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PRESENTATION

Operator

Good morning, ladies and gentlemen, and thank you for standing by. Welcome to the Global Fashion Group Capital Markets Day 2019 webcast and Conference call. (Operator Instructions)

Patrick Schmidt *Global Fashion Group S.A. - Co-CEO & Director*

Good morning, everyone. Welcome to our first ever Capital Markets Day. It's obviously super Tuesday. So great timing. My name is Patrick Schmidt, and I'm the Co-CEO of Global Fashion Group, together with Christoph Barchewitz; our CFO, Matthew Price, is also here today.

Let me quickly run you through the agenda. I'll kick off with a recap of who we are, what we strive to be and how we're building out that vision. I will then talk about our customer proposition. Christoph will then follow with our brand proposition and talk about how our operations and technology are a source of competitive advantage. We'll then do a Q&A, followed by a break. Matthew will wrap it up with our financial performance, and there will be plenty of time for Q&A at the end. We hope that you can join us for a light lunch right after the presentation.

So to kick off today's presentation, let's have a look at who we are. Our aspiration is to be the #1 fashion and lifestyle destination in our markets. We are already the #1 online, but we want to be the #1 overall, including bricks-and-mortar. Being #1 is important. It gives us the scale to attract the leading fashion brands globally, offer the best collection, and create an outstanding experience for our customers. So how have we built our leadership position to date? Let me give you a quick overview.

First, we have combined our global platform with local expertise. We have 17 offices and 10 fulfillment centers across four continents. We are deeply rooted in local cultures, local fashion trends and local consumer needs. We are where our customers are. We listen to them, understand them and engage with them on a daily basis.

Second, we have created an outstanding customer experience. Our apps offer inspiring content, a personalized experience and a wide-ranging assortment. We provide fast and convenient deliveries and returns. So from discovery to delivery, we create an inspiring and seamless customer experience.

Third, we have a strong proposition for brands. In our markets, we are the trusted partner of choice for over 10,000 brands globally. We help brands access these markets where it is difficult for them to distribute their product. We offer them customized business models to suit their needs. And we provide them with B2B fulfillment and digital marketing solutions, leveraging our own expertise in fashion ecommerce. Our brand partners trust that in working with us, they stay true to their own values as well as their customers' needs every step of the way.

Fourth, we have world-class operations and technology powered by both what we call art and science. We combine the creativity and imagination of fashion with the insights gained from data and analytics. With more than 13 million customers and more than 2 billion visits last year, we have what it takes to understand each customer and to provide a more and more personalized experience.

And finally, we are committed to doing all of this responsibly by being people and planet positive across everything we do. We acknowledge the challenges that face our industry, and we are committed to turning this into an opportunity.

So now let's look at the markets we play in and their potential. Fashion -- online fashion in our markets is a EUR 320 billion opportunity. This is roughly 2/3 of the size of Europe or the U.S. But more importantly, our markets are growing at 7% per annum, that is more than double the rate of Europe and the U.S.

At the same time, online penetration in our markets is still very low at just 7%. This is 4x lower than the current ecommerce share in China. And the ecommerce share in developed markets, like China or the U.S., has not plateaued at these levels. Penetration there is still growing at 1 to 3 percentage points per year. It's clear that as adoption of ecommerce increases, we have a huge, huge market potential to cover over the coming years.

The size of the opportunity becomes even more clear when you look at our market region by region. The underlying demographics and trends are very attractive. 1 billion people live in our regions, nearly half of them in Asia Pacific, where -- which is where we see some of the most exciting structural tailwinds. I'll come back to this a bit later.

The key trend in our market is mobile adoption. Our markets were initially very slow to adopt smartphones. But this changed dramatically in recent years. Today, 1 billion people really mean 1 billion smartphones, or nearly 1 billion people, who have the purchasing power to buy fashion online. Over the years to come, we believe that we have the power to change the way these people consume fashion and lifestyle. Let me now show you how this looks in terms of market evolution.

Today, online penetration varies across our markets, and it will be no surprise that Australia and New Zealand have the highest share with 14%. Latin America and South Asia -- Southeast Asia have penetration levels of 4% and 7%, respectively. Each percentage point increase in online penetration adds an extra EUR 1 billion to each of these 2 markets.

Moving on to look at market share. We have now achieved 8% in our markets, and this market continues to grow rapidly. By 2023, it is forecasted to nearly double in size. And just to clarify, I'm now talking about the fashion ecommerce market only. I said earlier that we expect to see some of the most exciting growth dynamics to come from Southeast Asia. So let me tell you a bit more about this market.

We have long talked about Southeast Asia as being a significant medium-term growth engine, thanks to its large, young and mobile-native population, who are increasingly moving their transactions online. Our thesis is now supported by an independent multiyear research study conducted by Bain, Google and Temasek on the Southeast Asian Internet economy. Let me highlight 2 key learnings from the study.

First, Southeast Asia is home to the fastest-growing and most engaged mobile Internet users in the world. A decade ago, only about 100 million people in Southeast Asia had Internet connectivity. Today, there are some 360 million Southeast Asians connected to the Internet, that's 2 million additional Internet users every month for the last 10 years.

Many of these new users are between 15 and 19 years old, and the demographic trends are very favorable. Some 10 million people will turn 15 every year for the next 15 years and join the mobile age. As these waves of young, digitally-connected users move in to their working life and have more disposable income, they will take much more of their consumption online.

Second, Southeast Asia is on its way to become a major economic powerhouse. By 2030, it is expected to be the fourth largest economic bloc globally. The online economy in Southeast Asia is on a similar growth path. The Bain study estimates that the Internet economy has already tripled in value over the last 4 years to just 4% of GDP. And the online economy is expected to double again to a share of 8% by 2025, closing the gap in its -- to developed markets. So as you can see, the structural trends are clear, Southeast Asia represents a large long-term opportunity for us.

Moving on to the categories we serve. Women fashion and lifestyle in our markets online penetration of footwear and apparel is over double that of accessories and beauty. This certainly reflects on our own experience. As you know, we started with just footwear and apparel in Brazil and over time, have built out a wide assortment across multiple categories. But that journey is far from complete. Categories like beauty are nascent for us and represent a significant growth lever.

In more developed markets, such as the U.S., penetration for beauty -- penetration levels for beauty and accessories are 4 to 5x higher, so the potential here is considerable. I want to turn now to look at our overall market structure and who other key players are.

As you know, general merchandise platforms in our markets are significant players, but they treat clothing as a commodity, something to be aggregated rather than curated. You can see the contrast here. On the left, we have a catalog page of a general merchandise player in Malaysia. On the right, we show our own site, Zalora. The product is more beautiful, the styling more appealing, and it is presented with high-quality editorial content. We also guaranteed product authenticity, which is a real issue for general merchandisers, especially in Southeast Asia. So you can see that we have a fundamentally different proposition and that our customers love fashion. This emotional connection drives spend.

So to bring it all together, we have an 8% share of our EUR 22 billion online fashion and lifestyle market. The remainder is divided amongst other fashion pure plays and general merchandise platforms, followed by a long tail of brand.com or online department store retailers. Within the fashion pure play segment, we are the strong #1 with 2 to 3x the share to our closest competitor. We're not only #1 in terms of competition, our NMV has also outgrown that of the overall online fashion and lifestyle market by 6 percentage points over the last 3 years, and we certainly plan to keep it this way.

And yet, we are only at the beginning of reaching our full market potential. We plan to benefit from both a growing fashion spend per capita and a customer base moving rapidly online. Our existing customers already spend significant amounts with us. Our average customer spends EUR 136 with us, and the top 20% of our customers spend over EUR 400 with us per year. So the potential in our future customer base is clear. Today, our customers represent just 1% of a total 1 billion population, but growing penetration of fashion ecommerce will boost this over time. So we have a unique long-term market opportunity ahead of us.

Now let's get into how we will capture this opportunity. We're building the leading online fashion lifestyle destination in our markets through continuous investments in three areas: first, by providing a superior customer experience; second, by being the strategic partner of leading brands; and third, by continuing to scale our operations and technology platform. I'm going to talk about our customer experience before handing over to Christoph, who will talk about the other two.

Our customers are at the heart of everything we do. We offer the most relevant assortment of global and local brands to cater to their needs and tastes across the globe. We continue to -- continually expand and curate this assortment to create a catalog that is broad, exclusive and increasingly filled with sustainable brands. When it comes to how we present our assortment to customers, our digital experience is seamless, personalized and helps us to increase engagement and spend per customer.

And lastly, our fulfillment is fast, convenient and efficient. The result of our investment is -- the result of our investment in the customer experience is a highly valuable customer base for which frequency and spend has grown year after year very consistently, that makes Matthew very happy. He loves to present those slides. So let me now talk in more detail about each of these areas.

Our assortment is a foundation of our business, and we're very proud of both the quality and the quantity we have built over the last nine years. As I said earlier, we started GFG with just footwear and apparel. These categories are still very important and account for more than 60% of NMV, but other categories, such as accessories, sports, kids and premium are catching up, and we expect these to be growth drivers in the years to come. Let me just mention two examples.

Sports, given that we now work with all of the top global and local sports brands, we have made the growth of sports a key focus, and this category has been a strong growth driver in 2019.

This is also true for premium. This category is, obviously, very attractive due to its better unit economics, thanks to its higher price points. But it's also a clear differentiator and something we've been prioritising globally with the greatest effort and the greatest prioritisation in Australia and CIS. There is still plenty of potential. Beauty, for example, is a EUR 1 billion opportunity, which we have only started to roll out in a few markets.

As you know, it is our aspiration to be the #1 fashion and lifestyle destination in our markets. This means that we must be the #1 when it comes to the quality and quantity of brands. So we need to offer fashion and lifestyle brands across a large range of price points and styles. This begins with affordable fast fashion brands like MANGO or River Island, which are great for traffic. It includes mainstream brands like Birkenstock or Wrangler, which are great for repeat purchases and are relatively high price points. And of course, it increasingly means premium brands like Hugo Boss, Rag and Bone and Michael Kors, which are key for inspiration and profitability.

For our customers, we are, first and foremost, a house of brands. We have an unbeatable selection, which includes almost 40 of the top 50 global brands. We then selectively use our own brands to fill gaps and add exclusivity. This is where our local expertise is a huge competitive advantage. Let me talk you through two examples.

In Australia, we saw that many brands don't offer a dedicated Southern Hemisphere collection. We have now successfully filled these white spots. A few years ago, we identified a gap in the trend-driven, useful, budget friendly women's apparel market. So we created our own brand, Dazie, who's on trend, Instagram friendly outlets have made it to a top 10 brand in Australia.

Another example in Australia is our own sustainable brand AERE. We simply could not find enough sustainable brands in Australia and even globally, so we started one ourselves. This brand has such a clear proposition in its sustainability and aesthetic that we are able to price it above third-party brands' price points, generating a very attractive gross margin.

Another example from Southeast Asia is our modest wear category. This is a big market with almost 300 million Muslims living in Indonesia, Malaysia and partly Singapore. Hence, we started modest -- two modestwear brands ourselves. Zalia, our more conservative and slightly older brand and Lubna, our younger brand, which is often mixed and matched with western brands. Our understanding of local customers helped us to see a gap in the affordable, stylish, modest wear market that mixes runway trends with tradition. We realised a long time ago that fashion is lagging behind other industries when it comes to sustainability. This is probably due to the complex material mix, ever-changing supply chain and huge range of fashion product created every year.

So about four years ago, we set out to solve this problem. Our vision was to become the customer destination for sustainable products in Australia. The result, last year, we were one of the first fashion retailers globally to introduce a large selection of sustainable products. We did this through the launch of the ICONIC Considered. Considered is a new way for customers to filter and shop products based on 30 sustainability attributes. The launch of Considered was a significant step in driving our industry forward especially as we feed the data from our customers back to our brands, compelling them to review their own supply chain, and the data is compelling.

A year after launch, nearly 20% of our sales in Australia now come from Considered. With more than 400 brands, this is one of the largest sustainability assortments globally. And we are now obviously extending this to other markets. We don't stop here. We also engaged in new initiatives to help extend the lifespan of fashion products. In Singapore, for example, we have launched a trial with a luxury secondhand resell partner. In Australia, we're working with a charity partner that takes damaged stock for repair before providing them to people in need. Finally, as I told you earlier, we've launched our first sustainable own brand AERE. It is a collection made entirely from linen, one of the most sustainable materials.

So now let's move on to our digital aspects of the shopping experience. We are investing in our apps to create a standout digital experience. Our apps are tailored to each region, but they're all developed under the same unifying principle. They present content that inspires and give customers the tools to create a truly personal experience. Let me now show you some of the features we've developed for our lamoda app in CIS. We start with inspiration. Our app boosts from the success of Instagram stories to present a real of content that can be clicked through, and this brings customers back to our apps, time and time again. We have an abundance of engaging fashion content with entire shoppable looks worn by local influences as well as up-to-date trend reports.

We also enable search by image. So you see a colleague wearing something you like and you want to buy something similar, it's not easy for everyone to describe this in words using the search bar. Our image search function lets you snap a photo of any product you like and our app then uses AI to present a suite of similar looking products. Inspiration from a product or look also requires a leap of imagination to be able to visualize that product on yourself. We all wonder sometimes if something that looks great on the model will suit us. In fact, Matthew asked me this question this morning!

We've started to bridge that gap with our virtual try on function. It only has been rolled out for sneakers at the moment, but it's not hard to imagine the wider possibilities for apparel as well. Our approach to technology is to test as many features as quickly as possible. And then to roll out this feature, which have proven to work in other regions. Two examples. Wear with and follow the brand, both have tested very well in Australia and are now in the process of being rolled out globally. Why do we invest so much in our innovation? Because we want our apps to become the habit for our customers.

In 2019, we had a huge amount of traffic on our apps, almost 1 billion visits. And in some markets like Australia, customers who order on the app visit the same app over 100 times per year. So the habit creation is clearly working. It is via the app that we will become the go-to destination for fashion and lifestyle. The data also shows that the app is now our most important channel from various perspectives, with 34 million app downloads, 42% of traffic and more than 50% of our sales now coming from the app. The online shopping experience, of course, extends beyond the point of sale. We have continued to reduce friction that follows a customer's decision to make a purchase.

Similar to our brand assortment, our payment methods are both global and local. We already offer dozens of leading payment methods that reflect our local customers' payment preferences. And in Q4, we've added three new local payment methods in Southeast Asia and Latin America. These options are really important, enabling more customers to shop on our platform. Not all customers in our markets have credit cards or bank accounts, so innovative options like mobile wallets allow us to access those unbanked customers. Our delivery speed has been a competitive advantage, given the relatively weak logistics infrastructure in our markets. We continue to strengthen that edge. In 2019, over half of our shipped orders were eligible for same or next-day delivery. That is four percentage points higher than a year ago.

I now want to talk in more detail about our delivery proposition in CIS. An important enabler of fashion ecommerce in CIS is the ability to try on a product before paying, just as you would in the shop. Over 80% of orders in CIS involved try on. Traditionally, this would happen at the customer's home and the customer would have to simply pay for the item they keep. While try on is key in CIS, try on at the door is very complex to operate, given the service level required and the need to align delivery windows. To solve this, we have developed a network of over 300 try on pickup points. The mutual benefit for us and the customer are clear. For us, a pickup point order is around 40% lower than that of order delivered by one of our couriers. And for the customer, pick-up point delivery seems to be more convenient. We measure this by the number of complaints per order, which for pick-up points are 70% lower than for courier delivery. Over 30% of our orders last year in CIS were delivered through our own pickup points. So this is a great example of how we're optimizing our order economics and creating operating leverage.

I've covered multiple aspects of how we deliver a superior customer experience. So let me now take a look at how this translates into traffic and brand awareness. To start with investing in the customer experience has created a great brand equity for us. 80% or 800 million people know us in our markets. This translates into a huge amount of traffic. Last year, we had well over 2 billion visits to our platform. 45 million people follow us on social media. Being top of mind reduces our dependency on paid marketing. As you can see, 64% of our visits came from unpaid channels in 2019. At the same time, we managed to accelerate our pace of new customer acquisition, nearly doubling it last year.

And we've done all of this by -- while managing marketing -- customer acquisition costs in a very narrow range over the last two years. This is both true from a global perspective as well as a regional perspective. As a result, we've been able to reduce our marketing cost income ratio to below 10%. It is important to note that a growing marketplace share is inflated by -- sorry, it's important to note that a growing marketplace share is inflating our marketing cost income ratio as a percentage of revenue. In other words, the marketing cost income ratio as a percentage of NMV has been declining even more in the last four years. Matthew will explain this in more detail later.

We've been able to do all this because we have a very loyal customer base. The graph here displays the evolution of our NMV generated by different cohorts. In 2016, 56% of our NMV came from existing customers compared to 71% by the end of 2019. Our earlier cohorts demonstrate remarkable loyalty, having grown consistently after their first year drop off. The size of the first year drop off for each cohort is also diminishing over time, meaning loyalty is growing as we improve the customer experience.

Now going into -- deep diving into the customers who shop with us most frequently, our VIPs. The numbers speak for themselves. This group is the top quintile of customers. In other words, more than 2.5 million customers in 2019. These 2.5 million customers shop over 7x per year with us and spend over 3x more than the average customer. All of this is a testament to the extremely valuable customer base we have built over the last decade by delivering a superior customer experience. This is based on three key elements: first, the large and varied assortment we offer our customers at GFG; second, the content we create to inspire and engage our customers, especially for the app; and third, easy payment together with fast and convenient delivery and returns, thanks to our local teams and infrastructure.

Thank you very much. I'll now hand over to Christoph to talk about our brand proposition.

Christoph Barchewitz ***Global Fashion Group S.A. - Co-CEO & Director***

Thank you, Patrick. I will now take us through the second element of our proposition, being the partner of choice for brands. We pride ourselves on being the most valued online partner of brands in our markets. So we approach our major relationship with a long-term view, focused on growth and mutual value creation. We help brands in three ways; first, we unlock access to huge markets that are difficult for brands to reach themselves; second, we tailor our business models to suit their needs, enabling both them and us to grow our business; and third, we offer them additional fashion services across fulfillment, media solutions and data analytics, leveraging our expertise in ecommerce. In short, the idea is to create an ecosystem in which they can build their brand, while we create deeper relationships and new income streams for GFG. The result, as you heard from Patrick, is a huge brand portfolio with over 10,000 brands, including major blue-chip partnerships. So let me talk in detail about each of these three areas, starting with access to our markets.

Our markets offer a growth opportunity to brands, you heard about earlier, that they do not have in more mature markets. However, our markets are difficult to access. First, local infrastructure is underdeveloped and turnkey ecommerce solutions for fashion brands are scarce. Second, the population of 1 billion is spread over four huge continents, including many remote areas. For example, in the Philippines alone, there are over 2,000 inhabited islands. So our fulfillment capabilities present a unique solution for brands. Third, import processes and regulation are complex. But we have learned how to operate at scale in these markets and can offer brands an end-to-end solution. Finally, there are simply much fewer brick-and-mortar stores. The U.S. alone has 5x more retail space than our entire footprint.

This means ecommerce is the most attractive channel for fashion brands to reach new customers in these markets.

So let me give you an example of how we have helped a very successful fashion group overcome these challenges. PVH owns Calvin Klein and Tommy Hilfiger and is one of the largest brand groups in the world with about $10 billion in annual sales. As you can see from this table, they have a very limited ecommerce presence in our markets, unlike the U.S., Europe or China. To this day, they have an incomplete digital offering in our regions and no mobile app in any of our 17 countries. Our four platforms now provide them with a dedicated mobile app, website and local shipping for all these countries. And we do this by providing the additional support of branded digital store funds that create a safe space for PVH to maintain brand equity. As a result, in Southeast Asia, some of their brand.com websites actually redirect customers to our Zalora platform.

PVH is one -- just one example of the dozens of strategic relationships we have with the most important global brands. Now how do we work with these brands?

As I said earlier, our ability to offer flexible partnership models is key to our strong relationships. Retail is our first and oldest business model. Here, we take ownership of the product, we control pricing and we manage the entire fulfillment process from storage to delivery. This model allows us to benefit from the high margins in fashion, but, of course, carry the inventory risk. We continually work to optimize and also derisk this model, for example, by using technology solutions.

To expand our assortment, in 2014, we launched another model, marketplace. This allows us to list product without having to buy it upfront. Ownership was the product and inventory risk remains with the brand. Within marketplace, we then offer three different fulfillment models. The highest service level we offer is fulfilled by GFG. As its name suggests, under this model, we store the product in our fulfillment centers and manage fulfillment from there on, just as we do in retail. We typically do this in markets with weak logistical infrastructure, such as CIS and some markets in Southeast Asia.

At the other end of the spectrum, we offer drop shipment where we take a light touch approach. Here, the brand manages the fulfillment process. We ensure brands meet our high customer experience standards through strict performance management via our seller center tech platform. This is the best model for markets with more sophisticated delivery infrastructure, such as Australia.

In the middle, we offer a hybrid of these two options, cross-docking. Here, a product is stored by the brand, sent to our fulfillment centers upon sale, and we arrange delivery. Our fulfilled by GFG and cross-docking models solve these issues and strengthen our ability to scale marketplace, while maintaining a high-quality customer experience. Naturally, the varying service levels we provide across marketplace are reflected in our economics. The key is that we're able to offer tailored models that adjust for the capabilities of the brand and the market. Matthew will talk later about how retail and marketplace impact our gross margins.

As a result of investing in our marketplace proposition, we are now in a position to significantly scale the business well beyond the scale possible with a pure retail model. When you look at our sales today, retail is clearly the primary model, driving 79% of NMV in 2019. And it is the best model for products where we have high conviction. Marketplace, on the other hand, is a good way for us to try new brands or to manage long tail items.

For the first time, we now have more SKUs listed by via marketplace than retail. This is an indication of how much marketplace has allowed us to expand our assortment and scale our business. We also provide a breakdown of shipped items here to show that most of our marketplace items are fulfilled by GFG or handled via cross-docking.

Here, you can see a longer-term evolution of marketplace and how it has scaled. We've grown its share from just 8% of NMV to 21% in 2019. In absolute terms, we've more than quadrupled marketplace NMV in that time. Our assortment with -- has similarly benefited with our pool of marketplace SKUs growing over 25% in 2019 alone. The share of marketplace items shipped from our fulfillment centers has also grown significantly on the back of strong marketplace performance in CIS, where all items are fulfilled by GFG.

Let's turn now to how we are leveraging our strong ecommerce capabilities to help brands on a B2B basis in fulfillment, media solutions and analytics. I'd like to talk more about these B2B services starting with fulfillment.

Fulfillment is one area where brands increasingly want to tap into our expertise, to enable their own ecommerce channels. You can see some of the blue-chip names that are taking up the service on this slide [Benetton, Calzedonia, Converse, havaianas, Maje, Sandro, Saucony]. We now have 60% more brand partners using our fulfillment services than we did at the end of 2018. The rationale for brands is clear. Take the example on the right-hand side, which is a global brand group that we work within CIS.

We launched a few of their sub-brands on our B2B fulfillment platform in 2015 and scaled that business nicely. At the end of 2018, we also started a marketplace partnership with them, and since then, the business has really taken off. Through this partnership, these brands more than tripled their volumes in 2019, while still maintaining healthy growth on their own apps and websites. We have also grown our business as a result. It's a true win-win.

Let's take a look at media solutions. What we offer here to brands is a chance to leverage our marketing tech and brand equity to make the most of their access to our audience. It is yet another way for us to create a shared agenda with our brand partners. We develop brand campaigns and shop in shops for these brands, and this also enhances our credibility as a fashion and lifestyle destination with our customers. So let me give you an example. Our Nike campaign in Southeast Asia. This was a performance marketing campaign centered on Nike's Air Max day, which is celebrated by sneaker fans as the day the first Air Max shoe was launched. So the perfect opportunity to launch a new Air Max.

We started generating buzz through teaser campaigns a few days before the launch. Then we amplified this by tapping into every touch point these customer has with us: on site, newsletter, social media, paid channels. Nike's new product ultimately enjoyed an uplift of 1.5x in both impressions and sales, thanks to this campaign. While this is still a nascent business, we now have an almost full suite of media solutions that are ready to scale and generate new income streams.

These are our top 20 strategic brand partners by NMV across the group globally. Several of them are brand groups with multiple sub-brands like VF, which owns Vans, North Face and Timberland. Combined, these 20 brands partners make up over 20% of our total NMV. We work with nearly all of them across both retail and marketplace, and 70% of them buy B2B fashion services from us, mostly in media solutions.

On average, these top-20 brands are available to 90% of the 1 billion population in our markets. So through our platform, 900 million people have access to these 20 brands. We have very strong relationships with our top 20 partners, but we still have plenty of room to grow with them by taking all of their brands and sub-brands with all their products into all of our markets. So let me give you an example of a brand relationship that highlights how we continuously find ways to develop.

We've worked with MANGO in Southeast Asia ever since we launched them via retail in 2014. Last year, we moved from buying inventory outright to a consignment approach. Under this model, MANGO places its stock in our Kuala Lumpur fulfillment center and once a customer places an order, MANGO sells the product to us, so we can sell it on to the customer. This falls within our retail model, but it de facto derisks the inventory for us. In this way, we reduce inventory risk and also working capital. They increase their volumes.

If I compare the second half of 2019, with that of 2018, we onboarded their kids and baby lines, grew SKUs by 80% and increased NMV by over 60%. To sum up, our successful retail and marketplace models have allowed us to more than triple our number of brands since 2016. With over 10,000 brands, we now undoubtedly have one of the broadest and most relevant fashion and lifestyle assortments in our footprint.

Meanwhile, our B2B fashion services are earlier stage, but we're scaling them at a rapid pace. Thanks to our operational capabilities we now provide fulfillment services to over 30 brands, 60% more than last year. On the marketing side, we executed over 1,000 media campaigns for brands last year, 30% more than the year before. Patrick has spoken about how we deliver a superior customer experience. I have just taken you through how we partner with brands. Let me now show you how we make all this happen through our operations and technology platform. At GFG, building the leading fashion and lifestyle destination is a combination of art and science, as you heard from Patrick. We combine the creativity and imagination of fashion with the efficiency and data of ecommerce. Fashion and technology are both in our DNA. Together with our deep expertise in local markets, this creates a strong point of differentiation. I want to talk about four functional areas: commercial, marketing, operations and technology. Let's start with our commercial teams.

Brands like to work with us because we're both global and local. With a central team in London and 12 commercial teams in our end markets, we cater to international and local brands on all levels. For example, we'll deal with the global relationships and the global leadership of many of our top 20 brand partners through our team here in London. This is where we hold the relationship with C-level execs and identify opportunities for growth and expansion. The actual buying of the product happens with the customers through our local buyers. This is where our local expertise comes in, even global brands, mostly prefer retailers to buy the product from their local subsidiaries or distributors. And because we know our end markets intimately, our buyers are able to optimise assortment for local supply and demand.

When it comes to commercial decision-making, sustainability is increasingly important. Patrick spoke earlier about the impact we can have in shaping customer behaviour, but we also have to manage the impact of our own activities. There's a big job ahead of us, but we're committed to being a first mover in our markets. We have given ourselves until 2022 to make multiple changes across ethical sourcing, the environment and our community impact.

On the commercial side, we are committed to improving the sustainability of our own brands, we will be reducing their water footprint and using more sustainable materials. On the operational side, we have set a target to offset all carbon emissions from our own operations and to use sustainable packaging in all of our countries. There's a lot to do to manage the impact of the fashion industry on the planet, but we believe there's a significant long-term competitive advantage from making these changes now.

Let's now talk about marketing. Our marketing activities are focused on three self-reinforcing components, brand building to drive awareness, inspiration to drive organic visits and engagement to drive frequency and customer loyalty. All of this activity is guided by our desire to enable our customers to find true self-expression through fashion.

Let's start with brand building. As you heard from Patrick, over the last nine years, we've built strong brand awareness of 80% among the 1 billion people in our markets. Our brand building includes various off-line events such as pop-up stores and fashion shows. Having true local expertise is essential for mounting these shows in a way that speaks to the local customer. So let me show you a video showcasing two very different fashion shows from Asia Pacific. One, celebrating summer in Australia; and the second, marking Hari Raya in Malaysia. Hari Raya is the end of Ramadan in Southeast Asia, and is one of the most important festivals in the Muslim calendar.

(video presentation)

So this is one example of how we keep building our audience. We use inspiration to give their frequent reasons to visit, and we currently have 190 million visits a month on our apps and sites. We also put out original editorial content and style advice to help customers navigate our broad assortment. Social media is a great tool that we use very successfully to tap into topical events. And behind the scenes, our search engine optimisation ensures we are at the top of the list whenever customers are looking for fashion and lifestyle products.

The final step is turning customer attention into true engagement. Personalisation is a key tool for this. It is no longer enough to speak to all customers in the same way. We want to direct various components of our broad assortment so that they reach the right customer. Loyalty programmes are one way of driving engagement, offering incentives that drive order frequency. We're developing this proposition for the future across our markets.

As you can see, our marketing strategy has already delivered a 13 million strong active customer base. And our customers are loyal. 71% of 2019 orders came from existing customers. Almost 2/3 of traffic comes from our unpaid channels, enabling us to maintain marketing spend at sustainable levels. Where we do spend on paid channels, we take a scientific approach and invest most of our spend in data-driven marketing. 72% of our marketing spend is online. So we are able to generate very fast payback on our marketing investments, each of our cohorts from 2016, 2017 and 2018, achieved full payback within 12 months. So you can see that while our marketing content is art-driven, our marketing spend is science-driven.

Another area where we have built real technical expertise is in our operations. We operate the entire supply chain ourselves from brand showrooms to fulfillment center and delivery. We produce our own images in every market, uploading tens of thousands of SKUs per week. As Patrick said, we offered 35 payment methods, including cash on delivery, credit cards, mobile wallets and installments. Credit card penetration is still low in our markets. So our payment tools reflect the local customers' payment preferences to ensure this is never a friction point.

When it comes to delivery, we use a diverse mix of own and third-party couriers, pickup points and lockers. All this is an essential element of our customer experience and the competitive advantage we have over both local, but also cross-border players.

Let me now talk about our fulfillment centers, the core of our operations and our primary investment focus. Today, our operations include ten fulfillment centers located in our end markets. We have a track record of aligning fulfillment capacity with business growth. Since 2016, we have increased our available floor space about 1.5x by both adding new facilities and extending existing ones. We have done this in a steady, efficient way, increasing productivity levels at the same time.

This year, we're only adding over about 2,000 square meters of floor space. This accounts for the closure of the two existing Brazilian fulfillment centers as we open a new one and includes smaller expansions in Southeast Asia and the rest of LATAM. Our two major fulfillment projects in Brazil and CIS will deliver the capacity we need to scale in those markets.

The first of these, our new automated fulfillment center in Brazil, will ramp up gradually until Q4 and replace our existing fulfillment centers in Brazil. This will result in a total capacity of more than EUR 1.5

billion net merchandise value in Brazil alone. This video gives you a sense of the current status of this project.

(video presentation)

This video is about a week old. And even though, it's empty, you can already get a sense of how efficient and how large this new facility will be. Once live, the automated part of the fulfillment center will have 450,000 bins stacked and let us work virtually floor to ceiling. Over 200 robots, you saw them in the video, will move through the storage grid. They take bins from underneath the metal framework to stations where our local colleagues take the goods and fill customer orders.

Over time, fast-moving SKUs will move to the top of the grid, allowing robots to access these items first to speed up the picking process. From a financial perspective, this project will entail about EUR 42 million of Capex. About 70% of this has been spent in 2019 with the remainder to come this year.

As we transition operations from our current facility to this new one, we will incur dual running and transition costs of about EUR 9 million spread over 2020 and 2021.

Our second project is in CIS, where we are planning the construction of a build-to-suit automated facility that we will run in addition to our current one. We expect this facility to be live around the end of 2021. In its first phase, it will increase our NMV capacity to nearly EUR 1.5 billion for CIS, enabling us to continue our strong growth in CIS to capture the substantial market opportunity.

We have signed a heads of terms agreement with the Russian post, that allows us to virtually eliminate our upfront capital expenditure for this project. Under the non-binding terms of this joint venture agreement, the cost of the facility, automation and storage will be paid for through our fulfillment expenses, allowing us to pay as we go. We will retain full operational control of the fulfillment center. We expect to complete the formalisation of this partnership later this year. Matthew will take you through the benefit of -- through our financial outlook later.

From a customer perspective, delivery is a key driver of creating a seamless experience in each market. We structure delivery around both methods and services. Three main methods exist: courier delivery to the doors offered across all regions and is considered a must-have for customer convenience. Our 30,000 pickup points, including the 300 that you saw the picture of in CIS that include the try-on service, are low-cost, per-order option and also offer easy returns. If branded and at scale, they can also become an important asset, as you saw earlier in Patrick's presentation.

We also have our 7,000 lockers that are automated and often accessible 24 hours a day, especially younger customers prefer this delivery method. When it comes to services, fast delivery has become a major competitive advantage. In high-density cities, such as Moscow or Sydney, same-day delivery has been rolled out successfully, catering to the needs of the most demanding, but also the most valuable customers. Next-day delivery is already available for the majority of orders in CIS and Australia. Over 50%

of orders are eligible for same or next-day delivery across all our markets. Specific to the CIS region is a service called try on. Try on is basically bringing the shop to the customer's door or pick-up point. There, the customer tries on the product, pay for the one she selects and sends the remaining items straight back into our logistics network.

On the return side, our rates remain well below industry levels as a result of the tailored approach we take in each market. Return rates are highest in APAC, as you would expect, since infrastructure makes returns relatively easy in this market. This is not the case in LATAM, where there is a lack of convenient return options, resulting in only 8% returns. We're certainly trying to improve those options for the customer. In CIS, our return rate is minimal at 1%, due to the fact that 80% of orders involves the try on service I just explained. Overall, our CIS customers purchased over 1/3 of the items they order.

I'll finish with our tech platform. Technology underpins everything we do, and we're very happy with how our investments in fashion specific solutions are delivering benefits across the group. Let me talk to a few of these.

Last year, we rolled out a proprietary tool for search and recommendation. It is currently live in APAC and Brazil and is already handling huge volumes. Conversion rates have improved significantly as a result of using this new tool compared to our old third-party ones. New features we are scaling through the tagging of products using artificial intelligence, which further improves discoverability for our customers. Visual search is also driving our ability to scale the art of fashion intuition. Take our feature that recommends to customers items that will complete the look. How do we scale this feature without complicating our eproduction workflow? The solution is a mix of visual search, machine learning and human judgment where our people effectively teach a machine how to style. We have many other exciting projects in the pipeline to improve our commercial decision-making. One example is a merchandising size generator that will tell our buyers, what size and how much to buy for each SKU.

I want to showcase one more platform that is a key part of our back end. Seller center is a single gateway for our brand partners that enables marketplace across GFG. Today, we manage over 6,000 sellers or brands on the platform, which allows brands to onboard and then access multiple GFG markets with minimal additional effort on their side. Brands can track orders, customer satisfaction, financials and analytics on seller center. So seller centers are a one-stop shop for brands. It reduces the complexity of getting their products to customers in all our markets. In 2019, seller center powered over 900,000 live SKUs and 64% year-on-year NMV growth and the scale continues to increase.

So as you've hopefully seen by now, the art and science of building our leading fashion lifestyle destination has resulted in a well-invested business with a strong competitive advantage. The combined expertise of our commercial, marketing, operations and technology gives us a platform that is fashion-centric, tech-focused and tailored to our end markets. All of this results in our market-leading Net Promoter Score of 80%.

So to sum up, we're building the leading online fashion and lifestyle destination in our EUR 320 billion market, by offering a superior customer experience, by being the partner of choice for brands and by powering our operations and technology platform through art and science. It is early days in our markets, as you've heard from Patrick, and our business is ideally placed to participate in the growth.

With that, let me now open it up for Q&A. Afterwards, we'll take a 10-minute break. And after that, Matthew will take you through our financial track record, model and outlook.

QUESTIONS AND ANSWERS

Unidentified Analyst -

Those robots you showed on that Brazilian warehouse look quite similar to the Ocado warehouse, CFC3. So can you just -- like what equipment is it? What IP do you have on it, if you have any? Can you just describe a bit more about the actual robots that you're using there, please?

Christoph Barchewitz ***Global Fashion Group S.A. - Co-CEO & Director***

Yes, it's actually the same technology, basically. So the underlying technology is from a provider called AutoStore, which is, I think, Norway-based business. They've worked with Ocado for years. And they've also worked with a bunch of other fashion brands. For example, Puma has several of their fulfillment centers. I believe, Boozt in the Nordics also has their fulfillment center running with that technology. It's basically one of the best market-leading technologies for goods to person automation. And as you can see from this, we're not really building a larger warehouse, we're just building a lot more density because in that large grid, you basically don't have any walkways, you don't have any empty space, you can really fill it up with all those bins, and then you also save, obviously, a lot on the labor cost. And so we expect that we're going to get significant economic benefit once that facility is fully ramped up, and we've closed out the other two.

Unidentified Analyst -

And do you have any IP over any of the sort of tech or the design?

Christoph Barchewitz ***Global Fashion Group S.A. - Co-CEO & Director***

I mean, there's basically two components. There is the auto store solution itself, which is -- comes with a technology solution from the provider. So that is their IP. We have the IP about everything that basically happens outside of that box effectively in terms of the algorithms of what product goes in there, how we do all those kind of things. But the picking logic itself is part of that solution, which we believe is also a way of derisking the implementation of this. Many fulfillment centers, many automation projects face often significant delays, but this is a very proven technology that's kind of an out of the box technology that we believe makes that easier on lower risk.

Michelle Wilson ***Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst***

Michelle Wilson from Berenberg. A few for me, if that's okay. Just first of all, on the Southeast Asia region. Obviously, technology moves very quickly there as does the shift online. How do we get comfortable that you can keep pace with those technology shifts and what your competitive advantage is there? Should I run through the more first. Or...

Christoph Barchewitz ***Global Fashion Group S.A. - Co-CEO & Director***
We can do them one by one.

Patrick Schmidt ***Global Fashion Group S.A. - Co-CEO & Director***
Sure. Do you have any specific technologies in mind?

Michelle Wilson ***Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst***
Not really, I guess, things that you're shifting on to things like WeChat and how that affects you?

Patrick Schmidt ***Global Fashion Group S.A. - Co-CEO & Director***
Okay, Okay. Well, so I would probably group this in working with partners such as WeChat and then building out our proprietary software. In regards to working with partners, we've shown that slide before, we are working with both Gojek and Grab, which are in Southeast Asia, by far, the most dominant apps when it comes to ride hailing, but they're very quickly becoming sort of the the Uber apps essentially for everything. And retail is not that big actually there. It's much more about Gojek and Grab. We're also talking with a number of players about basically becoming their fashion essential service partner to be integrated in their app. So I think that's well underway. That's just basically thanks to us being really embedded in that ecosystem, having a big office in Singapore and Jakarta where Grab and Gojek are headquartered and being just simply very embedded in the region and being a very desirable partner for these companies. The other one is our technology and ourselves. That is moving quite quickly in Southeast Asia. So for example, Indonesia has quite a specific way of doing ecommerce, a lot to do with vouchers and voucher capping. It's like -- it's really in the detail of essentially price and promotion, but quite different from examples, what we see in Australia. The way we deal with that is we have quite a lot large tech team in Vietnam, which actually is offering us the ability to scale up quite quickly at relatively good cost. We also have a tech team, obviously, in Singapore, small team in Kuala Lumpur as well. But we believe that, that distributor tech team somewhat also enabled by Vietnam is a really good way of essentially using technology. We see working with competition and implementing that very quickly in, for example, in Indonesia.

Christoph Barchewitz ***Global Fashion Group S.A. - Co-CEO & Director***
And maybe one thing to add, our Global CTO, who I think Michelle you met in the past, Karthik, he is based in the region as well. And so I think that attention to the innovation that's coming out of Asia, including also, to some degree, from the Chinese market is certainly there because of where he is based and being plucked in what's happening on the ground.

Michelle Wilson ***Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst***
And then on the cohort data, really helpful to have that. Does it vary significantly by region? And also, it looks like there's a drop, obviously, a drop-off in the first year and maybe another dropoff in the second year, again, is that right?

Patrick Schmidt ***Global Fashion Group S.A. - Co-CEO & Director***

So maybe I'll take the latter question first, and maybe we can go to the slide here. There is a first year drop off, which I think in ecommerce is quite standard, at least I've seen this with many players, where there is public information available. There's no drop off in the second year. And in fact, that -- in some cohorts, we actually see that the NMV in year three from that original cohort is actually increasing as customers are essentially buying more frequently.

In terms of the regional data, essentially splitting this by region. It looks a little bit different, but there's no material difference. It's a very similar pattern in terms of first year dropoff is relatively significant, 40% to 50%, as you can see on the chart. And then essentially, we are seeing very stable cohort, sometimes increasing, sometimes just being stable. It is obviously frustrating that we have a cohort drop off, but again, it's normal in ecommerce. We are happy about the fact that we are essentially seeing a payback of all the new customers we acquire within 12 months. That's really the key metric. We're aiming to keep stable or maybe even improve.

Michelle Wilson ***Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst***

In terms of your -- the distribution centers that you're adding, you gave some data around the volumes you can handle through the system. The way that some of your peers talk about the warehouse cost is on a labour cost per unit basis. I don't know if you can share anything around what the labour cost per unit is for GFG and how that's changing as you automate Brazil and as you add the new Russian distribution center?

Christoph Barchewitz ***Global Fashion Group S.A. - Co-CEO & Director***

Yes. I mean, we've kind of consciously not shared that while we're aware that some of the peers are doing that. And I think the reason is really that is so diverse. We have ten different locations, very different labor costs, very different operational setups and very different levels of automation, which are also changing all the time because we had basically no automation in Australia 2.5 years ago or so, we now have a decent degree of automation. In Brazil, we had a relatively low level of automation on. I think we can probably talk more about this down the line as we mature some of that footprint a little bit. But I think it's a bit early to go into the detail there.

Michelle Wilson ***Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst***

And just the last one, if that's okay, a bit of a broader one. You obviously talked about the fact that the -- market where GFG are operating are growing much faster than Europe. But in terms of the top line that you're targeting, it's very similar to that of Asos and Zalando, I guess, more importantly, what's the biggest constraint on your growth? And why can't you grow faster?

Christoph Barchewitz ***Global Fashion Group S.A. - Co-CEO & Director***

I mean, I think it's a fair question. And we ask ourselves that question again and again as well. I think as you've seen on one of the slides from Patrick, actually, so far, at least, the market hasn't grown much faster. So we actually feel good about our growth rate relative to the market. There's certainly a lot of headlines from some players that are growing very, very quickly, especially in general merchandise. I think a lot of that is also happening very much at the entry-level from a price point perspective, and we're certainly in a slightly different positioning there. So I think what we are looking at is kind of market-by-market, how are we doing relative to the market. We believe we're well positioned to maintain and grow our market share. And we certainly have the ambition that as certain markets grow faster, we grow faster with them. But Australia is a good example. It is a market that -- for example, in December, I think we talked about it, it's basically flat because of the circumstances. So that has an impact in the overall. But long term, we certainly have that ambition that we want to maintain growth at least at the market rate, but ideally, certainly the ambition is to outgrow the market.

Tushar Jain ***Goldman Sachs Group Inc., Research Division - Research Analyst***
Hi, Tushar from Goldman Sachs. A couple of questions on my side, one by one, if that's fine. Looking at the product mix evolution over the next 5 years, how should we be thinking where you highlighted sportswear, premium? And if you can give a little bit more colour on your own brand as well, how we should be thinking about it?

Patrick Schmidt ***Global Fashion Group S.A. - Co-CEO & Director***
Sure. So first of all, wholesale or what we actually call retail versus marketplace. We believe that marketplace will be at 30% or more in -- by 2022. And there's really no reason why marketplace shouldn't continue to grow from there on. Obviously, we've seen quite rapid growth in the last couple of years.

In terms of product categories, a bit harder to say because, ultimately, it also depends a bit on trends and tastes. And ultimately, there's also a country effect in there, which is not really the case in marketplace, given that it's growing quite consistently. But it's fair to say that apparel and footwear, the share will probably shrink a bit. And sports, particularly premium, kids, beauty, where we have very low penetration, are going to take up that share. We're really trying to roll out these categories, and we'll really very much at the beginning of this category roll off.

In terms of own brand, currently relatively small, around 7% of contribution. It's not an area where we want to necessarily double down and replace third-party brands. But where we see essentially a gap in the market and a confidence by our team to fill that market, which is not in fashion, sometimes -- not easy to do. We ultimately, obviously, want to then fill that gap, like we've done in Southeast Asia and Australia. I would be surprised if the share was double the 7% in a couple of years, it might grow a little bit, but it's not going to be something we're going to prioritise because we're ultimately a health of brands.

Tushar Jain ***Goldman Sachs Group Inc., Research Division - Research Analyst***
And talking about marketplace growth. When you're growing marketplace, does it cannibalise in your wholesale channel growth as well or creating an inventory or having issues or something like that?

Christoph Barchewitz ***Global Fashion Group S.A. - Co-CEO & Director***

We don't really see that happen. I mean, there's certainly always a degree of cannibalisation, but it's not really so much about the channel, I would say, or the model. I think it's more about brands and so on. And we certainly look at our business -- the commercial teams will describe it as kind of floors and corners equivalent to a department store, and when in a corner where you have fast fashion for 20-somethings, et cetera, it gets really crowded, then there's cannibalisation, but that could be happening because of marketplace or because of retail.

What's very important is, we integrate our category management teams at a category level, not at a retail versus marketplace level. So the same individuals, the same team will have responsibility for, let's say, men's footwear in a country, and then they build that assortment between retail and marketplace, and they trade both together. And so the cannibalisation or the overlaps that create those types of risks is something that we manage through that organisational setup.

Tushar Jain *Goldman Sachs Group Inc., Research Division - Research Analyst*
Another question. Just in terms of some of the services like try on services have given you a good success in Russia. Are you trying to implement the same in sort of Brazil, where you said returns are low and you could help drive growth in the business?

Christoph Barchewitz *Global Fashion Group S.A. - Co-CEO & Director*
Yes, Brazil specifically is a big focus for us this year in terms of the return proposition. I don't think we're going to go all the way to the try on model, which is certainly the highest kind of value proposition, but also from a cost and and resourcing perspective, quite significant. I think the first basic thing we're just going to try to solve is, right now, most customers need to go to the Brazilian post office to post the return. And that takes a bit of time. Because it's generally queues. And so we're trying to just do simple drop-offs in kiosks, home pickup. We're trying to innovate around really basic services of basically bypassing the current return channel with different alternative channels, and we have a bunch of trials happening. But I think the first level is really to make that return process easy because that then applies to all of the customers. To roll out try on across a big country will take a lot of effort for a long time.

Tushar Jain *Goldman Sachs Group Inc., Research Division - Research Analyst*
And just a final question on your media solution. I'm just trying to understand how scalable is that across -- are you going to try to scale it across all regions? Just trying to -- give us some colour on that.

Christoph Barchewitz *Global Fashion Group S.A. - Co-CEO & Director*
Yes, we do this across all markets. So it's not like somehow one region or one country is well ahead of the rest. And this is inherent in a way in the partnership model that we run with a brand, where you're always having the conversation around how we will launch this product? How do I do this campaign? How do I sync up with what the brand may be doing in the market terms of their own media work, et cetera? And so we're just monetising and selling that as a service a lot more effectively. We've done this always, but it was opportunistic in a way and not with a dedicated team. We now have the solutions the kind of the B2B sales force to do it. The marketing team that's allocated to this to really scale this. And so this will not be a massive revenue driver, but it's a very nice a way of building a close relationship with

the brand.

And then from a profitability perspective, because we're basically monetising existing assets from a traffic perspective, it is a very high-margin revenue stream. So you will see more of a profit impact than actually a revenue impact coming from this when you look at our overall P&L.

Geoffrey Frith Ruddell ***Morgan Stanley, Research Division - MD***
Geoff Ruddel again. Do you have any data on the usage of the app by cohort? So obviously, 50% of your revenue stream is coming from -- sorry, NMV stream is coming from the app. Is that tend to be people who -- I mean, people start off using the apple, do they tend to migrate to the app after a while of the different levels of stickiness on the app relative to the mobile website?

Patrick Schmidt ***Global Fashion Group S.A. - Co-CEO & Director***
Yes, it's quite varied by region. So for example, in Southeast Asia, we see a lot of customers starting off on the app. They just seem to be more comfortable downloading app, even though, they've never been on the website. That's quite different in, for example, Brazil and Australia, where mobile site is much bigger, and ultimately, it will take a while for customers to essentially invest the time to download the app. So that's different by region.

What's not different is that the stickiness dramatically improves -- and we're talking multiple times. Once a customer has the app and has used the app for a while. That's why we're focusing on it so much. Because ultimately, it's a lot closer to -- literally to you if you have a phone rather than a desktop, there's no Google, there's no Facebook who are essentially trying to monetise that step between you and the retailer. And obviously, you can target customers much better based on the location, based on essentially scrolling. So it's just a superior customer experience, which is why we're trying to convert as many people as possible to the app. So we see them to get better cohort behaviour for sure, across all regions.

Geoffrey Frith Ruddell ***Morgan Stanley, Research Division - MD***
And then a completely different question. Could you just give us a few more details about your arrangement with Russia post in terms of the new warehouse? How long are you committed into that? I mean, some broad feel of the economics, just to get some kind of detail?

Christoph Barchewitz ***Global Fashion Group S.A. - Co-CEO & Director***
So I mean, I think first of all, we're in the stages of basically forming all of this. So not all of the details are fully defined. But we've had a long conversation about this already. And the intention has been a couple of months old already to make this happen, and we're now signed this non-binding agreement, so that's an interim set to the full terms.

Fundamentally, the way that we'll -- you should think about that is, it is structured as a joint venture, as a genuine partnership, so there's basically an entity that would operate and own the fulfillment center or beta entity that's the fulfillment center. And the funding of all of the applications of that, that are long-term that are upfront investments, which are basically -- first of all, it's the agreement with the landlords, who is basically the developer. So the build to suit is a separate real estate company that basically does actually the same one we have used also for our current fulfillment centers. So we have a good track record with them. So that's the first obligation.

Second topic is the CapEx investment, which is the automation and basically everything that else goes into the facility. That will be arranged through a long-term lease arrangement. And then basically, lamoda commits certain volumes to that facility and effectively guarantees the underlying payments that are required under the leases. So economically, you can think about this as a financing arrangement, where we, like we have done in many other markets are moving away from CapEx to leasing, not only the building, but also what's in the building. So economically, that's basically the way to think about it.

Legally, it is structured as a joint venture, and there's certainly also embedded in it an appetite to partner with the Russian post, as they develop their own core business in the last mile, when you think about fulfillment, et cetera, but it's currently doing a pretty small share for our deliveries through them. But they're obviously evolving their business, and so there's some opportunities that we're exploring with them around the last mile as well.

Geoffrey Frith Ruddell ***Morgan Stanley, Research Division - MD***
And how long a sort of lease are we talking about here?

Christoph Barchewitz ***Global Fashion Group S.A. - Co-CEO & Director***
So these projects tend to be about 10-year project. So the lease agreements with the build-to-suit developers and so on. So we think about this as a really long-term solution. And we've talked about Phase 1, but there's a Phase 2 and a Phase 3 to that facility that could scale it significantly further that's the year as a way to do that, but it's built with that mentality, that this is something that we will be using in 10, 15 years, maybe even longer than that.

Geoffrey Frith Ruddell ***Morgan Stanley, Research Division - MD***
And in terms of your other logistical needs? Or how should we be thinking about more DCs over the next 2 or 3 years? Or is it just this one on the medium term horizon?

Christoph Barchewitz ***Global Fashion Group S.A. - Co-CEO & Director***
So this is basically the the last big one, if you want, in the cycle effectively. We've done Australia, that's way behind us; we're doing Brazil right now and then CIS is the next big one. With that, those three markets, which are our three largest countries, will be well set up for a number of years to come. Within Brazil and in CIS, also having expansion opportunities to go further. Other markets, we're doing some new facilities, for example, in Indonesia and in the Philippines as well in Colombia, but they're just much smaller scale. The ones in Asia, we're doing in a more lease-centric set up similar to the new one in CIS. The one in Colombia is more traditional in a way, but the amount of CapEx involved are single digits.

James Absolon ***Citibank – Commercial Banker***

James again from Citi. Just a quick question around these different regions. And what investment in your tax stack have you put towards cybersecurity, protecting your customers' data within each of these markets because the threat on each of them can be very different?

Patrick Schmidt ***Global Fashion Group S.A. - Co-CEO & Director***
Yes. So in that sense, we're quite lucky. We have a large tech team in Russia. And Russia is definitely a country where you want to invest into cybersecurity. Brazil, by the way, as well. I lived in Brazil once and they were quite offended when I said that Russian hackers are much better than Brazilian hackers. So to give you a number, we're investing a 7-digit amount in cybersecurity. Our head of security or cybersecurity is actually located in Moscow, working there, it's double headed essentially for the Russia team, but also having a global role, essentially leveraging the expertise that team has built for regions, which are probably not as affected. But ultimately, we want to make sure that we are as safe as possible also in regions like Australia. So we get daily attacks like many other retailers do. But we have no material problem in terms of downtime or customer data being stolen, at least to my knowledge, in the last six years since I've been in the business.

Tushar Jain ***Goldman Sachs Group Inc., Research Division - Research Analyst***
Is there any colour you can share with us around the growth of buy now pay later services? What share of your NMV is coming through those services? And also if you see differences in customer behaviour, especially going back to the cohort between users who come through those channels versus those who don't?

Patrick Schmidt ***Global Fashion Group S.A. - Co-CEO & Director***
Yes. So buy now pay later has had a incredible rise in Australia. It went from basically 0 to now being, I can't share the number, but a material, I mean, double-digit percentage share of NMV. Mostly powered -- or actually in Australia, exclusively powered through Afterpay. We are one of the earlier partners to adopt Afterpay and it has benefited us quite a bit. The behaviour is not that different. We see slightly higher baskets, slightly higher frequency. It remains to be seen whether this is due to Afterpay or whether this is ultimately self selection of customers who are ultimately more attracted to buying fashion online, but it's certainly a very important payment method.

We're seeing this also now a little bit in Southeast Asia, but it's probably two, three years behind of what you have seen in Australia. In Russia, obviously, because of a trial model, we have a very different model of essentially only buying what you keep. So we effectively have a bit of that model already implemented into the business model. And in Brazil, we have varied payment methods. One, I think the boleto model, where you ultimately buy at the store, is also somewhat a delayed model of payment by the traditional Afterpay way of paying in Latin America is not that clearly established.

Unidentified Analyst -
On this latter point of paying later? What sort of loyalty do you have to any of these platforms, if any? Because to me, there's a lot of -- it's not just Afterpay doing this. There's a lot of like copy cats coming along to the market. And with commission rates -- Afterpay's commission rate is quite a lot higher than

the new entrant. What loyalty do you have to say, someone like an Afterpay? And what stickiness is there to such a platform? If you can have the same access to someone charging you half the price, half the commission, and -- is it easy to switch?

Patrick Schmidt ***Global Fashion Group S.A. - Co-CEO & Director***
Sure. So yes, it is relatively easy to switch. It obviously always involves an integration, but that's not a huge deal to do, and we're obviously very aware of the new entrants and of the lower fees and in our conversations with Afterpay, in this case, we've certainly made them aware of different market rates. We have stuck with Afterpay because they're a great partner. Obviously, there's probably millions of customers by now have transacted through Afterpay and the commercial agreement we have with them is very attractive. So it's definitely true that there's a lot of entrants. But ultimately, Afterpay is by far the market leader, and we've benefited from working with them quite a bit.

Christoph Barchewitz ***Global Fashion Group S.A. - Co-CEO & Director***
Maybe one point to just add on. Certainly in all of our markets, we see a lot of innovation around financial technology, more broadly, payment methods, Afterpay solutions, et cetera, and that's something we're really plugging into and we're looking at everywhere, we've experimented with that and CIS, et cetera. So I think it's an area that still can provide a lot of value to our business and making also the customer value proposition much stronger.

Great. If there's no more questions, we'll take a 10-minute break. So we'll restart at 11:35 U.K. time. Thank you.

Patrick Schmidt ***Global Fashion Group S.A. - Co-CEO & Director***
Thank you.

(Break)

PRESENTATION

Matthew Price ***Global Fashion Group S.A. – CFO & Director***
Right. Welcome back, and good morning, again, everyone. I talked about our 2019 results earlier on. So I'll now focus on the overall financial model, and how this supports the business strategy that you just heard from Christoph and Patrick.

As a reminder, we earn virtually no revenue in our reporting currency. So it was also impacted by currency translation. So I'm going to focus on constant currency growth rates when we talk today.

I'm going to start out with an overview of our financial progress so far, then talk about the financial model and then talk about how we see that developing. Exactly as we set out at IPO, we have a simple financial strategy that supports us in developing the business. We have a proven track record of strong top line growth. We have good unit economics that are enhanced by marketplace. We're acquiring and developing customers profitably. We're improving our overall cost-to-income ratios. We're growing in a capital-efficient way, all of which give us a clear path to profitability.

Since 2016, we've grown active customers by a compound annual growth rate of 14% to $13.1 million. These customers are buying more often with us. So our average order frequency is now 2.6x a year, meaning that the number of orders has grown 20% a year to 35 million in 2019. In 2019 itself, both customers and orders increased more rapidly than these long-term trends.

We've also delivered strong NMV growth of 22% a year since 2016, to almost EUR 1.8 billion. NMV represents a checkout value of our customers, including VAT, shipping fees and its net of all returns. So it's the figure that our customers have paid in total. And we're turning this growth into improving profitability. Our contribution margin, which is gross profit less fulfillment and marketing costs has grown 37% per year to EUR 85 million in 2019. That's faster than our top line growth.

NMV growth accelerated to 23% in 2019, mainly driven by strong performance of our marketplace business. Revenue has grown consistently above 17% a year since 2016. This growth lags a little behind NMV due to the increasing share of marketplace, where we only record the commission in revenues. And as I said earlier, we're making significant progress on our path to profitability. Over the last 4 years, our adjusted EBITDA improved by over EUR 93 million, with a margin improvement of 11.9 percentage points. Our 2019 adjusted EBITDA loss improved to EUR 37.1 million, which represents 2.8% of revenue. We're now profitable in regions representing over 80% of our revenue, which is up from 50% in 2018. LATAM CIS and Australia are all profitable at an adjusted EBITDA level. This is the first year of profitability for the CIS. LATAM and CIS each made adjusted EBITDA levels of around EUR 5 million in 2019. Asia Pacific made a loss of EUR 22 million, which is an improvement of EUR 14 million on the prior year. After group technology and admin costs of EUR 25 million, we made an overall adjusted EBITDA loss of EUR 37 million last year. Our year-end working capital balances are broadly neutral despite the business growth. At the end of 2019, we had negative working capital of EUR 12 million, similar to the previous year. This low level of working capital is helped by the growth of marketplace. Across the course of the year, we do use working capital as we build inventory ahead of the key selling seasons. Our peak to trough working capital movement across quarter-end is around EUR 35 million, with the December year-end representing the lowest point in this cycle.

In 2019, we raised funds from our IPO and from the sale of our remaining stake in the Middle East venture, whilst continuing to invest in the business. This means we had EUR 300 million of pro forma cash available at the end of 2019. We have three uses of cash. First, to fund our operations as we scale the business and achieve profitability; second, to fund our CapEx in technology and fulfillment of other assets; and third, to cover a limited amount of nonoperating cash flows, taxes and other finance costs. We don't have any permanent debt in our capital structure. So financing costs are not significant for us.

Turning to how we invested cash in 2019. This information is all from our IFRS cash flow statement, but it removes the receipts of the IPO, the proceeds of the Middle East business and some release in restricted cash. Excluding these items, we spent EUR 138 million in 2019. We used EUR 77.6 million to fund our operations. That comprises EUR 37 million of adjusted EBITDA losses, EUR 28 million of cash leases and EUR 12 million from working capital. There's generally a difference between working capital and our cash flow statement and the year-end balance sheet movements because there are different ways that exchange rates are translated in those statements. We invested EUR 66.7 million of cash for CapEx in 2019, our technology CapEx is broadly stable, and we saw significant spend on the LATAM fulfillment center last year.

Finally, we saw a net EUR 6.2 million cash inflow from our nonoperating cash flows, taxes and other finance costs. So whilst there is some complexity around foreign exchange, you can see that our cash flow is fairly straightforward. And it's very closely linked to profitability and capital investment. Going forward, we expect lease cost to increase in inflation and also when we open new fulfillment centers, and our investment in working capital is limited.

I want to talk in more detail now about our financial model, which is actually very straightforward. First, we invest in building and developing a valuable asset of customer relationships. These are people who engage with our brands and give us an increasing share of their fashion spend at profitable order value. Second, we are improving our gross margins over time, and I'll share some details of how we're doing this. Then as we grow the scale of the business, we're delivering operational leverage on our overheads and infrastructure. And fourth, we are consistently investing in technology, fulfillment and customer service that supports this growth.

I'll talk more about each of these in turn, starting off with our customer base. We have a defined process and a set of metrics for developing our customer base across all regions. Clearly, marketing channels and acquisition costs vary by country, but the process is the same. We start with profitable customer acquisition, whereas Christoph said, we're consistently acquiring new customer cohorts at the 12-month payback. Our focus on the customer acquisition cost and lifetime value allows us to reduce our marketing cost income ratio over time. 71% of our NMV came from existing customers in 2019, up from 56% in 2016. And again, as Patrick showed, we have a clear track record of retaining our customer cohorts. Then we work to grow the value of these customer relationships.

The charts on this slide adjust the changes in exchange rates, to give you a clear understanding of the trends. As I told you earlier, the number of times our customers buy from us has grown consistently over the last 4 years to 2.6x a year, Asos at around 3.6x and Zalando 4.6. So we have plenty of headroom here as our markets gain maturity. Patrick showed you that our top quintile of customers are shopping with us almost 3x more frequently than the average. So we can see a clear move to ongoing growth here.

In 2019, we served these customers at a profitable order value of EUR 51. This order value has remained stable even after the impact of country mix. For example, less mature markets like Colombia, often have a smaller initial average order value as customers try out the new service for the first time. These two factors together mean that we have consistently grown the value of each customer. NMV per active customer has increased by 8% a year since 2016 from EUR 121 to EUR 136.

Turning now to the second aspect of our financial model, improving our gross margins. The development of our marketplace business is beneficial to the group's gross margin. We've recorded just the commission in our revenues. And so marketplace is effectively 100% gross margin business. This has added around 1 percentage point a year to our gross margins over the last three years. And this is a trend that we see continuing. Price is always important in our markets. So we need to keep optimising the way we manage our retail margins. This includes using the data tools for pricing and promotion that the group tech team build, adding premium brands into markets where that is appropriate, optimising the trade-off between promotions and marketing, and the green scale benefits with brands as we grow our business with them.

So looking now a little bit deeper into the retail gross margin. We stabilised margins in 2019, and we strengthened them in the second half. This was a result of using data to plan and deliver sell-through rates and intake margins better. Driving in-season sell-through rates is key to delivering margin and to managing inventory. In the all-important Q4 selling season, we improved sell-through rates on current season product in all but one region. In our two best-performing regions, we increased current season sell-through rates by 6 and 8 percentage points.

And so looking now at leveraging our overheads and our infrastructure, as I've just shown you, the development of our marketplace business increased our gross margins by around 1 percentage point a year. In addition, as we provide fulfillment services to some marketplace sellers, we incur fulfillment costs. As we only record the take rate, rather than the full NMV of marketplace sales in our accounts, this actually inflates our fulfillment cost as a percentage of revenue.

The table on the left-hand side shows a simplified version of our P&L, split between marketplace and retail. In the left-hand column are the figures you're familiar with for the group, with fulfillment costs of 24% of revenues or 22% of NMV. Then, in the middle column, in the retail figures, this is 79% of our NMV with a retail margin of 35% and fulfillment costs of 22%. This means we deliver profit after fulfillment costs on retail of 13% of both revenue and of NMV. The marketplace business in the right-hand column, the take rate is 32% of NMV product value, the fulfillment costs are 16% of NMV or 50% of revenue. This means that profit after fulfillment on marketplace is 16% of NMV, slightly higher than in retail.

I want to give you an illustrative example of how the growth in marketplace business could impact our income statement. This illustration assumes we grow marketplace share to 30% of NMV. As a result, gross margins would expand by 3 percentage points, of which 1 percentage point would be reinvested in fulfillment cost.

I'll move now to the fourth element of our model, investing in technology, fulfillment and customer service. We continue with our strategy of driving productivity gains in fulfillment costs and reinvesting them into service as we grow. Ease of delivery and returns is important to our customers and removes barriers to purchase, allowing us to keep growing our frequency of purchase. In 2019, we made a major investment in the pickup points in the CIS, as you saw earlier. We delivered these improvements within a stable fulfillment cost ratio of 22% of NMV, and our goal is to continue to improve service, whilst maintaining this overall ratio. Our technology and admin costs are already at scale in our markets and has shown the biggest improvement over time, falling from 21% of revenue in 2016 to 13.6% last year. The cost income ratio stabilised in 2019. We intend to keep investing in our technology, but seen very significant opportunities to improve our admin cost ratios in coming years.

Technology is a key part of how we engage customers and build our business. Over the last four years, we've invested around 5% of NMV in our technology across CapEx and operating costs. We see this as the right level of investment for the business going forward. In 2019, we capitalised 46% of in-house technology team costs. Over the last four years, we've invested between EUR 27 million and EUR 49 million a year in fulfillment and other CapEx. This is higher when we have major projects. Christoph has already discussed the status of our two large projects in Brazil and CIS. We estimate that aside from lumpy major projects, our underlying fulfillment and other CapEx is around EUR 20 million to EUR 25 million a year.

So having shared how we see our gross margin, cost base and cash flows developing, I'd now like to talk about how we see the shape of growth over the coming three to four years. As set out at IPO, our ambition is for NMV growth of at least 20% a year on a constant currency basis. We believe that our marketplace business has significant headroom. As we've said before, we don't set a top-down market -- target for marketplace share. Instead, we allow our regional teams to develop plans category by category as they look to optimise their businesses. However, we can see that the marketplace share of 21% in 2019 could develop to around 30% of NMV in the next three to four years. As I discussed earlier in my illustration of how marketplace could evolve, we can see that with this level of marketplace share, gross margins could increase 3 percentage points with 1 of those percentage points reinvested in fulfillment costs. We see modest reductions in marketing cost ratios and very meaningful reductions in technology and admin cost ratios. Together, this could achieve an adjusted EBITDA margin of at least 6% in three to four years. In terms of CapEx, once the LATAM Fulfillment Center is completed in 2020, we'd expect to be able to grow the business with less than EUR 50 million of annual CapEx.

I talked about the detail of our 2020 guidance in our results call earlier. So I'll just summarise the headlines now. Our guidance is for constant currency growth of 17% to 20%. This equates to at least EUR 2 billion of NMV at December 31, 2019 exchange rates and would translate into revenue of around EUR 1.5 billion of those exchange rates. We intend to be adjusted EBITDA profitable no later than 2021, and we will make continued progress towards this in 2020. We plan for CapEx of around EUR 55 million in 2020. This will then drop to no more than EUR 50 million thereafter.

So in conclusion, we've made good progress on the targets we set out at IPO and remain confident being able to deliver 20% plus NMV growth in the medium term. We now have regions representing 80% of our revenues, delivering positive adjusted EBITDA, so we have greater clarity on our path to profitability and beyond that, to an adjusted EBITDA margin of around 6% in three to four years.

So I'll now hand over to Patrick to conclude.

Patrick Schmidt ***Global Fashion Group S.A. - Co-CEO & Director***
Thank you, Matthew. So to wrap it all up, we've built a sizable business of EUR 1.8 billion in NMV, but this is really just the beginning. We've seen multiple drivers for sustained long-term growth and improving profitability across five dimensions. First our markets are huge and shifting online from a very low base. Second, we're using technology to develop new ways of optimising the customer experience. Third, we continue to find new and smarter ways to work with our global brand partners, whether it relates to optimising traditional business models or creating new income streams. Fourth, we expect further efficiencies from our operations, both from using our infrastructure and by using data to drive more and more commercial decision-making. And lastly, all of this fueled both continued growth and improving profitability.

Thank you very much, and we look forward to your questions.

QUESTIONS AND ANSWERS

Geoffrey Frith Ruddell ***Morgan Stanley, Research Division - MD***
Geoff Ruddell, again. The slide you showed there, Matthew, suggested you're getting a higher profits on the percentage of NMV on marketplace transactions than in retail. Surprising me because, obviously, you're not taking any inventory risk. Do you think that's a sustainable sort of situation that you get that higher profit out that way?

Matthew Price ***Global Fashion Group S.A. – CFO & Director***
I do, and I think really, you go back to the business model, where it's not like developed Europe, we're providing significant services to the brands, to fulfillment, either total fulfillment or parcel fulfillment. And therefore, we're probably capturing part of the value chain that sits in -- to 3PL logistics businesses in Europe. So I think there's sustainability in that.

Tobias Sittig ***MainFirst Bank AG, Research Division - Head of Equity Research Germany & Senior Equity Analyst***
Toby Sittig from MainFirst again. A couple of questions from me, if I may. I'll take them one by one. Firstly, target margin, why 6%? Why not more? I mean, Zalando, obviously can escape the benchmark there. They target 10% to 13% in the midterm. You've got higher partner fees. You've got lower return rates. So could the ambition not be higher?

Matthew Price ***Global Fashion Group S.A. - CFO & Director***
So the ambition that -- the ambition is certainly higher, and I think what we're not setting out there very deliberately is a long-term exit multiple weight. What we're saying is, the first step is to get to profitability, that's 2021, no later than that. And then two or three years after that, what's it look like. So it's an intermediate step, which certainly, as part, having that significantly higher if you took a five, six or seven year view.

Tobias Sittig ***MainFirst Bank AG, Research Division - Head of Equity Research Germany & Senior Equity Analyst***
Would share that number with us?

Christoph Barchewitz ***Global Fashion Group S.A. - Co-CEO & Director***
A high single digits and the IPO on, I think that stands.

Matthew Price ***Global Fashion Group S.A. - CFO & Director***
Yes. And I think there's also a credibility piece, which is around -- look at where we are, look how mature we are and look at where we're growing. I think I'd rather set out measurable targets, which you can see and touch.

Tobias Sittig ***MainFirst Bank AG, Research Division - Head of Equity Research Germany & Senior Equity Analyst***
Yes. And would you share free cash flow breakeven target with us?

Matthew Price ***Global Fashion Group S.A. - CFO & Director***
I think -- I mean, I'll let you all do your own models. In my mind, that three to four years, 6% is there or thereabouts, depending on whether you've got a lumpy FC project going on than not.

Tobias Sittig ***MainFirst Bank AG, Research Division - Head of Equity Research Germany & Senior Equity Analyst***
On the regions you're not very specific in sharing much information, about the KPIs in the region, why is that? And can you not share a little more on the regional KPIs with us?

Matthew Price ***Global Fashion Group S.A. - CFO & Director***
I mean, I think our disclosure -- well, it's probably a question of what's gone into the presentation now, but certainly, on the website and all the stuff from publishing, we're giving NMV, gross margin, revenue, we're doing an annual disclosure of adjusted EBITDA, EBITDA, SG&A, and so on, will all be in the annual report. The annual report is published in 2 weeks. So I think we're giving a reasonable amount.

Tobias Sittig ***MainFirst Bank AG, Research Division - Head of Equity Research Germany & Senior Equity Analyst***
And lastly, on last mile cost, at least in more mature market, that's becoming an increasingly a bottleneck and also a point where many ecommerce players are suffering. Is that something you're also seeing, which puzzles you in terms of fulfillment costs? Or...

Christoph Barchewitz ***Global Fashion Group S.A. - Co-CEO & Director***
We haven't seen it. And I think it's maybe Australia is a bit of an exception to some degree there. But even there, we haven't seen it in a significant way. In most of the other markets, we benefit from either us having our own infrastructure and thereby being able to control costs. And actually, as we do more

volumes through our own delivery fleet, we're actually driving efficiencies on delivery because we increased density, just think about the routes, et cetera. And also, in most markets, we work with a large number of third-party providers. So I think it's quite different from the European market structure, where you, in a lot of market, have a very small number of scaled providers. In our markets in Brazil, for example, we work with, I think, two dozens or so of different last mile providers that cover different parts of the country but also overlap. And so we haven't seen this dynamic play out. And low labour cost in a lot of our markets are certainly a benefit as well.

Patrick Schmidt *Global Fashion Group S.A. - Co-CEO & Director*
And maybe just to add to that. In Southeast Asia, we've actually seen the opposite in H2 last year because there is a bit of a price war going on with many players going into logistics, especially for ecommerce, given that it's no secret that this market is really about to explode. And we've been able to leverage that in our negotiation and for a number of routes, especially for the routes from country to country because, obviously, we fulfill from our Malaysia warehouse to all the countries in Southeast Asia. We've been able to negotiate significantly better rates.

Tushar Jain *Goldman Sachs Group Inc., Research Division - Research Analyst*
Tushar from Goldman Sachs. Just on that fulfillment cost, when I look at in terms of medium term, assuming the return rate is going to go up, how comfortable you are that it only goes up modestly in terms of the percentage of NMV of sales?

Matthew Price *Global Fashion Group S.A. – CFO & Director*
Yes, I think we're pretty confident from what we're seeing at the moment. So -- I'd always point to the percentage of NMV because that's -- actually that really represents the volume of what we're shipping. There, we've been very stable, and we've made a lot of improvements. So to a degree, there's a bit of a budgeting game in there, which is we're driving efficiencies. We're driving productivity. We're choosing to reinvest up to that point. So I think we've got a reasonable control over it.

Patrick Schmidt *Global Fashion Group S.A. - Co-CEO & Director*
And on the return rates, just quickly, that actually -- there, the country mix effect actually is in our favor because the highest return rate is in the more established markets, which are not growing as fast anymore. And the faster-growing markets, like, for example, Southeast Asia or Latin America, have a lower return rate. So if you add it all up, even if the return rate overall is growing just for country mix effect, could actually mean that our return rate overall is stable.

Tushar Jain *Goldman Sachs Group Inc., Research Division - Research Analyst*
And just one question on take rate. Are you assuming any increase in take rate over the medium term?

Matthew Price *Global Fashion Group S.A. - CFO & Director*
The biggest differentiator on take rate is really whether we provide fulfillment service or not. So that will be what drives it. So it's that mix between Russia and a couple of those being the smaller markets in Southeast Asia where we provide much fuller fulfillment services versus more playing vanilla

marketplace.

Christoph Barchewitz ***Global Fashion Group S.A. - Co-CEO & Director***
I think one thing that's important to add when you also look at take rates maybe from the marketplace -- from the general merchandise marketplace-centric players, we, clearly, to some degree in some markets, compete with them, but what's very important is we have historically very consistently achieved better take rates. And the reason for that, we believe, is that the brands have a strong preference to be working with us and they understand the added value that we provide to them as someone who is free of copy -- counterfeit materials or products and all those types of things. So I think there's a differentiation of take rates between what a pure play, multi-brand fashion destination can charge in the market versus what a general merchandise player can. And I think you see that in other markets, let's say, in Europe or so as well, that there's a bit of a differentiation.

Michelle Wilson ***Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst***
Michelle from Berenberg again. A few from me. So just following up on the take rate. Zalando talked recently about feeling pressure on take rates during discount periods, especially on a Black Friday. Is that something you're seeing as well?

Matthew Price ***Global Fashion Group S.A. - CFO & Director***
No, we have not felt this during Black Friday or in fact, any other -- of the many Q4 sales events.

Michelle Wilson ***Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst***
Good. And then you provided some data on your top-20 partners. How do the economics compare with the top-20 partners versus the rest of your partners? Is there a differential in terms of take rates and order economics?

Christoph Barchewitz ***Global Fashion Group S.A. - Co-CEO & Director***
Not dramatically, I would say. It's really much more market-driven, price point driven. So certainly, the more premium, we have generally better overall economics. But it's not a fundamental structure element where somehow the largest partners have dramatically better terms or something like that. There is an element of certainly where the brand is very important to us, and it's very important to our consumer that the economics reflect that to some degree. But I wouldn't say that the top-20 are not representative of, let's say, the top-100 or the top-500.

Michelle Wilson ***Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst***
And on the media solutions business, can you just, I guess, give us an indication of how the economics work there? Should we think of it as something purely incremental in terms of a profit perspective? Or is it part of the package that helps hook the brands in?

Christoph Barchewitz ***Global Fashion Group S.A. - Co-CEO & Director***
So I mean, the economics are basically -- it's a B2B service, which we invoice to the brands. And often that's part of our commercial broader agreement. We have a marketing agreement that's specific about

certain campaigns, et cetera. We have limited cost against that because most of it is leveraging assets that we have, predominantly the customer base, and the traffic that's on the app in the site. There's certainly an element of cost, which is the people effectively doing the work around that, setting up the campaigns, speaking to the brands. And there's an element of human-to-human interaction.

It's not a self-serve platform where we've once built the technology and brands can basically self-manage marketing on our platform. That's probably something that, over time, we can gradually build further, but it's still something where our marketing teams are very closely working with the brands. The feedback we're getting from the brands is they value that tremendously because they don't want to sit across from an algorithm and basically allocate marketing budget. They want the human-to-human interaction, about how to reach relevant customers, how to do the Nike Air Max Day or those types of things, in their dedicated marketing team. So that's a cost against that. So this is in our admin and marketing team cost effectively, but you should think about this as a high drop-through to the bottom line from a marketing revenue perspective.

Michelle Wilson ***Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst***
Okay. Great. And then just on the fixed cost leverage of the admin and tech cost base, flat this year, could you give some specifics on why we should expect leverage to that line going forward?

Matthew Price ***Global Fashion Group S.A. - CFO & Director***
Yes. I think probably at the simplest piece, we've gotten the buying opportunities, we've got the operations, we don't need a lot more in there. We want to keep growing the tech teams as we scale the business because that's so value-added and so much of our technology in the apps are sole proprietary, it goes in there. Apart from that, we really shouldn't be increasing our costs very much at all.

So I think there's huge leverage in there, and possibly in the year of IPO when we were doing all sorts of other things, we didn't drive as much as we'd like out of it, but I think it's something where we can get more and more.

Patrick Schmidt ***Global Fashion Group S.A. - Co-CEO & Director***
So this always comes back to assortment. Ultimately, what drives cost in our business is number of brands, number of SKUs, number of projects. We have 10,000 brands. We don't need 20,000 brands. In fact, I don't think we need 15,000 brands. So ultimately, we are -- we've really acquired a lot of brands. Now it's still about brand acquisition to some degree where we really need it, but it's no longer as huge a priority as it used to be.

In terms of number of projects, these really big fulfillment center projects, they drive a lot of costs not only in the fulfillment center, but also in, for example, technology because it's not just the box, it's also the software which needs to drive the box. And as Matthew said, many of these projects are near completion. And then we've kind of finished the cycle, except the one in Russia, obviously. But in Australia, we're done. In Southeast Asia, we're done. In Brazil, we're about to be on the finishing line. So this is not just basically a top-down mandate. This is essentially driven by the region's bottom up.

Michelle Wilson ***Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst***
And just last one on your fulfillment centers. Could you just give us an indication of the NMV capacity you have right now? And on the NMV capacity you could have if you do the kind of small incremental projects on Brazil and Russia?

Christoph Barchewitz ***Global Fashion Group S.A. - Co-CEO & Director***
We haven't actually added it up, so we can definitely follow-up with that. But basically, the two big ones are Brazil, which will be EUR 1.5 billion NMV at current exchange rates. And then the same in CIS were the two facilities, so the one that we already have, together with the next one, will get us to EUR 1.5 billion roughly as well. So just between those two markets. And then -- so overall, I would say we feel very good that, with those projects, we have the runway to basically execute on the growth trajectory over the next three, four years.

Unidentified Analyst -
So just a follow-up. You talked, Matthew, about some cash breakeven in three to four years' time, potentially. Do you have enough cash to get you there?

Matthew Price ***Global Fashion Group S.A. - CFO***
I think, yes. Well, we need to deliver on the target, and I think that's the most important thing. So I think -- I mean, the point around cash, I think we've very clearly set out what we're doing with it. So that's the operating side and funding the operations. And I think we've got a very clear path to profitability and then to day-to-day operating cash breakeven. And that's now, we can see it and touch it. I think then it's about the CapEx, and you'll have seen compared to the guidance at IPO where we had EUR 90 million to EUR 95 million guidance for 2019 and exactly the same for 2020.

We've been able to bring that down to EUR 70 million and then EUR 52 million. So we can then make big inroads into that. The other pieces of the cash use are actually quite small here.

So we are very aware of it. We are very close to it. It's a high priority for us, but I think we're doing a lot of things to manage it. So...

Adam Kay ***Global Fashion Group S.A. – Investor Relations Director***
One question from the webcast. Can you elaborate on how the new Indonesia import duties may disrupt the market?

Patrick Schmidt ***Global Fashion Group S.A. - Co-CEO & Director***
Yes. So I can do that for everybody in the group. Indonesia announced a new import duty. I think they announced in late December. It was implemented in January and then went into effect in early February. We've already reacted to that. It basically means that if you import as a customer, you are subject to a 10% tax. And there's ways to essentially reduce that, and that is something we've implemented. So we had a B2C model, where we essentially sent product directly from our Kuala Lumpur fulfillment center to

the customer. We've now changed that to a B2B2C model, which basically means that we are no longer sending it directly to the customer, but we're actually sending it to our fulfillment center. And that -- and then that fulfillment service center in Jakarta is sending it to the customer. That still means we're going to pay the tax, but we're only paying it on the cost of goods sold and not on the actual amount the customer is paying.

So we're quite happy there. We've implemented that this -- very quickly. More importantly, however, we actually have a fulfillment center, as you know, in Jakarta. And obviously, for that, we're not paying any of these additional import duties and that is, by far, the biggest share of our sales in Indonesia. What I've just talked about is essentially what we call cross-listing, which is the incremental sale we do for a product we don't happen to have in the Jakarta fulfillment center because we might be sold out of that product. So that's just purely on top of it. So it's not a material impact to us, but we've already essentially optimized against the new tax regime.

Unidentified Analyst -
So following on this point, import duties in Russia have been going up quite a lot, and it looks like they're continuing. So again, can you explain a little bit how it works? Having your own distribution centers there, are you sort of benefiting from the same -- from having your own warehouses? And does that create sort of quite a nice barrier to entry for potential competitors when they're trying to move in, in the trends like ship the product into the country? So can you just explain a little bit about that, please?

Christoph Barchewitz ***Global Fashion Group S.A. - Co-CEO & Director***
I think the -- I mean, there's a bigger theme here around, which basically, in a lot of countries, cross-border ecommerce had been exempt from import duties on certain categories, as well as from sales tax. And so that has effectively created not a level playing field for domestic retailers or ecommerce companies versus cross-border ecommerce companies, and a lot of cross-border ecommerce companies have taken advantage of that and built fairly sizable businesses around that logic, which basically more than covered the higher cost of delivering to the end customer.

We've seen this, in a lot of our end markets, changed in the last few years, and we continue to see that change. And in several markets, we're also working with the regulator because we believe fundamentally into a level playing field of all operators in the industry. For example, in Australia, there wasn't a GST tax on cross-border. That got introduced July '18, I think, if I recall it right. And since then, we've seen that domestic demand goes up and cross-border demand goes down from the consumer, quite obvious in terms of how that works.

Russia specifically, Russia has a regime where there's a certain allowance threshold for every consumer of how much they can shop cross-border with that kind of import tax exemption. That amount used to be a quite significant number. I think it was about north of EUR 1,000. It's now stepped down to about EUR 200. And the way it works, from a consumer perspective, is as they shop from a cross-border platform, they need to enter their personal details, including unique tax identifier code, so that basically it can be mapped, and that budget that the consumer has for monthly shopping is basically recorded.

Any spend over that, the customer then has to pay import duties on that. In a way, this levels the playing field for us. We pay import duties on imported product, obviously, when we source, for example, from European or U.S. brands and import into the country. But this leveling of the playing field, I think, will help us, and everyone else who's locally based from a fulfillment center perspective, to accelerate growth. And it will have an impact on the people who are shipping cross-border because now it's not only that we have a better customer proposition, try-on service, local payment methods, local assortment, faster delivery, all those other things, we also have a level playing field when you think about price, which historically has been in favor of the cross-border players. So it's a very positive development for us.

And then one that we think is kind of logical to happen also in some other markets where these types of rules are not yet in place.

Patrick Schmidt ***Global Fashion Group S.A. - Co-CEO & Director***
Great. Thank you for all your questions and for your attendance. Thanks for everyone on the webcast for joining. And for the ones in the room, I think there's some food for anyone who's hungry. Thank you.

Christoph Barchewitz ***Global Fashion Group S.A. - Co-CEO & Director***
Thank you.
