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PRESENTATION

Patrick Schmidt - Global Fashion Group S.A. - Co-CEO & Member of Management Board

Good morning, everyone, and welcome to Global Fashion Group's Q2 2022 Results Presentation. I am Patrick Schmidt, and I'm joined today by my Co-CEO, Christoph Barchewitz; and our CFO, Matthew Price.

I will provide an update on our strategic priorities and KPIs. Matthew will take us through the financial results and the outlook for the remainder of the year. After that, we'll open it up for Q&A.

We traded in an unusual environment in CIS, which has distorted the group performance. In early March, we settled the business for self-sufficiency. Practically, this meant that we pulled back investments and tightly controlled costs.

In the quarter, NMV in CIS was up by 39% in constant currency terms driven by higher average selling prices and high demand. Currency movements contributed to the expanded gross margin. This, alongside the actions on costs meant that profitability stepped up compared to last year.

Let's now take a look at the group performance. As always, we are presenting constant currency growth rates. We achieved net merchandise value of EUR 792 million, up 12% year-on-year. This was driven by CIS and strong growth in ANZ.

We continue to have a large active customer base of EUR 16.2 million, and our customers made nearly 12 million orders with an average order frequency of 2.9x. Our gross margin improved by 3.8 percentage points to a strong 50%. Gross margins across the regions were well controlled. Our adjusted EBITDA margin increased by 7.3 percentage points year-on-year, driven by the dynamics in CIS.

Let's now have a look at the progress of our strategic priorities during the first half of 2022. Our strategic priorities are to build the best-in-class customer experience to be the partner of choice for our 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. On the left, we included a status update on the key initiatives, we outlined at our full year results. The team has done a great job executing against these. We are making progress on increasing the exclusivity and relevance of the assortment. Dafiti in Brazil is differentiated in the market by growing key exclusive brands such as Forever 21 and Gap.

In addition, we just launched Inspira, Dafiti's new sustainable own brand. Our new app is live in Argentina, and we are currently in the test and learn phase in Brazil with promising results. We have also improved our marketing efficiency by rationalizing marketing investment. And finally, we have made significant strides in ensuring we offer seamless and faster delivery for more of our customers.

We are seeing faster times for click to receive and click to return. This has resulted in NPS being up by 15 percentage points year-on-year.

Turning now to Page 6 and ANZ. One way we differentiate ourselves at the ICONIC is through exclusive own-brand products, covering the full breadth of fashion. These drive customer loyalty, better unit economics and promote more responsible sourcing. This has proven really popular with our customers.

Three of our biggest brands in ANZ are our own brands. These brands have been growing fast. NMV has tripled since 2019 to now make 12% of total NMV. Our own brands also have, on average, higher gross margins driven by higher intake margins and control of our pricing and promotions.

Moving on to why we are the partner of choice for brands. We continue to offer flexible business models to help brands reach more customers. The marketplace proposition continues to offer growth, increasing 24% year-over-year. Marketplace now accounts for almost 40% of NMV. And we have several initiatives in place to advance our marketplace capabilities further. One of which has recently gone live in SEA. This is our size refill functionality.

Size refill allows us to increase our depth by replenishing sizes of an existing retail SKU with marketplace inventory. As seen in the example here, this Adidas SKU was originally available on retail. The size large has sold out as shown on the left. And without size refilled, it would not be available anymore. With size refill, we backfill this size from Marketplace, making it available again to the customer. We've seen the success of this initiative with our developed market peers already. And even though still in early stages, size refill is already live with 10,000 SKUs.

Now I'll take you through some of the global and local brand launches across our platforms. The teams continue to onboard new brands leveraging our localized approach. We are pleased with our progress securing key global brands such as Armani Exchange and Topshop in LATAM.

In SEA, we've added & Other Stories and American Eagle. We also have continued to broaden our assortment into adjacencies, including beauty and home with Ole Henriksen in ANZ, and Akemi Uchi and Luxelle in SEA.

Let's now turn to look at how we continue to advance our people and planet positive agenda. In April, we published our people and planet positive report where we detail how we believe we can deliver on our 6 strategic objectives. We're happy to report that our 2030 science-based targets were approved in May.

Today, 18% of our NMV is from more sustainable materials and our plan is to grow this to 60% by 2030. As you know, we have a different set of priorities for our CIS region. Let me give you an update on these next. In March, we started to set up the business for self-sufficiency. This meant that we pulled back from our investments and reduced costs significantly.

All local debt has been repaid, and the parental guarantees are limited to minimize any further risk and liability to the group. We have not made any financial investments or taken distributions from Lamoda in the quarter. The safety and well-being of our Ukrainian colleagues continues to be our top priority. As you know, we paused our activities in Ukraine which mostly consisted of a customer service team for the Russian market. We have pledged EUR 5 million for both our team in the country and the broader humanitarian response. We are focused on supporting our people even further as best we can.

This includes the continuation of salary payments, along with financial assistance and hardship support. GFG remains deeply concerned about the war. All of the actions taken so far have allowed us to properly evaluate further options whilst safeguarding our people and global business.

Let's now take a look at our KPIs. Q2 NMV growth of 12% was driven by the 23% increase in average order value. AOV was impacted by the larger baskets and higher selling prices in CIS. Orders declined year-on-year, driven by LATAM and SEA. The decline in LATAM reflects the deliberate decision to prioritize customer experience improvements ahead of growth.

Looking now at our key customer metrics. Our active customer base declined to 16.2 million, reflecting the pair back operations in CIS, the execution of our LATAM investment plan and lower marketing investments across the other regions. Order frequency grew 6% year-on-year to 2.9x. Higher AOV and greater order frequency across the group drove NMV per active customer up by 23%.

Now turning to our regional performance on the next slide. Starting with our LATAM business. The team has continued to deliver their investment plans and deprioritize growth. NMV declined 15% and active customers declined 14%, while we improved NMV per active customer by 7%. CIS delivered NMV growth of 39% due to the dynamics described earlier. SEA had lower growth than anticipated, With SEA having restrictions through much of Q1 there has been a more gradual reopening and the environment across the region is mixed. NMV declined 6% and active customers fell by 5%.

ANZ in NMV continued to grow strongly, up 19% on top of last year's 68% growth driven by robust active customer growth of 16% and by customers choosing to shop across multiple categories. NMV per active customer in ANZ grew 12%. We remain confident in the longer-term growth dynamics of our business despite experiencing a challenging macro environment.

With that, let me hand it over to Matthew to take you through the financials.

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

Thanks, Patrick, and good morning, everyone. In Q2, we delivered revenue growth and a higher gross margin generating an improved adjusted EBITDA margin.

The consolidated results are distorted by both the CIS regional performance and also currency appreciation year-on-year. All of our major currencies appreciated against the euro, adding EUR 103 million to reported NMV and EUR 11 million to adjusted EBITDA in Q2. Therefore, our focus is more on constant currency growth rates and our cost income ratios to date.

Revenue grew 11% on a constant currency basis to EUR 506 million in the quarter. We improved our gross profit to EUR 253 million, representing a 50% margin and a 3.8 percentage point improvement on last year. This was primarily driven by CIS and reduced levels of discounting, especially in LATAM and SEA. Adjusted EBITDA margin improved by 7.3 percentage points to 10%, reflecting our strategy in CIS to deliver self-sufficiency and managing costs more tightly.

Let's take a look at our regional performance on Slide 17. In Q2, LATAM reported a decline in revenue and gross margin. We're pleased with the progress in rationalizing marketing to focus on stronger paybacks at the expense of bringing in fewer new customers in the short term. The higher gross margin delivered in Brazil is masked by the year-on-year impact of the very high margin in Chile last year during lockdown.

CIS delivered revenue growth of 31%. The gross margin increased by 8.8 percentage points to 59%, which largely reflected average selling price dynamics and currency movements. SEA experienced the biggest acceleration in Marketplace participation, resulting in revenue decline larger than NMV, gross margin slightly increased in the region. In ANZ, the region delivered strong revenue growth of 18% in the quarter. Gross margin was a strong 45%, reflecting a little more discounting.

Now turning to adjusted EBITDA on the next slide. H1 group adjusted EBITDA was EUR 40.3 million with CIS delivering EUR 61 million of this. LATAM experienced a EUR 5 million step back year-on-year. The success of the initiatives that Patrick has just talked about are evident in our Brazil numbers, whilst Chile is annualizing a strong marketplace performance in last year's lockdown.

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 EUR 1.9 million. Profitability in ANZ remained robust at EUR 5 million, representing a 3% margin and a EUR 1.2 million improvement on last year.

As we saw in Q1, we continued some elevated operating costs and discounting. In the first half of the year, we excluded from adjusted EBITDA some EUR 4.4 million of share-based compensation and EUR 1.6 million noncash IFRS hyperinflation adjustment, along with EUR 3.4 million of other costs, which mainly relate to supporting our Ukrainian colleagues.

We also recognized an impairment charge on goodwill of EUR 41 million on our LATAM business. This reflects the higher interest rates in that region, which increased the discount rate used in the IFRS valuation model. This is a noncash item and excluded from our adjusted EBITDA measure.

I'll now turn to look at the movements in our operating costs and the leverage that we've delivered. Here, we have the cost income ratios for the group as we normally show them. But given the highly unusual performance of CIS this year, I've excluded that region in the blue column that looks at the change in cost since H1 2019, therefore, you can't read the table from left to right in the normal way.

Here, you can see how we've continued to develop our cost base over time in line with our strategy. Our fulfillment costs have reduced as we deliver scale efficiencies on our -- in our fulfillment centers and our Marketplace participation increases.

Our marketing costs have also stepped down as a percent of NMV as we implement more efficient strategies across the group. And our tech and admin costs have reduced over time as scale improved fixed cost leverage. As planned, we made some investment in the tech this year, especially our group-wide tech products.

Now looking at our cash performance. The group's cash flow was strong in the quarter. This quarter, we generated EUR 52 million from our adjusted EBITDA and EUR 18 million through working capital. Within this, our inventory is EUR 16 million more than at the year-end net of FX. As you would expect, given the slower-than-expected growth, we do have some regional pockets of older stock that will need some discounting to clear. We spent EUR 14 million on CapEx with approximately 1/3 for our fulfillment centers and 2/3 for technology. Total balance sheet additions to fixed assets in H1 were around EUR 30 million.

Now turning to our pro forma net cash, i.e., the cash available after future repayment of our convertible bond and all other debt. We grew this by EUR 64 million in the quarter to EUR 200 million. With the operating cash inflows and the benefit of the partial repurchase of the convertible bond at less than its face value. This meant we closed the quarter with EUR 500 million of pro forma cash and improved net cash position of EUR 200 million.

Now going into our outlook for the year. We were previously unable to provide guidance for this year as a result of the very high level of uncertainty in CIS. We continue to face low visibility of future performance and so we're providing a range of outcomes to reflect this.

Our guidance ranges are based on currency rates as of the 30th of June 2022, except for the ruble, where our planning exchange rate of 70 is applied. On a constant currency basis, we expect NMV to grow by 10% to 15% for the full year, which equates to EUR 2.9 billion to EUR 3 billion.

Revenue is expected to be around EUR 1.9 billion. We continue to carefully manage our gross margins and costs. And therefore, we expect an adjusted EBITDA margin of 3% to 5%. Within this, there were a number of scenarios for our CIS business. In our outlook, we're taking a more conservative view on both demand and profitability in the second half compared to the first half.

Across the other regions, we expect similar performance in the first half, whilst we will benefit from no longer lapping pandemic peaks. We expect this to be offset by a more challenging macroeconomic backdrop. Our investments into our logistics infrastructure and technology platform imply CapEx of approximately EUR 65 million for the year, and we spent about half of that so far.

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 Michael Benedict from Berenberg.

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

I have 3 questions, please. The first one is you suggested continuing to evaluate a range of current options. Could you give us a bit of color around your main valuation to date?

The second one is the very (inaudible) I wondered when we might (inaudible) full highest, please. circling back to CIS. If you did choose, you have to exit Russia, could you give a bit of color on the worst-case scenario from a financial perspective?

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

Thanks, Michael. It's Christoph here. I think we couldn't get the second question clear, so if you can please repeat the second one. I think we got the first and the third.

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

Yes. Sorry. Second one was on Latin America. You gave the slide around full pie chart in terms of your progress there? And a bit of color on when you might expect to have full pipes, i.e., progress or strategic prior to crisis [broadly] complete in the region, that would be really helpful.

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

Okay. Great. Thank you. So Patrick will take the question. Maybe I'll take the 2 on CIS. So as we said at the end of April, which I guess now is coming close to 4 months in we clearly focus the business on self-sufficiency and really pulling down some of the investments, some of the spending, especially on marketing et cetera.

And I think you see that very clearly in the Q2 results that in the combination with the external market dynamics and customer demands and those actions taken on our side we've achieved the goal of financial self-sufficiency in the region.

I think that also enabled us to continue to provide obviously, unchanged employment and support for all our employees in the region, which was an important objective for us. And so as we saw that really playing out and executing on that, we've also embarked on what we described as the options for the, let's say, more medium and long-term future of the business in the region given the circumstances.

I think we're in the middle of that. We're reviewing different alternatives. I don't think it's appropriate for us to go into details around what those choices could be. But rest assured that,

that's a very active work and something we're spending a lot of time now on and we'll also see update externally if and when there is any change in the situation.

I think your second -- or your third question, but the second one related to CIS was about the worst-case scenario. I think what is important there is that the performance and the actions we've taken over the last couple of months have improved the outlook for that significantly. We've reduced our financial exposure which we had disclosed is about EUR 40 million in terms of group guarantees and other things by about half.

And overall, therefore, I think the worst case today is less problematic than it was a couple of months ago. So I think we're greatly improved relative to the last time we talked about it.

Patrick, do you want to comment on LATAM?

Patrick Schmidt - Global Fashion Group S.A. - Co-CEO & Member of Management Board

Sure. So going to -- I think you're referring to Slide 5, I'm going to quickly go through the 4 strategic priorities. Before I go there, I think it's fair to say that for a number of reasons, partly external, party internal, we have not made enough progress on the assortment of front end marketing efficiency and also on delivery in 2019 and 2020.

And we have made a lot of progress on intervals. And in terms of the assortment, we believe that we will make at least as much progress for the remainder of the year as we have already done year-to-date. The main things here are really own brand launches, a couple of exclusive brands. We're talking to, I can't talk about the names here and also going more into adjacent categories. So we're very confident that we will continue to fill the (inaudible), so to speak.

In terms of front end, that's really about the app. We believe that the new app will be live in all countries, hopefully, by the end of the year, if not earlier. In terms of marketing efficiencies, it's a little bit harder to give you a clear answer here because ultimately, this very much depends also on the market. But we've seen efficiencies here. We hope that we can drive it a little bit further, but given that we have already seen quite a bit of a reduction of the typical metrics, just customer acquisition costs we're actually quite happy with that.

This is not only about the cost, it's also about driving loyalty, as you know, which is one of our group priorities, and we see the biggest potential here in Brazil and the other countries in Latin America. And obviously, with more frequency and higher NMV per customer, we also then have the opportunity to spend more on marketing.

And on seamless and faster delivery, we have a number of initiatives in place, especially around enabling Marketplace to be quicker. So we think that we are very happy with the progress to be here. We've made significant progress in terms of reducing delivery targets by a number of days. We can probably drive this further. But as you know, as you drive it essentially more towards the optimum it gets harder. Hopefully, that addresses your question.

(Operator) We will now take the next question from Nicolas Katsapas from BNP Paribas Exane.

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

I also have 3 questions. First one is on LATAM. I just wondered if you could comment on what you've seen in respect of competition there, at least to my eyes, it looks like a lot of those regions have embraced the sort of cross-border platforms from East Asia. And attached to that, what would you think that features main defensible characteristics are against those players if you do believe that there are competition.

And then secondly, on Russia, I wondered if you could sort of update us on the more near-term dynamics of whether you have enough -- like what's the inventory situation? Are you managing to procure product from Western brands? I know a lot have said that they're closing, but the other operations, but I wondered if they still continue to provide whole sales to you.

And then the third question is just around cost inflation. So you've spoken a lot about reducing costs across the business, especially outside of CIS. And yet we're entering an inflationary environment here in Europe and the U.K., and I was struck to see that you haven't commented at all on cost inflation really. And I wondered -- I know your regions are a bit more used to seeing cost inflation. But how are you thinking about inflation over the next 12 months kind of thing?

Patrick Schmidt - Global Fashion Group S.A. - Co-CEO & Member of Management Board

Nicolas, this is Patrick. Thanks for your questions. I'll take the first one, and then I'll hand over to Christoph and Matthew for question 2 and 3. .

So on LATAM, you're right there. There were a lot of new expansions in the last 2 years, also driven by COVID. That's 1 set of competitors. What they have in common is that they are much cheaper at the price point. The price point on average is below EUR 10, sometimes even below EUR 8 on average for fashion from what we know from this essentially scraping the sites.

Our price points are about double that. So it's definitely competition, but it's not as direct competition as we see from the bricks and mortar players. The bricks and mortar players have improved their online capabilities and they're obviously growing quickly, more quickly in bricks and mortar, but also in e-commerce. And we -- that's why for us, exclusive brand and improving the assortment is so important.

In terms of the sustainability of the cross-border model, I think long term, probably a more localized approach is necessary given import duties given that probably not all, especially in Brazil import restrictions and duties are being followed at the moment. But that's probably something we -- we need to see how plans are and not something in our control.

With that, I'll hand it over to Christoph for the second question.

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

Sure. In terms of the -- I'll let Matthew point on the inventory situation and on inflation. I think broadly, when it comes to the brand relationships in CIS, I think what is important to note is that we work with about 4,000 brands. So there's a very long tail of brands beyond the ones that are probably most in the headlines and our key partners in terms of the largest brands.

We've seen very mixed reactions. Some brands obviously stopping to supply into the market, other brands continuing. We've received pretty much all of our Spring/Summer product, which is selling through very well and we're obviously now at the very end of that season, but also for fall and winter I think we have a different set of brands to some degree.

So some -- that we expect it to have, will not be there anymore. But by and large, I would say, we have still a very strong differentiated assortment with a significant share of it being in some way or another exclusive i.e. products, not necessarily brands that are only available on Lamoda. So I think we feel confident that from an assortment perspective, it is evolving. It's changing, but it's still covering the key categories, key price points and very attractive for the local consumer.

Matthew, over to you.

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

Yes. I mean just coming off quickly, the inventory position in Russia. I mean, obviously, the FX appreciation is a huge driver in reported euro numbers, but we're probably carrying in the region of EUR 25 million more inventory there than we were this time last year on an FX-neutral basis. So it gives you a sense of where we are.

But on inflation, more generally, -- and look, I won't comment on CIS because obviously, that's the most complicated one. But across the rest of our regions, we are seeing inflation, obviously, and we are currently able to manage it through. So what we're seeing probably in Australia, we're talking about inflation going up to about 8% there. It's lower than that at the moment.

Because we've got relatively long lead times, order times on the key purchases into the market, where we're seeing that kind of high single-digit, low double-digit cost price inflation you are seeing it more for being future orders. So what we've had at the moment, we've certainly been able to pass on to the customer through RRP and then making adjustments to the mix and what's being offered to the customer to try and manage that basket price for her.

Southeast Asia actually, we're generally seeing cost price inflation quite a bit lower than you'll be familiar in developed markets, and we're seeing it probably about 4% at the moment. That's being passed on. We're expecting that to increase a bit, but it's a very different market dynamic there.

In terms of LATAM, we're probably back at that sort of 8%, 9% inflation rate in sort of Brazil -- and in Brazil, which is our main market that sort of back at where they were in 2015, 2016. That is being able to be passed on in the main markets.

And of course, what we're doing there is that mix of where you've got that higher imported inflation. We've got producer markets. There's a lot of local brands. There's a lot of other pieces in the mix. So the teams are able to sort of balance what's being offered to the consumer. So whilst we're able to pass on that 8%, 9%, that isn't what their customers are seeing in terms of the price pressure on here.

On the cost side, we -- because of where we are and where we buy and that mix of regional, local and international brands, we're not seeing that incredibly high supply chain freight inflation that you could see in certain developed markets where you've got ex-Far East in [Toronto] or into L.A. rates. We aren't -- we just aren't experiencing that.

We obviously have some pressure and some upward movement on staff costs, particularly for some of the ones who are in a bit of a global market like technology, that's 5%, 6%, it's manageable. So there's an awful lot going on. We're very active, but we're finding it manageable at the moment. I hope that helped.

(Operator) We'll now take the next question from Volker Bosse from Baader Bank.

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

I would like to start with the guidance and the outlook. You mentioned EUR 1.9 billion in revenues. What does it mean in terms of growth and why you will take a growth target on the revenue tax as you did at NMV, perhaps some clarification here.

And the second on the guidance is the adjusted EBITDA margin of 3.5% pricing positively. I think the consensus is expecting here a flat margin, if I'm not mistaken, but perhaps you can shed some light on how this development evolves.

And question on the impairments that you made on LATAM. So question here is there more to come? We also see in Southeast Asia decline in sales is also here impairments to come and what potential impairment risk is to move on the CIS the question is here about the impairments across the regions.

And finally, third question would be on CIS, sorry to come back here. Do you feel an increasing in some way to get rid of that business?

What is your feeling? What is the financial -- the maximum of your financial obligations, which you still have in CIS. You mentioned, EUR 40 million at end of H1. I wasn't clear, is that all financial obligation or the just the financial obligation coming from inventory. So what is the maximum financial risk from CIS, which is on finance so to say.

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

Matthew, do you want to take the question on the guidance and the impairment and maybe I'll cover the CIS.

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

Yes, absolutely. Thank you. So in terms of guidance, the 3% to 5% adjusted EBITDA range, which I appreciate is fairly broad. The way we're thinking about this in terms of dynamics is obviously starting. The seasonality of our business means that Q4 is tremendously important to us. Therefore, typically, we make the majority of our profits in the second half, particularly with a weight towards Q4 rather than Q1, Q2.

Q1 is always quite a small quarter for us in bottom line terms. So there's a seasonality piece. What we're then looking at in terms of the regions is with CIS, there was a very unusual dynamic that drove the profitability in H1.

Really, I think as we said out in the presentation, that is continuing demand, a dynamic towards higher price points, more full price mix. That elevated the gross margin, and then we were able to -- because we're going for self-sufficiency on the financial terms in that region with reduced investment, reduced marketing significantly, held the cost down. So it slowed down.

We are forecasting in our guidance for it to be more conservative than that in H2. We, in all honesty, have no crystal ball and no huge ability to forecast what's going on in that region, but we'll be -- we're taking a more conservative view and therefore, we're not forecasting for that kind of really big -- big profit event to be repeated throughout.

In terms of other regions, what we do think is you've got the seasonality. But then we think that, say, for Australia, for Southeast Asia for LATAM that the overall sales trend that we experienced in H1 is probably broadly what we'll see for H2, and that will drive the profit numbers.

Why would it be broadly similar. I think there's 2 factors that play against each other there. One is the comparatives. So clearly, in much of our regions, we had high sales in Q1, Q2 during lockdowns. We don't have those lockdowns in H2 in consequence that year-on-year should give us a bounce.

Contradicting that is this general move where the consumer seems to be under more pressure inflation, as Nicolas pointed out, et cetera, going on. So we're just being a bit more cautious and believing that the 2 broadly net each other out. So that's how we derive the guidance.

In terms of impairment, so the impairment piece here, we obviously do a full review each year with the annual report. We looked at it at the half year, and we checked for of triggers for impairment and triggers of impairment obviously came up in LATAM, where we've made the impairment. What was going on there isn't really a change in our view on the plans and the profitability of the region, but actually the discount rate.

So what's changed since the 31st of December is that the central bank rates have increased significantly in a number of those countries that gets reflected in the discount rate we used in the impairment modeling where effectively it's evaluation, and that's triggered that impairment.

We have looked carefully at the Russian business. There, clearly, we would take a view that the cost of capital to whack into Russia has increased significantly. The performance has also stepped up as you've witnessed. Therefore, whilst the change in rest will give a trigger of impairment, we're not currently seeing a need to make such a thing.

In terms of whether there's a risk of a future impairment in it, Again, that will depend on trading. That will depend on how the Russian political macroeconomic situation evolves. So I really can't comment on that in detail.

Christoph, do you want to pick up?

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

Yes. So just -- Volker, on your last question, CIS. We had EUR 40 million of guarantees effectively for trade at the end of Q1. So that's what we talked about in the last results. We have managed this down to about half of this level, and it does vary, obviously, on a daily basis because it is about our imports and our trading balances with suppliers.

So there is some fluctuation in that, but we feel comfortable that the risk exposure there is very much under control and something that doesn't cause a very material risk to the group overall.

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

Question would be here, how do you feel the pressure to get rid of the business? How you're looking on Russia compared to 16 weeks ago when last (inaudible) how do you see the situation evolving in that regard?

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

Well, I think there's obviously different views across the investor world across media, different geographies around the world. I think what we're focused on is not so much thinking of that, but actually really focusing on what is the right outcome for our people in the region and how we match that in very difficult circumstances. And so I think we're being, I would say, very diligent and careful and thoughtful around the choices that are in front of us. And I think now that we're about 6 months into the whole war situation.

Unfortunately, we, I think, have proven out that we are making very careful choices and we're protecting our people person and secondly the business. And that I think we're going to continue to do. Again, we're not doing anything rushed. We'll just make the choices based on the facts and the options that are available to us.

(Operator Instructions)

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

First question we have is from a private investor. Question is, could you please clarify your cash balance in Russia today and whether or not you have the ability to take cash out of Russia should you choose so -- should you so choose.

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

Yes, sure. I'll take that question. We're not disclosing individual cash balances of any regions or countries, but the very vast majority of our EUR 500 million of cash is held centrally, not in any individual market, and it's also in a range of currencies, mainly with hard currencies, i.e., euro being the predominant one, but also US dollars and pounds and with international banks.

We are able to continue to trade and move money out of Russia for imports and those types of things. So I would say the ordinary course payments are not a problem, and it operates fairly normally. There are restrictions in place by the Russian government around things like dividends and other capital movements, but that's not our focus. Our focus is on the self-sufficiency of the business and on the trading and there, we're not seeing any problems of moving cash.

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

The next question from a private investor is given the strong cash generation, do you have plans to purchase more convertible bond repurchases.

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

Thanks, I'll take this. This is Matthew. So we -- the reason that we did the convertible bond repurchase just to release is we set out our strategy even with the uncertainty around Russia, we felt that we had excess capital available. We were looking at options for it and we came to a very clear view that an offer for a repurchase part of the convertible bond would be both appreciated by and create value, both for the for the convertible bondholders and also for equity holders, therefore, we went ahead and made that offer.

We're pleased with the outcome of that, and we will see positive feedback about it, i.e. at the moment, whilst we generated cash in Q2, planning another return of capital isn't really top of our agenda. So I don't have anything to announce there for today.

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

Next question from a private investor, how was -- how has trading evolved in CIS in July and August?

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

I'll pick that one up quickly. We didn't provide a specific comment in the press release on July because the dynamics are broadly similar to what we're reporting in Q2, we're seeing a continuation of trends clearly, you'll see month-on-month movements in each region, but we're not seeing anything which is dramatically different.

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

Great. And the next question is from Jan from Navat Fund. First one, we've seen some of the European retailers implement measures to improve order economics such as minimum order value or charging for returns. Have you considered any of these measures, in particular? And the second one is, how much has (inaudible) been a driver for average order value and order growth? What regions do you see using (inaudible) the most?

Patrick Schmidt - Global Fashion Group S.A. - Co-CEO & Member of Management Board

Thank you. This is Patrick. I'll take the question. So on the first one, what -- in terms of minimum order values and charging for returns, we already have minimum order values in place in all regions and then that's been in place for years almost from the get-go.

In terms of returns, most of our returns are free. There are some restrictions already. In terms of returns, what's important is just to understand is that the return rates are actually very low in our regions to give you the numbers, in LATAM, returns in 2021, were 9%. CIS 3% because we obviously have the trial model there. SEA 14%; and Australia, New Zealand where we have the highest return rate, had a return rate last year of 23%.

We're evaluating whether we need to talk for, but that's not on top of our agenda given that customer experience is really key and returns is a big part of it and returns is not as big a cost as it is for some of our European peers.

In terms of buy-now-pay-later, it's been a small driver, mostly in Australia and New Zealand. We have buy-now-pay-later solutions in place in most of our countries and it's a payment method, not necessarily a driver for economics.

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

Next question comes from a private investor. The commentary on the last call suggested that capital expenditures for the year would be lower given the suspension of the Russian Fulfillment Center project? Has this been resumed, driving the higher guidance.

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

Sure. I'll pick this 1 up. So the -- I mean, in terms of the Russian Fulfillment Center project, no, we haven't resumed it as an automated project. in order for the team to manage the volume that clearly you're seeing in Russia, they are standing that facility up as a manual facility that has a very small amount of cost associated with it.

So we haven't increased our guidance or our spend for the year. Where are we spending CapEx. So we spent roughly GBP 30 million in the first half with a similar expectation for the second half. It's 1/3 is on fulfillment assets and 2/3 on the technology. The technology spend we're making, particularly both at the regional level and then on the group-wide platforms such as our marketplace seller center development.

And our personalization engines, we see these having a strong pipeline of activity. We think that there are great returns to be delivered from them. And therefore, given our funding situation and actually the way we're trading, we're very comfortable to carry on with these at the moment.

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

The last question is from JPMorgan. Any color on current trading trends and consumer purchasing behavior and seeing any trading down on brands or any difference in demand across various price points?

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

I mean it's a difficult question, I think, because we're across a lot of different markets. So I think where we see the middle classes being more squeezed in a current economic environment, that trading down is probably more happening.

In other geographies where like, for example, Australia and New Zealand, I think we're seeing less of that. There isn't a super clear picture at this point. So I'm not sure I can give that very good answer to a pretty broad question, but I think it's a risk certainly that we're spending some time on, and we're making sure that we have a very broad assortment across price points to cover this.

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

And that's all of the questions. I'll hand it back over to management for any closing remarks.

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

No, I don't think we've got any closing remarks. Thank you very much indeed to everyone for attending, and thank you for your questions. Hope to see some of you later on in the next day or so. Thank you.