakeven for the Group, marking a 2-percentage-point year-on-year improvement. Retail margin stabilised year-on-year in the quarter, with our continued growth in Marketplace share and Platform Services driving gross margin improvements throughout the year.

Moving on to costs, which have clearly remained a huge focus for us as we navigate inflation, fixed cost deleverage and a reduced scale following the sale of CIS in late 2022. We delivered an 82 million Euro cost reduction year-on-year, which represents 11% down on a constant currency basis. Roughly half of this reduction was driven by our targeted initiatives. Whilst external factors like inflation, FX and volume decline impacted as well.

This achievement mirrors the decline in NMV we saw in 2023, demonstrating our ability to manage costs effectively, these measures have strengthened our position to navigate market headwinds this year. Some of the various efficiency measures have been covered already. So I'll mention just a few examples of the drivers of our cost line reduction. On fulfilment, we implemented workforce reorganizations and optimize shift patterns in our fulfilment centres, along with launching chat bot communications in our SEA customer service operations.

On marketing, we prioritised spending discipline. As a result, we traded some short-term customer growth for long-term opportunity as we prioritised investments with clear payback potential in this uncertain environment. This included promoting our loyalty programmes and app only offers and increasing social media engagement.

On technology and administrative costs, we've removed overhead across all areas of the business. Whilst some technology initiatives require longer implementation times. We continue to optimise existing systems and evaluate vendor relationships and tools to unlock future savings and efficiency. These cost initiatives have driven a greater cost reduction in Q4 as these actions started to take full effect.

Lastly, we've implemented measures to effectively manage our technology, CapEx and lease costs. For the full year, we reduced our total headcount by 24% to 4,400 employees, of which about half work in our fulfilment centres.

Q4 was when we really started to see the impact of our cost actions implemented earlier in the year. Total costs at the Group level, including central functions, reduced 15% on a constant currency basis, which exceeded our NMV decline in the quarter. For central costs, our priority remains on driving value with our core technology products with a leaner and more focused team along with streamlining our Group administrative functions. In LATAM, we positioned the business for continued profit improvement and reduced the cost base by 18%, which also exceeded the NMV decline of 12%.

In SEA, Q4 costs reduced 8% year-on-year as the business continues to invest in scaling platform services and supporting the development of the operation and warehouse management system in ANZ. ANZ saw a strong 14% reduction following significant organisational restructuring, including some pooling of technology, commercial and administrative services with SEA.

An additional key measure we took in addition to our cost actions last year was our prudent management of inventory. We reduced our overall inventory levels by over 32% year-on-year on a constant currency basis, with stock older than 180 days being a particular focus. I'm pleased to share that we reduced aged inventory levels by 20 million Euros since Q4 2022 to now represent 19% of our gross inventory. This discipline helped improve our cash flow, which I will take you through next.

Starting with our normalized free cash flow breakdown, which is our measure of operational cash invested in the business. In 2023, our Adjusted EBITDA loss was EUR58 million. We improved our working capital management significantly during the year, releasing EUR48 million of cash. The focus on inventory management, which I've just spoken about was a key driver of this inflow, along with an extension of supplier payment terms in LATAM.

We managed our CapEx investments tightly investing EUR28 million on CapEx, which was down 33% from 2022. Our CapEx spend primarily went towards technology projects and associated payroll costs. After adjusting for operating tax and interest payments. We had a normalized free cash outflow of EUR68 million, representing a EUR45 million improvement compared to 2022. This improvement was mainly driven by LATAM, successful optimization of working capital and a disciplined approach to CapEx across the group. Q4 our peak trading period delivered a EUR33 million normalized cash inflow.

Moving to the chart on the right-hand side of the page. We ended 2023 with a solid cash position closing the year with EUR397 million of pro forma cash and EUR206 million of pro forma net cash. Net cash excludes the convertible bond liability, of which there is EUR178 million outstanding post repurchases and other smaller loans. The other cash outflow of EUR23 million reflects a mix of decreased LATAM receivables, factoring and exceptional items, including the cash outflow from our discontinued operations in Argentina. As we have done in the past, we continue to look for opportunities to reduce our outstanding convertible bond liability, whilst considering our overall cash requirements.

I will now walk you through our outlook starting with guidance 2024. In light of ongoing market challenges, we anticipate 2024 to be another year of adaptation. We are prioritising Adjusted EBITDA improvements and cash flow over topline growth. This aligns with our longer-term ambitions of generating positive Adjusted EBITDA and delivering sustainable normalised free cash flows.

On the top line, we expect an NMV decline between 5% to 15% on a constant currency basis to deliver an NMV of EUR1.1 billion to EUR1.2 billion at December 2023, closing FX rates. We expect to deliver an Adjusted EBITDA loss between 25 million to 45 million Euros, representing an improvement from 2023's Adjusted EBITDA loss of 58 million Euros.

In the first two months of 2024, we have observed similar topline trends compared to those of Q4. Whilst seasonality will impact Q1 results, we are taking a full-year view and have made strategic marketing investments to support gradual improvement throughout the year. As macroeconomic pressures have started to ease we anticipate a potential uptick in customer demand in the latter half of the year. This growth, if realised will likely be gradual and geographically uneven.

Looking at our financial priorities for 2024, we will continue our platform transition and careful management of inventory levels. On costs, we are committed to our ongoing initiatives, which will deliver a similar level of additional savings for 2024 as was achieved in 2023. We will also continue to restrict overhead and capital investments with CapEx and leases staying within 2023 levels, which we ended with 28 million Euros on CapEx and 20 million Euros on leases. We expect to see another cash inflow from working capital in 2024, though significantly less than 2023.

Now let's turn to the building blocks of how we will achieve our longer-term ambition. We recognise the significant disruption and changes our business and industry has experienced over the past three years. The customer and fashion ecommerce landscape continues to evolve and as our industry rapidly adapts, we are committed to doing the same. Faced with external macro challenges, we have remained focused on what we can control. This dynamic environment is why we are not offering specific timelines nor growth projections today, however, our ongoing cost efficiency programme gives us confidence in achieving our goals at a smaller scale than previously anticipated.

Our financial strategy focuses on two key ambitions. Firstly, achieving positive Adjusted EBITDA and secondly, reaching breakeven normalised free cash flow. This page outlines how we will achieve these ambitions and establish a financially sustainable business model even at a smaller scale post the sale of CIS at the end of 2022.

Our roadmap starts with Marketplace and Platform Services growth, which will support a gross margin of approximately 47%. This combined with ongoing efficiency and cost reduction initiatives will lead to an improved Adjusted EBITDA margin of around 6%. Achieving these margin improvements will be complemented by capital efficiency across all areas. This includes maintaining CapEx around 3% of revenue, keeping working capital neutral and managing lease expenditure to be relatively flat.

These measures alongside our commitment to meeting all obligations, including our 2026 convertible bond put date, will ensure our long-term financial health. As we continue to adapt to the evolving fashion ecommerce landscape, we remain prepared to explore strategic opportunities that enhance our financial position will bring value to the group.

We have entered 2024 well positioned to deliver our platform transition. We have healthy gross margins, fresh inventory, a leaner cost structure and a strong balance sheet. Our global team remains committed to capitalising on the commercial opportunities available whilst continuously improving the efficiency of our business and leveraging technology to serve customers, brand partners and ultimately generate value for our shareholders.

We will now open the call to your questions. If you'd like to submit a written question, please click on the speech bubble at the bottom of the screen. Thank you.

## QUESTIONS AND ANSWERS

**(Operator)** The first question comes from Matthew Abraham from Berenberg.

**Matthew Abraham – Berenberg – Analyst**

Good morning, all. Thank you for taking my question. First query just relates to the decline in the active customers. Do you possibly think that there is a lower structural earnings capacity in the business given the extent to which active customers have declined across FY 2023?

My second question relates to the trend that we started the year, that we've observed at the start of FY 2024, you've mentioned trading conditions have been difficult. Is there a prospect that those trading conditions which remain difficult persist through the year to a point there is the need to do a broader strategic review of the business and the plans for the future. Thank you.

**Christoph Barchewitz – Global Fashion Group S.A. – CEO**

Thanks, Matthew. I'll take those. So on the first one on the active customer base. Clearly, we've seen if you zoom out a bit quite a lot of volatility or put differently, a huge new customer record and very strong customer engagement in 2020 and '21 and then kind of a reversal of that in '22 and '23.

When we look deeper in the customer base, there's clearly a very engaged core customer with a strong frequency and strong loyalty to the business. And I think Gunjan mentioned the VIP program in Southeast Asia as an example of how we also tried to cater to serving those customers well. I think what we're finding harder is what I would call the more occasional customer or the customer who comes for one or maybe two purchases, but then ultimately churns.

And I think that's something where we're really trying to adapt our marketing approach in the environment that we're in, where we're facing an overall softer customer sentiment and environment but also really trying to distinguish more strongly between who can be our core customer wants the core offering that we have the branded product that we have, the full price product we have and the fashion that we have and really cater to those. So I think some of the comments we made around adapting the marketing approach. This is a huge focus of how we look at the highest value of the customer base, not just the absolute number.

On the second part of your question around the January February trend. To us, it didn't come as a surprise that we are largely seeing similar trends to Q4, and that informed also our planning for the year where we do expect and improvement throughout the year from the external factors, but also from the actions we are taking, including the marketing efforts that we've talked about. I think what is important to point out here is also that despite this continued decline in the topline and improvement in the profitability as you've seen in the Q4, we are in our first quarter where we see a year-on-year step forward on the Adjusted EBITDA margin despite quite significant NMV decline.

I think we have planned for a range of scenarios for this year, including one where trading conditions don't improve, and I think you should read our range that we're putting out on the guidance as one where the bottom end of that range is more indicating a continuation throughout the year of the trading conditions that we've seen at the end of last year and the very early part of this year. But I think it's also important to note that January and February are usually not big months for us. So I wouldn't read necessarily too much into those initial trading results, we have much more important months coming up.

**(Operator)** Next from Volker Bosse, Baader Bank.

**Volker Bosse - Baader Bank - Analyst**

Hello. Volker Bosse from Baader Bank. Thanks for taking my question. I would like to dig deeper into the region by region. So my guess is that pricing aggressive online retailers like SHEIN and Temu are giving you a hard time. So in general, how do you look on competition and consumer sentiment region by region? And that brings me also to the second question, if your guidance for NMV in 2024 is minus-5 to minus-15, let's take the midpoint of minus-10%, so how would you speak about uneven regional perspective, so what are underperforming or outperforming regions in your portfolio? So to speak.

And the last question, I mean, given the current trend you might be in danger to reduce cash year by year, so three, four years. Down the road nobody knows what's going to happen, of course, however, in any case, it's a risky plan to continue in the current setup. So how do you look at your cash position or alternative plans? Thanks.

**Christoph Barchewitz – Global Fashion Group S.A. – CEO**

Thank you, Volker for your question. So maybe just to split them up, I'll let Gunjan comment a little bit on the first one in terms of Southeast Asia, and maybe also in ANZ and I'll cover LATAM. So Gunjan do you want to take that?

**Gunjan Soni - Global Fashion Group SA – COO**

Sure, Christoph. So let me start with SEA. I think in our market we've seen players like SHEIN and Temu operate for quite some time now. So it's not a more recent phenomena. They've been there from the pre-COVID period. We think the bigger impact on our active base decline is coming indeed from a combination of consumer sentiment, but also the fact that consumers are prioritising spends on experiences and away from shopping, and especially online shopping, in the near term as they revert from the COVID habits.

This is, of course, a short-term trend. And we do believe that the medium-term adoption trends in favour of ecommerce are pretty consistent. So therefore, we continue to remain optimistic of the demand recovery. Simultaneously, we do see pressure in our markets like ANZ on customers wanting to, like we mentioned, especially in the first half, higher discounting preference as they face cost of living pressures. So again, it's largely driven by macro with some impact, of course, as these consumers look for lower price point propositions, but the larger impact comes from demand.

**Christoph Barchewitz – Global Fashion Group S.A. – CEO**

And maybe just to add to that on from a LATAM perspective, I think we've seen some encouraging signs, especially Brazil as the most important market for us with interest rates coming down, inflation moderating a bit. The competitive intensity is very strong and there's not a day basically where there's not a lot of headlines around the cross-border competitors, which obviously affect everyone in Brazil, who is in the domestic business. And there's a lot of discussion around that topic also from a regulatory perspective, which we obviously can't predict, but it's a very, very top of mind discussion in the country. We do expect that there's some improvement around the customer ability to spend on as people are benefiting from the macro getting a bit better this year. So I think there's a somewhat hopeful outlook there.

If we move to the second question around the guidance range and the midpoint and relative performance between the different markets, I think it's very difficult at this point for us to really forecast that and I think what we have seen is that our markets don't always correlates directly. I think the big global themes, yes, they correlate. But then we also had have had in the past quite uneven performance. I think that's what we want to point out that while it may look, when you look at the last few quarters, that we have a relatively aligned direction from a trading perspective, we don't expect that the recovery from that will necessarily be aligned in the same way.

I think we are quite optimistic about Australia and getting into a better position and we have strong plans in that market for recovery. But I wouldn't necessarily say that there is one market where we expect a strong recovery quickly. Another market where we think this is going to be multiple years out. We are working on our trading as well as possible in every single country where we operate and turning around the trends that we've seen in the most recent quarter.

And for going on your last question, looking out a bit further from a capital structure perspective and from a cash position I think we've demonstrated from last year a very strong improvement in the normalised free cash flow. And I think we also demonstrated our ability to manage the liability around the convertible bond thoughtfully and thereby creating further headroom from a cash perspective. And I think both of those activities we will continue and I think, therefore, we don't perceive this plan as risky, but as something that we can control and we can adapt to and we will take whatever actions necessary to make sure that we work within the financial means and the balance sheet that we have in this year, but also going forward into the medium term.

**Volker Bosse - Baader Bank - Analyst**

Thanks for that clarification. One follow up. I mean, your underlying plan in a mid-term perspective is to return to topline growth in '25 as an assumption and all your plannings depend on that or how do you look at that? Thanks.

Sorry, it's too early to speak about '25 already, but anyway.

**Christoph Barchewitz - Global Fashion Group SA - CEO**

It's a good question to ask and thank you for that. I think we've been explicitly cautious on not wanting to get out ahead of ourselves on giving medium term targets. I think what are the important components here is that we're doing everything possible. And I think we've made great progress in the last 12 months to lowering the threshold or the scale required in the business to be an EBITDA breakeven business and ultimately a cash flow breakeven business as well.

And so in the past, we've talked about some headline numbers of what scale we need to achieve that breakeven. And I think we have done the work to bring that down. We will continue to look at ways of how we can bring this down further one way, certainly to get volume into our fulfilment infrastructure, which we can do by serving brand.com, we can do by shifting Marketplace volume from the dropshipping model into the cross-docking or fulfilled by model. So there's lots of different initiatives that all drive towards lowering the bar in at which scale we can effectively utilise our overhead structure in the broadest sense to achieve that.

So I think that's the direction of travel of really bringing that threshold down as much as possible. Clearly, we do need to stop the volume decline and to get to a point where we see initially a stabilisation of orders, customer base and NMV and then return to growth. And I think Gunjan pointed that out already that fundamentally, the long-term trend when we zoom out is intact. And yes, the penetration has been very accelerated in 2020, '21 and then decelerated in '22 and '23.

But again, to remind everyone, especially Southeast Asia and LATAM remain far under-penetrated in terms of fashion ecommerce compared to pretty much most other markets in the world, especially US, Europe and China. And so I think that opportunity remains, and we are absolutely set on capturing that together with our brand partners who are equally excited about that fashion ecommerce opportunity in our markets. And so we absolutely do want to return to growth and think that is absolutely feasible, even if the most short-term trends are not pointing in that direction.

**Volker Bosse - Baader Bank - Analyst**

Thanks for that follow up. Explanations are very helpful. All the best. Thank you.

**Christoph Barchewitz - Global Fashion Group SA - CEO**

Thank you.

**(Operator)** It appears there are no further questions. I will now hand over to Saori.

**Saori McKinnon – Global Fashion Group S.A. – Head of Investor Relations & Communications**

First question we had on the webcast is from Philipp Hass. Have you considered selling the businesses to local strategic investors, especially LATAM?

**Christoph Barchewitz - Global Fashion Group SA - CEO**

Yeah. Thank you, Philip for the question. I would say it's probably fair to say that in our industry, we are at a low point. If you think about investor confidence and valuations and all of that we've clearly seen in recent months more strategic activity linked to that. So I would say there is -- we are certainly not a management team that would rule that out as something that may be in the cards in the future. At the same time, the market conditions don't really lend themselves to that being a very viable path and so we are very much focused on doing what is under our control, which is mainly how we run the business, what level of cost we have in the business and what investments we make selectively into the business within the financial framework that we have. If there are been strategic opportunity that presents themselves, we are not close minded about that. We are open to considering whatever makes sense. And I think Helen pointed that out in the presentation as well that we are rational and open to consider anything that generates value and benefits the business in the medium term.

**Saori McKinnon – Global Fashion Group S.A. – Head of Investor Relations & Communications**

Next question is how do you see working capital dynamics for 2024? How should we think about modelling free cash flow for '24?

**Helen Hickman - Global Fashion Group SA - CFO**

So as you've seen, we've generated a significant amount of cash through working capital in 2023. Our expectation for 2024 is that we will also generate cash through working capital, but not to the same extent as we saw in 2023. It's also worth reminding you of the cyclical nature of our cash cycle. So whilst that's our intention for the whole year, Q1 is usually at more significantly cash intensive quarter throughout the year, followed by quarter three.

With regards modelling, cash for the balance of the year. As I mentioned in the presentation, we're looking at maintaining a disciplined approach around other areas of cash outflow, significantly CapEx and leases, which we plan on being approximately in line with 2023 spend.

**Saori McKinnon – Global Fashion Group S.A. – Head of Investor Relations & Communications**

We had a few questions on costs, so it would be helpful if we can maybe elaborate on our plans on costs. Is there a scenario where we get more aggressive?

**Helen Hickman - Global Fashion Group SA - Chief Financial Officer, Member of the Management Board**

So I think it's worth noting that our cost efficiency programme is not a one-time event and very much a continued process within the organisation. So as we've said, we've delivered €82 million of cost savings in '23, of which approximately half of those were initiative and efficiency led. We're expecting a similar level of savings with regards to our efficiency programme into 2024. And obviously, as the year progresses, we are continuing to review all costs and how we look to make our cost base more efficient as we continue throughout the year.

**Saori McKinnon – Global Fashion Group S.A. – Head of Investor Relations & Communications**

The next question – do you expect to repurchase more of the convertible bonds?

**Christoph Barchewitz - Global Fashion Group SA - CEO**

I think we said it in the presentation already, we're open to managing that liability carefully like we have last year. I think from what we see is that the bonds continue to trade somewhere in the low 70s if they trade at all. And we will carefully engage with the bondholder universe to think about how we make sure we fulfil our obligations between now and the put date in March 26.

**Saori McKinnon – Global Fashion Group S.A. – Head of Investor Relations & Communications**

We have no further questions from the webcast. Thank you all for joining today. If you have any additional questions, please reach out to Investor Relations directly.