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PRESENTATION

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

Good morning, everyone, and welcome to Global Fashion Group's Q4 and Full Year Results Presentation. I am Christoph Barchewitz, and I'm joined today by my Co-CEO, Patrick Schmidt; and our CFO, Matthew Price.

Before we get into our results, I would like to talk about the conflict in Ukraine. We are deeply saddened by these events and stand alongside all those affected. Our priority is our 1,000 people in Ukraine, and we are focused on providing them with essential humanitarian and financial assistance as best we can. We have pledged an initial EUR 1 million to help our colleagues in Ukraine and for humanitarian aid, and we will do everything we can to help. We continue to hope for an immediate and peaceful resolution for all. We will provide you with more details on our CIS business' current trading and the outlook at the end of this presentation.

In the context of the last few days, we have decided to cancel our live Capital Markets Day and have instead posted a strategy update on our entire business, which you can now access on our website.

I will now take you through our Q4 and full year 2021 results.

Taking a look at the overall 2021 full year performance. We delivered a strong 24% NMV growth. Our active customer base grew to 17 million, and our customers made 48 million orders, with an average order frequency of 2.8x. Our gross margin continued to improve, reflecting the growing marketplace share of NMV and the strength of our retail business. Our local expertise resulted in strong buying decisions, which meant our retail margin remained broadly stable across the year.

Given the unusually low customer acquisition costs in 2020, we anticipated a step-up in marketing investment during 2021. This, alongside the weak performance in LATAM, meant that our adjusted EBITDA margin was 0.9%, similar to 2020.

Within the year, Q4 was a challenging quarter. Demand was softer than anticipated as most of our markets continued to be impacted by COVID volatility. Indonesia, Philippines and Russia remained under some form of restrictions. And in LATAM, inflation and unemployment continued to be very high, weakening consumer sentiment. Australia was restriction-free, although additional COVID-related operational costs at our fulfilment centre in Sydney remains. Some of our largest markets have yet to see the bounce in fashion and lifestyle spend which typically follows their reopening, with people starting to go out again, attending family and other social events.

Taking a closer look at Q4, you can see how some of these dynamics have played out. We achieved net merchandise value of EUR 758 million in our largest quarter, up 20% year-on-year, reflecting a stabilization in the LATAM performance and strong growth across both CIS and ANZ. Our increased marketplace participation and broadly stable retail margin meant gross margin improved by 2 percentage points to a strong 46%.

As planned, we set the group up for stronger trading for the key Q4 selling period and therefore absorbed some cost when the demand was not there. This meant adjusted EBITDA was flat at 4.3% year-on-year.

Let's now have a look at the progress against our strategic priorities. We have 3 clear strategic priorities which include; to build a best-in-class customer experience, to be the partner of choice for brands, and to do this while being people and planet positive. These are at the heart of how we choose to operate our business.

One of the most relevant topics is our LATAM performance, so I want to walk you through how we are thinking about this on Slide 7. Trading in the region is under pressure from the second order impact of COVID on consumers. Alongside this, we are now competing against an extended set of domestic and cross-border competitors which has been driving up customer acquisition costs.

I want to remind you of the opportunity this market presents and why we are so committed to the region. The market is huge with a population of over 300 million. Online penetration by European standards is still very low at 8% and some of the region's structural challenges, such as the variations in sizing and weak delivery experiences are being addressed. Dafiti is a well-established brand with a strong market position, a very large customer base and deep relationships with local and international brands. We can use this to tap into the market opportunity.

A key differentiator of our business model is that we can deliver a broad and relevant assortment tailored to the local markets and consumers. We have identified opportunities across trends, premium, sport and accessories to help broaden us away from our footwear heritage. We know the experience on our app and website could be better, and we are investing into our front end to ensure an engaging and seamless experience. Our marketing strategy is adapting and maturing away from a single transaction into a business focused on customer retention and reengagement. We need to improve the speed of delivery for more of our customers, including for marketplace orders. Over the last 12 months, the team in Brazil have reduced delivery times for cross docking by an average of 2.5 days. Together, these initiatives will meaningfully progress our customer experiences and unlock the potential across this huge market.

Let me now walk you through some of the global and local brand launches across our platforms. The teams continue to onboard new brands, albeit a little more slowly than the rest of the year as this was our busiest trading quarter. The localized approach provides supplier diversification in majority local supply, which has meant that through Q4, we continued to navigate the industry supply chain challenges well.

In LATAM, we have expanded our partnership with Trendyol, already very successful in SEA, and we hope to replicate their success.

In ANZ, we continue to broaden our assortment into new adjacencies, including Beauty and Home, with the arrivals of Medicaid and Calvin Klein Home as well as introducing a popular up-and-coming local Australian clothing and swimwear label. We attract these brands by offering flexible business models to help them grow. Marketplace has been a popular choice which I will talk about on the next slide.

At the start of the pandemic, as physical stores closed, significant numbers of brands chose to join us so they could access our huge online customer base. Over the last 2 years, this part of our business has grown 168%. As expected, we are still growing our marketplace, but this acceleration has moderated to 42% in Q4 of last year, and Marketplace now accounts for 38% of NMV.

Brands are increasingly opting to adapt a hybrid model across retail and Marketplace. This will both broaden our range and improve size availability. We have delivered this expansion whilst maintaining a focus on customer experience and service levels for the brands. We're constantly supporting our brands by offering our expertise and strengths in fulfilment. It is one of the reasons brands choose to partner with us.

The fulfilled by GFG and cross-docking models expanded to 13 million shipped items in Q4. These services strengthen our position as a trusted partner and improve the customer experience.

Let's now turn to look at our sustainability agenda on Slide 10. We continue to advance our People & Planet Positive agenda. Locally, we have been recognized as a leader in ESG this quarter. In Brazil, we ranked seventh in the Fashion Transparency Index, which ranks 50 of Brazil's biggest brands for ESG disclosures. Most importantly, a lot of time and effort went towards submitting our science-based targets which are currently being validated. We will be reporting this as part of our People & Planet Positive report in April.

Let's now take a look at our KPIs. Financial year 2021 NMV growth of 24% was driven by the growth in both orders and average order value. Q4 NMV growth of 20% was driven by a 2% increase in orders and 17% increase in AOV. The standout number on this slide is this 17% growth in AOV during Q4. It is worth spending some time explaining the drivers.

There are 3 elements, each of which make a similar contribution to the growth rate. Firstly, larger basket sizes. Customers are buying more items with each order reflecting our strategy to broaden our assortment. Secondly, region and country mix effects at CIS and ANZ which have larger baskets and higher selling prices grew faster than other regions. Finally, as we talked about at Q3, we are seeing higher inflation, especially in LATAM and CIS. We're continuing to pass on price rises broadly in line with the general CPI inflation.

Looking at our key customer metrics for Q4, there is a positive improvement across them all. Our active customer base grew by 5% year-on-year to 17 million or 30% 2-year growth due to the exceptionally large new customer cohort in 2020. Order frequency grew 9% year-on-year to 2.8x per year. NMV per active customer was up 18.5%.

Turning to our regional performance on Slide 14. Starting with our LATAM business. The team has stabilized the business with the economic challenges continuing to weigh on consumer sentiment. NMV declined 3% and active customers were in line with last year.

In CIS, NMV grew by 32%. This, alongside a big increase in order frequency and order value delivered a 30% improvement in NMV per active customer.

Our business in SEA, a region which experienced a number of COVID restrictions, delivered NMV growth of 6% and active customers grew by 11%.

ANZ reopened after its lockdown and NMV grew 45%. Active customers continued to grow strongly, up 20%. And NMV per active customer grew 21%.

Our longer-term dynamics remain strong, delivering 54% growth over the last 2 years, and we remain confident in the eventual recovery of fashion and lifestyle across all our markets.

With that, I'd now like to hand it over to Matthew.

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

Thank you, Christoph, and good morning, everyone. I'll now take you through our financial performance, starting on Slide 16.

In Q4, we delivered revenue growth and an improved gross margin. As I discussed at our Q3 results, we set the business up for strong trade in Q4, anticipating an acceleration from Q3 levels, led by the ANZ reopening. This meant that when trade was softer with renewed COVID impact in a number of markets, we saw some cost deleverage and margin investments.

Revenue grew 13% on a constant currency basis to EUR 495 million in the quarter. Again, we see Marketplace scaling up faster than retail growth.

We improved our gross profit to EUR 227 million, a 46% margin, building on the very strong gains made in 2020. Marketplace growth and platform services delivered the majority of this growth. Our retail margin remained broadly stable, reflecting the strength of local buying decisions. The category mix into premium assortment in most regions balanced at discounting needed in CIS and ANZ.

Adjusted EBITDA for the quarter was EUR 21 million. The margin was broadly in line with last year.

Our share-based compensation for the quarter was EUR 3 million and there were EUR 1 million of costs excluded from our adjusted EBITDA, mainly from changes in prior year tax provisions, legal provisions and one-off project costs.

As part of the group's annual impairment assessment, we recognized an impairment charge on goodwill of EUR 22 million on our LATAM business. This is a noncash charge and relates to pre-IPO acquisition. This charge has also been excluded from our adjusted EBITDA figure.

I'll now take you through our regional performance on Slide 17. LATAM performance was under pressure from the second order impacts of COVID on consumers, which meant revenue declined in Q4 but at a much slower rate than in Q3. Christoph has explained our commitment to the opportunity there, and we will continue to trade sensibly whilst we invest in the customer proposition. Over the near term, this means we will deprioritize growth. The regional gross profit margin was stable.

CIS delivered strong revenue growth of 19%. The gross margin improved by 2.8 percentage points to 51%, driven by higher Marketplace participation and a stable retail margin, with benefits from premium mix offsetting some additional discounting.

SEA experienced the biggest acceleration of market participation, resulting in revenue decline even though NMV grew by 6%. This Marketplace strength meant gross margin improved by 5.9 percentage points to 40.5%.

ANZ was free from COVID restrictions and delivered strong revenue growth of 43% in the quarter. However, demand was softer than we anticipated. We had higher levels of discounting, resulting in gross margin declining to a still very healthy 46%.

Across the group, we entered 2022 expecting the demand scenario in the early part of the year to be very similar to Q4 last year and so we're taking a more cost-focused approach as we enter the year. The quality of our inventory is high with EUR 80 million more stock on an FX-neutral basis than at 31 December 2020 and with a very strong level of newness. We expect some ongoing operational costs and discounting like we saw in Q4, and we're planning on the assumption that there will be the opportunity in most of our markets to take advantage of higher demand later in the year.

Now looking at the regional profit performance on Slide 18. The 2 graphs illustrate the regional profitability and the change year-on-year.

H2 performance is shown on the left-hand side. In all regions, apart from SEA, profitability stepped back during the second half, reflecting the softer consumer demand as a result of the COVID situation being different to our plans. At the same time, we spent marketing at a normalized level compared to the very low costs needed in H2 of 2020.

So let's put that in context of the full year, which is shown on the right-hand side. Excluding LATAM, all regions delivered a meaningful step-up in profit. CIS delivered EUR 31 million of adjusted EBITDA, which represents a 6% adjusted EBITDA margin. It grew profits by EUR 4.4 million in the year.

Profitability in ANZ remained robust at EUR 16 million, representing a 4% margin and a EUR 2.4 million growth in the year. The margin was lower than last year due to COVID-related operational costs. And as it is the region with the highest proportion of retail, it took the most cost when customer demand softened. We continue to see elevated operating costs and some discounting into Q1 2022.

SEA reached a significant milestone, achieving breakeven at adjusted EBITDA and the largest profit growth in the group of EUR 6.9 million. The region has delivered strong growth in gross margins led by Marketplace growth and leverage up on its cost base.

I'll now turn to look at the movements in our operating costs and the leverage we've delivered year-on-year. So 2020 was a highly unusual year for low customer acquisition costs. So for clarity, I've compared our 2021 cost base with the previous 3 years.

The gross margin increased 6.7 percentage points over these 3 years, driven mainly by the growth of Marketplace. We think about our operating costs as a percentage of NMV, as this better reflects the underlying drivers of our cost base. Fulfilment costs reduced to 16.3%, delivering 2 percentage points of leverage over the 3-year period. Our fulfilment operations continue to benefit from our greater scale, leveraging the fulfilment centres and operational networks, such as the pickup points.

As we communicated last year, we expected our marketing investments to return to pre-pandemic levels of investment as a percentage of NMV. This has been 7.2% for 2021. We include more details of the positive behaviour on our customer cohorts in our separate strategy update, which is available now on the Investor website.

And we continue to use an ROI framework for marketing payback and have increased the payback for a little more than 18 months, reflecting the additional value we can attribute to both new and reactivated customers and to stronger lifetime values.

Our tech and admin costs reduced to 8.2% of NMV over the 3 years, a net reduction of 2.7 percentage points as a result of our increased scale, improving fixed cost leverage. Within this, we continue to invest in the capabilities of our technology teams.

We invested EUR 60 million of CapEx, in line with our guidance a year ago.

Looking at the breakdown of our investment last year, we invested EUR 29 million in physical assets, which were mainly fulfilment assets, including EUR 13 million for the FC2 in Moscow. We invested EUR 31 million on intangible technology assets, a step-up from the prior year, reflecting the increased investment into our technology team, a significant proportion of whom work on building new products, tools and features that are then capitalized. This year, we capitalized 43% of our total tech payroll, similar to our 2019 level.

We closed the year with EUR 643 million of pro-forma cash which included EUR 8 million of restricted cash and EUR 234 million of cash invested in high-quality, short-duration investment funds.

So now let's look at the year ahead. During January and February 2022, the group grew NMV on a constant currency basis by 23%. And excluding CIS, the group grew 13%.

The elevated levels of uncertainty in CIS on both future customer demand, supply of imported products and potential operational financial or legal constraints mean we're currently unable to provide guidance for 2022. We will provide guidance when we have a clearer view.

To assist with your understanding of the other 3 regions, we expect the demand environment seen in H2 of last year to continue into H1 2022 and progressively improve into the second half.

I'll now hand back to Christoph, who will focus on CIS before we go into your questions.

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

Thank you, Matthew. As I've mentioned at the start, our priority is to our people. In addition to providing financial support and humanitarian aid to our people in Ukraine, we have a dedicated team supporting our colleagues and are communicating with them on a daily basis. Our offices in Ukraine and adjacent border areas remain closed. For safety reasons, we have asked all employees there to stay at home or at a place they feel safe until further notice. We are not accepting any new customer orders in Ukraine and deliveries have been suspended there and in the regions neighbouring the Ukraine border. We are actively monitoring the situation in Ukraine which is unfolding rapidly and we'll adapt our approach as needed to try and ensure the ongoing safety of our people as best we can.

In terms of operations, our platform, fulfilment, last-mile delivery, payments and technology are running. Our teams are local, and we have a strong inventory balance to supply this upcoming season.

For our banking operations, we operate a centralized treasury at the group level and have appropriate local working capital balances. Things are changing rapidly in a very uncertain environment, our business is likely to be impacted. While we can't give you all the clarity that we know you would want, we would like to address some initial questions that are undoubtedly top of mind for you.

First, to address all questions surrounding our commitment to the region and whether we have considered suspending operations in Russia. This has been a very difficult decision to make with rapidly changing circumstances, but we ultimately decided to continue operations in Russia as long as safety, operational and legal considerations allow. If the balance of these considerations changes, we may change our approach. We believe we have a responsibility to our 9,000 employees in the region. Our primary focus is, of course, on our team in Ukraine and supporting them as best we can. Our CIS operations represent around 1/3 of the group, and so it plays an important role in the overall group strategy.

Next, I will address a question of how important CIS in supporting the group's liquidity position. The CIS region made a small positive contribution to the group's cash flow last year, so it is not critical to immediate liquidity. Historically, CIS has represented about 1/3 of the group, and so its ongoing growth and profitable development is a part of our strategy. This strategy and long-term financial goals will take longer to achieve if the region would be disrupted for a sustained period. The group has a robust cash position and demonstrated in 2020 that it can deliver positive cash flow from its operations, if that is a priority. Therefore, we believe that we have the resources and operational and strategic levers available to adjust as needed.

Lastly, I would like to summarize the impact of CIS to our overall business and the other regions. Each of our businesses have a clear strategy to pursue the opportunities within its region, and we're executing on these strategies. Together, LATAM, SEA and ANZ were a EUR 1.5 billion NMV business with EUR 3.6 million of adjusted EBITDA, excluding group costs last year, and there is a substantial growth opportunity in each of these regions ahead.

Each of our businesses in LATAM, SEA and ANZ are market leaders in online fashion and lifestyle. With that said, this is a global event that will have global effects. I cannot comment on the numerous hypothetical scenarios that may play out, but I do know we, as a team, are ready and placed to adapt as needed.

We will now open the floor to your questions. Thank you.

QUESTIONS AND ANSWERS

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

Volker Bosse – Baader-Helvea Equity Research – Analyst

Q. I have a couple of questions. I would like to start with LATAM, Latin America. Could you provide us more detail? It seems that you lost market share here. So who are the competitors and what makes you confident to be able to win back market share going forward? As I might expect that other players have deeper focus to invest in marketing, as you have. But more detail on that would be helpful.

Looking at -- second question is regarding your performance in the fourth quarter '21. I mean, 2 out of the 4 regimes showed a negative sales growth. Out of the 2 who are positive, it's including CIS basically. This also dropped out now. Assuming that the first half '22 will show the same momentum as we see in the second half means that Latin America, SEA as well as CIS showed negative sales growth so you might indicate that sales in the first half '22 should even decline. Is that a fair assumption regarding the growth targets for '22? Yes, (inaudible) the CIS situation, of course, is very sad and unpredictable. However, could you provide a growth target for [2022] excluding CIS? If you say that the other 3 are in a good shape.

And just one final one, just for clarification. Do I really get it right that in CIS, only 20% of NMV is generated via international brand and 80% is locally sourced -- 80% of NMV is generated with local brands or how to get it. I mean 20% international brands seem to be very, very low, but happy to get the clarification of that.

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

A. Thank you, Volker. I start with the LATAM question and the question about CIS. And then Matthew will talk about the -- on the sales trends.

So in terms of LATAM, we -- what we have seen in terms of competitive activity, that there is obviously, as a result or a consequence of the COVID period, a lot of the predominantly off-line players have beefed up their online activities and have, in some cases, pursued online customer acquisition very aggressively, driving up marketing costs. So that's one of the factors.

And the second factor is that we have seen more cross-border players, especially China- and Asia-based ones, starting to be active both in the fashion segment and, more broadly, in general merchandise in Brazil and investing heavily with a proposition of bringing Asian-made products directly to the Latin America and especially Brazilian customers. So that's what we're referring to when we talked about the changes in the competitive environment.

However, on the market share perspective, when you think about online market share, we actually believe that we've gained market share despite our not particularly strong growth in 2021, given that we've seen such a strong swing back also into physical retail. So online fashion and lifestyle e-commerce in the region has certainly had a relatively weak year-on-year in '21 compared to the COVID year of 2020. And within that, we believe we have actually gained market share. But in an environment with higher competitive intensity, therefore, more pressure on marketing spending as well as also prices.

And then to your question on CIS, just to clarify, the 20% and the 80%. So 80% of the products that we sell as a percentage of NMV in CIS are sourced locally. Either we buy them locally in our retail model or we -- that our Marketplace partners are selling them on our platform locally. Of those 80%, a very large part is still imported, just not by us. Therefore, we don't have any currency exposures on that. So we -- this is a pure ruble purchases or ruble transactions. And secondly, the supply chain is not managed by us, but it's managed by our brand partners.

The 20% are the products that we import from Western Europe. And there, we have more currency exposure as well as also the responsibility and the operational complexity of managing the imports from Europe into Russia, including the customs clearance, et cetera. I hope that clarifies that point.

And then Matthew will comment on the sales trend.

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

A. Volker Bosse, thanks for the questions. Just to say on Q4, I think you're looking at the revenue numbers rather than NMV, which I don't think is the right way to look at the growth.

So in terms of where were we, so LATAM, you sort of called out the 2 regions were negative on revenue. We're looking at NMV, LATAM was all about stabilizing the business as we invest into it before getting it back into growth. So in Q3, we were 17% down year-on-year. In Q4, we were 3 percentage points down year-on-year. So I think that's actually a really positive trend there.

In terms of Southeast Asia, which I think again, you called out as negative, actually on NMV terms, we were 6% up, which isn't a tremendous number. I mean, clearly, that region is capable of numbers also beginning until [30, 30 or even 40]. But what you had there was really severe COVID restrictions in 2 of our biggest markets, Indonesia and the Philippines. And so we were just careful in terms of driving growth.

Why was revenue down a little bit compared to 6% growth in NMV? That's because we really grew the Marketplace business, including shifting some important lower average selling price brands over from a retail model into the Marketplace model. And you can see that in the gross margin. And the gross margin actually improved by almost 6 percentage points year-on-year in the quarter. So the economics of some of those lower price point brands is really very much better on the Marketplace and lets us grow in the future.

How do we think about this going forward? So we gave the actual sales numbers for the group, both including and excluding CIS for January and February. So for January and February, excluding CIS, we saw 13% growth in the group, yes. So it's definitely not negative. There, what we've got, though, is we've been careful how we open the year. So we clearly had slightly suppressed demand. That's continuing over into the New Year. Some of the bigger growth markets, particularly Indonesia, Philippines, are again a little bit slower. We think there's a big opportunity to a much more event-based market for some growth in March and April and then -- but really, that's about the second half of the year.

LATAM, as I said, we are being careful on driving for growth at the moment because we're focusing on the investments in the customer proposition. Therefore, the growth really comes through in the second half of the year.

I'm not in a position to provide guidance either for the whole group or for parts of the group, as we said. But I'm not seeing it as being negative as you suggested. I think we're remaining a growth business. Did that help, Volker?

Volker Bosse – Baader-Helvea Equity Research – Analyst

Q. Yes. Thanks for the explanations. Perhaps I would like to come up with a follow-up regarding the market share. You said in Latin America, you gained market share or you had seen a decrease in the (inaudible) market shrink sharper than the decreased sales. And perhaps you can give us a follow-up on market share developments in each of the region, looking to the online market share, and compare it to the online market, region by region, yes, market share trends.

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

A. I mean the data that we're looking at, which is the Euromonitor data, is we're seeing about a 2 percentage point improvement in market share in LATAM. Basically flat market share in CIS last year. About a 1% improvement in Southeast Asia. And about a flat market share in Australia and New Zealand. I'll caveat that the data is difficult in our market. But I think what I think the key point is from our perspective, we don't see in LATAM, and that's why we keep also speaking about some of the macro factors and the consumer factors and the structural factors about the online share of activity relative to an exceptional 2020, we don't see that there is a dramatic loss in market share in the business despite the weak sales trajectory. Now obviously, going forward, we expect online to grow. And therefore, we also want to return to growth, and we're working towards and we're trying to give you some colour on some of the initiatives we're driving to make that happen in LATAM.

Volker Bosse – Baader-Helvea Equity Research – Analyst

Q. Okay. You did not touch at all the strategic update you provided on the website, a package of 60 pages or so with a strategic update, but you did not touch this in your speech. So we should read it on our own and drive our own conclusion on that? Or how do you expect to proceed with this information provided?

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

A. Yes. So what we did is we -- on the website, there's both the presentation, but there's also a video in which we actually speak to it. We just thought that in the context of the events and where people in our Investor and Analyst Days are focused given the environment, we didn't want to set time at which you need to attend it, but rather give everyone an opportunity to watch the video or read the presentation at their own time. And we're obviously available through the usual channels for any follow-up questions on that basis. But we believe giving maximum transparency and information to the analyst community and the investor community at this time is the best thing we can do.

Volker Bosse – Baader-Helvea Equity Research – Analyst

Q. Okay. Then we do it as you like. Perfect. Thank you very much and all the best especially for your employees in the CIS region of course as it's most important to keep them safe. Thanks for your help on that front to your employees. Thank you very much.

(Operator) The next question comes from Miriam Adisa from Morgan Stanley.

Miriam Anuoluwapo Adisa – Morgan Stanley, Research Division – Equity Analyst

Q. Three questions from me. Firstly, just a follow-up on Brazil. What do you think you need to do differently to compete there? I think you speak a bit about broadening the assortment, but do you also think in terms of price points you need to have a broader range particularly to compete with the cross-border players? Are you also participating in the discounting going on? Or are you looking to sort of preserve margins? So if you could just give a bit more colour on that.

Then secondly, just on capital allocation. How are you thinking about preserving cash in this environment versus proceeding with your investment plans? I know you did say that CIS just made a small positive contribution to the cash flow, but it is your most profitable region. So just any colour on just how you're thinking about capital allocation.

And then finally, just on inflation, if you could just talk a bit about what you're seeing at the moment, where you're most concerned, particularly on the cost side? And anything you're doing to mitigate this.

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

A. Great. Thank you, Miriam. So I'll take the first one on Brazil and then Matthew will take the second and third.

On Brazil, certainly, the assortment, like in any online retail business is critical. I think what we want to do there is we don't want to move down in terms of price points. That's not the intention. We want to increase differentiation and also create a really strong assortment across all categories. We have historically had a really incredible strength in the footwear business. Partially, that is driven by returns being difficult. And it's a category where sizing is more standardized and therefore customers in Brazil have been buying footwear online for quite a long time. There's also a lot of domestic brands that are strong in footwear. So it's kind of a little bit of heritage thing from that perspective, but it clearly limits order frequency and basket size. And that's really what we're trying to address by building out a stronger proposition in apparel, especially women's apparel, but also in sports, in accessories, and really strengthening effectively the breadth of the offering so people can really buy all of the relevant items and all of the relevant categories. So it's about rebalancing our categories and putting stronger management on to the categories to really build an inspiring and exciting assortment, bringing together some of the great international brands which we have but currently don't sell enough of. So we need to make them more prominent, but also the best local brands which are so relevant in Brazil. So that's a huge focus.

We're not trying to match pricing or discounting in the market. Obviously, when it is on an individual product or brand, we'll be in line with the market for the benefit of the customers, but we're not trying to get into a race to the bottom in terms of the lowest price point. Some of the prices available from the cross-border players is not something we think we can match and we should try to match in that sort of a different customer segment.

And then I think it is also important that when you look at the front end, I think we can do better, especially on the app side. Brazil is still a market where we have a relatively low app share, and that's something that we really want to drive. We've seen the incredible success in the other regions from becoming really an app-centric business. And if you can replicate that in Brazil and in Latin America more broadly with a much stronger app, that's more inspiring, more engaging, more personalized for the customer and also more seamless in checkout and all those things. And that's something we already kicked off 6, 9 months ago and is now coming live step by step as we're rolling out the tech through the course of this year. So those, I would say, are the key call-outs.

On the marketing side, we're very disciplined while we are working on these other aspects because we know we don't have the right assortment, don't have the right front end, the marketing is just not sufficiently efficient, and so we are very careful about how much marketing we invest during this time. And we're happy to take a little bit of no growth or slow growth while we're doing that.

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

A. Miriam, it's Matthew. So just to pick up the 2 financial questions. I think on inflation, probably the more straightforward one, so we've been slightly dipped because of where we're located and where we buy from. Our inflation rates on cost of products are different and seems to be quite a little bit lower than what a lot of European peers are talking about. And we're also not seeing, because of our supply chains, the kind of huge inbound logistics inflation also being seen.

So I think if we go down the cost areas which really started to grow in Q4, we probably have been seeing slightly elevated inflation rates for fulfilment colleagues. That's not a huge part. Obviously, tech colleagues are seeing pay rises in the sort of 7%, 8%, 9%, 10%, that's something we can absorb.

In terms of the cost of goods, we are generally passing on a normal level of CPI into the market. So in Australia, that's actually quite low. We're not seeing the inflation coming through. In other regions, we're seeing between 5% and 7% that we're passing on. And within that, we've been able to hold the gross margin stable. So I think we can pass on general CPI and manage the inflation through mix, et cetera, et cetera, in there as well without harm to margins at the levels that we're seeing.

In Q1, I think it's a similar situation. So probably about an average of 5% inflation, clearly right at the moment with the ruble devaluation, CIS is a special case, and we're playing that one day by day as we go along, but the rest is really quite manageable.

In terms of capital allocation, you're right to call out that CIS made the biggest profit contribution last year and, obviously, that's important to us in terms of group profitability. It only made a small positive cash flow contribution last year, sort of mid-single digits because it has CapEx. So it doesn't immediately create a challenge to liquidity for the group.

Also, it's worth bearing in mind that at the moment, with -- we're obviously very mindful of the sanctions regime, very mindful of all the restrictions and the laws around it, but we are still in taking supply. We are still -- websites are still operating. We're still selling at a good level. And we're able to move cash out of the country to pay for imports, et cetera, et cetera. So the business is actually still operating inside all of that.

Clearly, if you took a longer-term approach, the region is 1/3 of the group and therefore it's ongoing growth and profitable development and cash generation is a part of our strategy. So if that were to change, we would have to be reevaluating the capital allocation over that period.

So right at the moment, we're being careful on cash. We are reevaluating the big CapEx projects. We're looking at all of our working capital needs, but we're not making any major changes. So I think we have a robust overall funding level. We have set up the funding structures and the financial plumbing of the group in a sensible way so that we aren't massively exposed to any region. And we are continuing. We think we have the resources. We think we have the strategic levers available. And I would go back and call out 2020 when, under pressure from COVID, we demonstrated that when we need to, we can generate some cash from the operations if that's a priority.

Miriam Anuoluwapo Adisa – Morgan Stanley, Research Division – Equity Analyst

Q. Great. And just a follow-up on that. So if I look at the convertible bond, that's now trading around EUR 0.65, how do you plan to deal with that liability? And do you think it would make sense to buy back the bond at these levels?

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

A. No. I think -- I mean it's a good question. I mean, clearly, we -- it's something that we are thinking about. There's probably 2 things we're thinking about there.

One is understanding how the Russia situation is going to work through, because obviously our top priority is capital preservation in the group and liquidity. The second one is, we're very aware of that, that bond situation and are monitoring it. It's something we could consider doing if it looks -- if in the overall context of the capital needs, we think we can afford it. And if we think it would be able to do something which is attractive both to shareholders and bondholders.

(Operator) We now move to the next question from Michael Benedict from Berenberg.

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

Q. I think I have three or four, all on CIS. First one is we've obviously seen listed retailers pull out of Russia in recent days. I wonder to what extent you've communicated with your larger shareholders on the approach you've taken in the region.

Second question is clearly the group is in a highly resilient financial position, but I wonder to what extent you're comfortable with your liquidity in CIS if cross-border funding does become more difficult.

The third one is just around your conversations with international brand partners. Obviously seen brands like Adidas and Nike stopped operations in Russia. Are they still happy to supply you in the region going forward?

And the last one, if I could. I know this is maybe a little tasteless given the ongoing crisis there (inaudible) to your employees. But any colour you can give on Russia trading even in the most recent weeks would be really helpful.

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

A. So thanks, Michael. So in terms of the CIS situation, I mean I think we've addressed it in the remarks opening. We've clearly discussed this very carefully within the management team and also with our Supervisory Board. I think you may know that the CEO of our largest shareholder is also a member of our Supervisory Board and he's certainly been in the discussion. And this is a very joint decision that we have made between the Management Board and the Supervisory Board as well as the broader leadership team to continue operating in the country as long as we can in the conditions that we've set out.

Maybe just on the Russia trading, since you asked it, as well as international brand partners. So on the international brand partners, it's still very early days I think. We have seen a range of statements in terms of what different brands have communicated about their activities in cross-border e-commerce, in stores locally as well as in terms of their partners in the country. We're monitoring that very closely and speaking to them. Given the strong inventory position that we have, with practically all of the spring, summer intake already completed, I think there is not much of a near-term challenge in terms of inventory. But certainly for the later part of the year, this is more of a question mark and we're working through that. I think it's too early to really give you a good quantification of how much of the inventory we would like to have or are planning to have, we may not have. What also gives us resilience is that we have this large Marketplace inventory, and there's certainly quite a bit of inventory from brands in the country that is somehow going to need to find its way as well.

So I think we believe that the diversified supplier base, the diversified business model and the fact that we have an excellent commercial team on the ground managing the situation puts us in a pretty reasonable position to trade through this, no matter what happens on the supply side, but also on the demand side, which clearly is equally uncertain.

So maybe I can't give you a particularly good answer here, but this is how we're thinking about this. Matthew, you want to address liquidity?

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

A. Yes, sure. Thank you. So liquidity specifically abandoned in Russia, wasn't it? So going back to our overall structure, we operate this group treasury out of London. We then carry -- the only balances we carry in the regions are what's normally required to meet the amount of immediate payables that they have, we then have global banking relationships that move that cash very seamlessly.

When I'm specifically thinking about Russia, right at the moment, we're trading, we are taking receipts of money from customers. The local credit card system is working. There are no barriers in that at the moment. We're able to bring product into the country from EU. We're able to get funds out of the country in order to pay those suppliers. So the whole thing is actually working.

Belief is that this will continue. In addition, Russia's own payment system should allow funds to be moved across the banking structure. The -- there are no current restrictions that we're aware of that are going to stop (inaudible) to pay for imports.

We have a decent level of cash in there, I don't want to put exact numbers on it. We also have certain local working capital facilities as well which can provide additional funding. We then have also put in place some contingency funding into the country, not an excessive amount, but I think the right amount.

So I think we've done everything we can. And I think we're in a pretty good place around that.

(Operator) There are no further questions on the phone. I'll hand back over for any webcast questions. There are no further questions on the phone.

(Operator) Thank you. We've had a couple of questions coming in on the webcast. The first one is from a private investor. Q. How much cash do you have in CIS?

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

A. I'll take that. So I think I'll just explain the process to -- in response to Mike's question. I don't want to say the exact number, if that's okay.

(Operator) We have another question through. Q. What are the plans if the situation in the CIS escalates? Risk mitigation plans.

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

A. Yes. I mean, Look, it's obviously very difficult to predict what escalation could happen in various ways. I think the way we think about it is we're starting with a commitment to our 9,000 people in the region. And as long as we, within the legal and the operational constraints that are there, can continue to operate, we'll continue to do so, and we'll evaluate any new information that comes in, that changes the picture. I think the good news here is that we have been operating in the region since 2011 through various times of turbulence. Certainly, this is a very unique situation and one that we did not expect. But I think we have built a degree of resilience. And we have an excellent team working on leading the region to navigate this current circumstances and also any further developments that may impact us. So I think we have to take it one step at a time and adapt to changing realities as they emerge.

(Operator) Q. And have you thought about spinning off the CIS business to existing shareholders? Lots of investors opposed liquidators of anything which is related to Russia and this would allow them to own GFG ex Russia and we would avoid excesses there from investors worried about Russian situation.

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

A. I mean I think it's a valid question to ask. I would say, given that these events are very recent, we're very early, certainly in our more, let's say, strategic and structural thinking. Russia and CIS are historically a very big part of our business and really core to our group strategy. But we'll certainly evaluate the future depending on the circumstances as they emerge.

The specific suggestion in the -- or question -- in the question is something that we can consider. But something like that certainly doesn't happen overnight and has a lot of complications to it at various levels. So we'll analyse and think through different scenarios step-by-step and then obviously keep our shareholders in the market informed.

(Operator) Q. And do you have the time line as to how long you can operate in CIS before you think strategically about the remaining market? In the event of sustained disruption in CIS, at what point do you think to risk about asset write-down?

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

A. So I think we've largely addressed this question in the comments before. For now, we are planning to continue operating in the region. We don't face any restrictions right now that would really make that impossible, as you've heard from us during this call. If that changes, we would reassess or we will constantly reassess. I would hope, first and foremost, that the conflict in Ukraine gets resolved. I think that's the most important factor in all of this. And I think all of us are very hopeful that, that eventually happens, even though many of the headlines are very, very concerning.

And then related to that, certainly also the future of our business in the broader region is something that we need to think through, right. I think it's too early days now to really come to conclusion. I would hope that in the course of next several months, we get a much clearer picture than what we have now, not even 2 weeks into the broader situation.

(Operator) Q. And do you have the ability to move cash out of CIS today? Or is the cash there trapped?

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

A. So we are still moving cash in and out of the region at the moment. So it isn't trapped as of now. I can't give a guarantee that sanction regime regulations won't change in the future. But as of today, our cash process is operating normally.

(Operator) Great. Well, we have no further questions on the webcast. I'd like to hand it back to the management for closing remarks.

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

A. Thank you, everyone, for joining. Obviously, as we've said, we have posted our strategy update on the website. So please do take a look at that if you're interested. And then if you have any follow-up questions, we know there may be more coming up, please feel free to reach out to our Investor Relations team. Thanks, everyone.

(Operator) Thank you. That will conclude today's conference call. Thank you for your participation, ladies and gentlemen. You may now disconnect.