CORPORATE PARTICPANTS

Christoph Barchewitz – Global Fashion Group S.A. – CEO & Member of Management Board
Matthew Price – Global Fashion Group S.A. – CFO & Member of Management Board
Gunjan Soni – Global Fashion Group S.A. – COO & Member of Management Board
Jo Britten – Global Fashion Group S.A. – Investor Relations Director
Saori McKinnon – Global Fashion Group S.A. – Strategy & Investor Relations Manager
Sasha Andreenko – Global Fashion Group S.A. – Strategy & Investor Relations Manager

CONFERENCE CALL PARTICPANTS

Michael Benedict Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst
Nicolas Katsapas BNP Paribas Exane, Research Division - Research Analyst

PRESENTATION

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

Hello, and welcome to our 2023 Capital Markets Day. I'm Christoph Barchewitz, CEO of Global Fashion Group, and I'm joined by our CFO, Matthew Price, and new COO, Gunjan Soni.

We have successfully refocused the group in 2022. So today, we want to talk about how we have responded tomacro headwinds and pressures on the sector while continuing to execute our long-term strategy.

This is our agenda for today. I will start with a brief overview of the business and update you on the opportunity in our markets. Gunjan and I will then explain how we aim to win with both customers and brands. We then provide some deeper insight into our three regions following the sale of CIS last year. Matthew will conclude with our financial performance and outline our path to profitability and positive cash flow. We'll then open up for questions.

So let me start with a short overview. As you know, we aspire to be the #1 fashion and lifestyle destination in our markets. Being #1 requires us to attract the leading fashion brands globally, offer the best selection and create an outstanding experience for customers. As a global business with local routes, diversity is at the heart of everything we do. This gives real meaning to our purpose of enabling our customers to find true self-expression.

We operate under 3 different brands in our three regions: Dafiti in Latin America; ZALORA in Southeast Asia; and THE ICONIC in Australia and New Zealand. We have leading positions across these markets, which is a testament to the value our customers and brand partners attached to our offering. Over the past 3 years, our business has changed greatly following the impact of COVID, the sale of our CIS business and more recently subdued consumer demand. Our team has done a fantastic job pivoting and adapting to these challenges so that we continue to deliver progress and seize new opportunities. Over the past 3 years, NMV has grown nearly 50%. We offer two key business models: Retail and marketplace. Our marketplace model gives us flexibility to increase the breadth of our offering without taking inventory risk. In 2022, marketplace accounted for 34% of NMV, nearly double that of 2019. Two of our regions are profitable, and we have an investment plan in place to restore Latin America to a profitable growth trajectory. With 11.2 million active customers, we have built a large and loyal customer base.

There is a great opportunity to expand our reach. One of our main growth drivers is online penetration. We estimate this was about 16% for Fashion & Lifestyle in our markets in 2022. This is up 7 percentage points from 2019. Yet there is still plenty of headroom as this is only half the rate of developed markets like the U.S. and China. In 2020 and '21, the shift to online accelerated due to COVID, while the overall fashion market contracted. Our earlier stage markets accelerated faster than more mature markets like ANZ or Western Europe. As lockdowns lifted and physical retail returns, online penetration in fashion stalled, but the overall fashion market continued to grow in absolute terms. Overtime, we expect about 50% of fashion spend globally to be online, including in our markets. Opportunity also exists as disposable income growth in Latin America and Southeast Asia. In ANZ, we want to capture a higher proportion of the spend on fashion.

We have further to go to reach our full potential. We operate in markets with rising online penetration as you've just seen, and this brings more customers to shop our categories. As the shift takes place, order frequency for leading platforms goes up. We've seen this happen in ANZ and also our peers across Europe. So we see potential in the long run for our order frequency to double in Latin America and Southeast Asia. And even in Australia and New Zealand, we see a lot of upside.

I'd like to explain now how we plan to unlock this potential. The market backdrop over the last few years has been volatile, but our strategy to build long-term value remains unchanged. We are the leading online fashion and lifestyle destination because our platform connects millions of customers with thousands of the most relevant brands.

We offer our customers a first-class experience. We are the partner of choice for local and global brands in our markets, and our local expertise underpins our relevance for customers and brands alike. Our approach to sustainability is not just about doing the right thing. It's increasingly driven by customer demand.

I'll start by talking about customer experience, where we focus on three critical areas. First, a broad and relevant assortment; second, an inspiring seamless digital experience; and third, fast and convenient delivery. I'll talk about each in turn, starting with assortment.

Having the best and most relevant assortment is a key pillar of our strategy. As a group, we offered products from 10,000 global and local brands. We also have our own brands to differentiate our offering with exclusive products. We cover all the major fashion and lifestyle categories and brand segments from mainstream to premium, which is our fastest-growing segment. Apparel and footwear represent around half our business and sports another quarter. To remain a one-stop destination for customers, we have also broadened into adjacent categories such as beauty and home.

After curating the right brands and products we engage and inspire our customers with the best discovery and experience. Our interfaces are designed to be both appealing and intuitive with high-quality visuals and rich content that bring to life the unique features of our product. And our communications are increasingly personalized and relevant to our customers as you'll see in this video. Let's explore some of our fashion-centric features. Starting with the homepage, we draw customers in with inspirational imagery and content. Then personalized recommendations kick in based on users' browsing and purchasing behavior. Our customers can explore and get excited about the latest fashion trends showcased on the page. Moving into search, which is extensively used by our customers. We offer both visual and standard search options. To facilitate swift discovery of the desired product, we have incorporated key work prompt and comprehensive filters, such as occasion, fit and size. Once users land on catalog, we provide useful tags like new arrivals and trending that fashion shoppers care about. On the product page, users can explore and purchase the entire look as well as receive recommendations for similar products. Another way in which we create interesting and interactive experiences is through the brand corner. This is an example of how brands can really shine through and showcase the best product for our users. We strive to create an inspiring and engaging digital experience for our customers. And all of this is done with App first approach in mind.

Our app enables an easy and seamless shopping experience. Last year, 57% of our NMV came from the App. App usage is critical to building customer loyalty and engagement. For example, in Southeast Asia, customers visit our App 4x more than our website and spend 9x more. In ANZ, our highest spending customers generate 46% of NMV via the app, 3x more than the bottom 50% of customers. Yet we still have a lot of upside when it comes to app usage, especially in Australia, New Zealand and Latin America.

Fast and convenient delivery is another essential part of providing an outstanding customer experience. Last year, we shipped over 50 million items from our 8 fulfillment centers, which have the capacity to scale up as demand requires. Our current footprint can process around EUR 2.5 billion of NMV, so we do not need to invest in more capacity today. These facilities are leased, but our operations are run entirely by GFG. This ensures a reliable service and smooth delivery for our customers. We own all the automation in Australia and Brazil and most of the equipment. This ability to serve our markets at scale is not easy to replicate. We ship large volumes at speed with local teams, and we have well-invested infrastructure to meet our customers' delivery expectations.

We provide multiple delivery options ranging from standard deliveries to same day in some cities, and our delivery times are faster than or on par with our peers. We make the process for returns as simple as possible to instill confidence in our customers as they shop. Convenience is key. Standard returns are free with the option for items to be picked up from home or dropped off at a designated point. Our return rates in Southeast Asia and Australia and New Zealand remain below 2019 levels. Latin America is lower than we'd like at 10%, so we continue to improve the process so our customers have greater confidence to shop, exchange and return.

Now let's take a look at how we win with our brands. Our brand partners work with us for three main reasons: First, we help them unlock complex markets by managing local requirements and infrastructure challenges; second, we have a range of different business models to align with our partners' strategies; and third, we help them grow and succeed by sharing our own expertise through our platform services.

We have the capabilities to support our brand partners as they look for expansion opportunities in our markets. Our regions are vast and they encompass many remote locations. They have complex regulations and import processes that are difficult to navigate without expertise. We are ready with our fulfillment centers and local experts on the ground. This local expertise is a competitive advantage that enables us to manage the supply chain effectively for both GFG and our brand partners.

We operate a number of flexible business models to suit our brand partner strategy. Retail represents a majority of our NMV. Under the retail model, we take ownership of the brands stock and control all aspects of the process. Under the marketplace model, GFG connects brands as sellers on our apps and websites. Within marketplace, we offer three different fulfillment models. The brand retains ownership of the stock and control selling and pricing for all three. Starting on the left, we are fulfilled by GFG. This is when we hold the stock and manage fulfillment just as we do for retail. In the middle, we have cross stocking in this model. The brand holds the stock and we pick up the item and consolidate them at our fulfillment center before delivering to customers. Finally, on the right, our light-touch option is drop shipment, where the brand sells on our platform and retains responsibility for all aspects of the process. We also offer platform services to all our brand partners, including those not currently using retail or marketplace.

Our top 30 brands make up 39% of our NMV. They include well-recognized global and local brands to ensure that we have a unique offering. These brands operate on both retail and marketplace and nearly all of them use some of our platform services. I'll now hand over to Gunjan to explain Platform Services in more detail.

Gunjan Soni - Global Fashion Group S.A. - COO, CEO of Zalora & Member of Management Board

Thank you, Christoph, and hello, everyone. I'm Gunjan Soni, the new Chief Operating Officer of Global Fashion Group. I'm also the Chief Executive of our Southeast Asia business Zalora. I've been with the business for over 4 years, very happy to have joined the management board and bring my regional knowledge to the group.

Now let's turn to Platform Services. Platform Services are a natural extension for GFG, that allow our brands to leverage our strong e-commerce and local expertise. We have really strong capabilities around tech, data, operations and marketing. Our brands look for these, in addition to our ability to operate in really complex markets. So platform services, they can leverage all our capabilities to complement their own. We offer operations, marketing and data services. Operations by GFG helps brand partners that [lack] the local infrastructure and resource with our services such as peak e-production, delivery, returns, and also single stock solution for multi-platform fulfillment. This allows brands to use our warehouse with a single stock pool to fulfill across multiple platforms. Marketing by GFG offers a complete seat to improve awareness, reach and engagement, via services, both on and off our platforms. And finally, Data by GFG provides brands with insights about consumers, assortment trends, inventory performance and competitive benchmarking. Again, even more important in the markets we operate, where structured consumer information is really hard to come by. As you can see, our business models and service mixes are highly flexible. Our brand partners can leverage our offer according to their own strategies and capabilities. As a result, these services create deep relationships with our brands as well as income expansion opportunities for us. Through marketplace and platform services, we provide brand partners with the means to easily expand in our markets and use our data to steer their own performance. Our partners can focus on their core business. In turn, we attract a better product offering and more selection. This creates a strong flywheel.

Expanding marketplace and platform services is a key focus area. Southeast Asia, in particular, has had great success in this over the last 3 years. We have increased the share of marketplace by 2.5x. Platform Services share is up 4.5x. We're also well penetrated across our valuable top 50 brands with 75% of them using marketing services. Our operation services are also very popular with the similar stock solutions already being used by over 30 brands. We shipped over 150,000 items in just the first two months of this year, offering these flexible business models and services has supported our development into a platform business. Today, Marketplace is 34% of NMV, and we aim to grow this to about 40%. We think this provides an optimal mix that balances the benefits of retail and Marketplace models from both the Commercial and customer perspective, fulfilled by GFG and cross-docking now accounts for 35% of Marketplace shipped items. We expect this to increase to 50% over time, especially since the offering is only just been launched this year in Australia, New Zealand. Platform Services remains small, but we are actively scaling it. We expect it to be a significant driver of future growth. As you can see, in Southeast Asia, we've already reached our target metrics.

Now I will cover our strong technology and data capabilities that power our entire business. We have a global team of more than 700 software engineers and data scientists that are focused purely on fashion and life style. The team really understands how to bring it alive for both our customers and brand partners alike. For our customers, we inspire them with personalized content and recommendations. We use social features, enable buying of entire shoppable looks and provide size, fit solutions to name just a few. For our brand partners, our in-house capabilities power them all the way as the list on Marketplace and use our Platform Services across marketing, operations and data. And finally, it powers our internal initiatives like the emission tracking tool. The team is highly experienced and commercially focused on driving sustainable business growth and profitability. Our App first strategy is a good example.

I will now cover our work in progress on sustainability. Our vision is to be People and Planet Positive and to play our role in solving the sustainability challenges that face the fashion and e-commerce industry. 2022 was the first year for our new strategy and targets across climate action, circularity and conscious consumption and fair and ethical sourcing. Let me start with our work on climate action. We increased the sales of products made from sustainable materials or via eco-production to 14% of NMV on track to our 2030 target of 60%. This is the most important contributor to the delivery of our science-based targets. 21% of our own brand products were made from environmentally lower impact materials, up 9% on last year, and 1.2 million parcels were delivered by low emission methods. Together with other initiatives, this will ensure the delivery of our 2030 science-based targets.

Moving on to circularity. Waste and packaging remain key focus areas. 91% of our waste is diverted from landfill and 95% of all directly purchased packaging is made from low impact materials. Our aim is to reach a full 100%. Our circular assortment has also grown to be 3% of NMV. Share of [pre-left] NMV is small, but we are pleased to have introduced pre-left offerings via marketplace in all our regions.

Fair and ethical sourcing remains a priority and our human rights auditing program is ongoing in all our regions. The framework for our brand human rights standards has been developed, an independent grievance channels and in-factory grievance mechanisms piloted in China. We have also improved our sourcing capability for our own brands and are focused on driving a transformation, which delivers both sustainability and commercial benefits. Our 2022 People and Planet Positive report will be released in April.

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

I'll start off with some market context. Our regions are at different stages and require different approaches within the same underlying strategy. Latin America and Southeast Asia are our larger markets, both have about EUR 100 billion in fashion and lifestyle spend annually. They are also where we have the most to gain from a shift online as a lap behind our more developed market, Australia, New Zealand. Online penetration is already well advanced in Australia and New Zealand, so our opportunity here comes from our leading position in the market with higher fashion spend per capital. Our active customer penetration in each region shows how much opportunity we have.

Across our regions, we are the only multi-brand fashion e-commerce platform of scale in a fragmented market with many small brands and retailers. Our main competitors include, omnichannel department stores and online general merchandisers. Our brand partners obviously also sell direct to their customers, both online and offline. Within our peer group of online fashion, our local presence is a strong differentiator that gives us a competitive edge. Unlike our global peers, we have local teams of fashion experts who curate brands and products based on their deep understanding of customers in that market. So what really differentiates us by region?

Let's start with Australia and New Zealand. We stand out here because of our strong own brand offering, valuable top-tier customers who actively seek out the latest fashion trends and our focus on sustainability, which aligns us with the values of our customers.

This shows a snapshot of the ANZ business. There are three things I'd like to highlight. First, our marketplace offering was 27% of NMV last year, so there is an opportunity to increase share, and we are launching Fulfilled by GFG in the region this year to enable more brands to sell on Marketplace. Second, ANZ has the largest premium offering amongst the regions, in line with the disposable income of their customers. Premium is the fastest-growing segment, up 140% since 2019. Third, our own brand offering really sets us apart. These are tailored to our customers based on their browsing and purchasing history. Of course, they also offer higher margins and improve overall profitability.

In the last 3 years, Australia and New Zealand has achieved impressive growth of 76%, outperforming the online fashion and lifestyle market in the region. That has also become profitable. Its adjusted EBITDA margin has increased by 2.6 percentage points since 2019. All our KPIs here continue to move in a positive direction, thanks to our loyal active customer base, which drove a higher order frequency rate of 3.1x last year.

Gunjan Soni - Global Fashion Group S.A. - COO, CEO of Zalora & Member of Management Board

In Southeast Asia, we are differentiated by, first, our unrivalled assortment with a high share of exclusive brands. Second, highly personalized and fashion-centric app leading to a greater than 80% App shares and high loyalty. And third, a sizable platform services offering, which provides an additional revenue stream.

Looking at the Southeast Asia business. The first step I would call out is that marketplace share is at 43% of NMV and Platform Services now make up 9% of revenue. We are learning from this growth to support the other regions and their progression to become a strong platform business. Next, their sport, which comprises 31% of the brand segment breakdown. and our strategy to drive premium is really paying off. This is our fastest-growing segment and 18% of NMV. Lastly, 71% of our NMV comes from global brands as we provide customers with the assortment they want, but are unable to find on other local platforms.

Southeast Asia has grown NMV 46% in the last 3 years and scaled up its profitability significantly. We are pleased that we have increased the average order value, 28% as we premiumize our assortment. I would like to explain now why we are the first e-commerce player in the region to achieve profitability for the full year.

Over the past 3 years, we have increased our adjusted EBITDA margin by 17 percentage points. This was the result of many initiatives aimed at margin expansion combined with tight cost discipline. Around 70% of this improvement came from gross margin. We worked incredibly hard to better plan the open to buy and negotiate improved terms with our suppliers. Our work on premiumization also played a vital role. The most significant contributor is our platform journey with our Marketplace share increase of 2.5x since 2019. This, together with Platform Services expansion, which now comprises 9% of revenues drove up gross margin contribution. We also reduced our operating costs by 10 percentage points, partly due to scale, but more importantly, because we improved unit economics across every cost line. We did this despite adding 54% in item capacity across our 3 warehouses. Together, these two explain the strong journey that we have had towards profitability.

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

In Latin America, we are differentiated by our strong brand awareness, our curated and relevant fashion assortment and our well-invested infrastructure that allows us to deliver quickly and at scale.

This gives you an overview of our Latin American business. We have a healthy category mix with particular strength in sport as we have more male customers here compared to our other regions. Sport is also our fastest-growing brand segment with NMV up 70% since 2019. Our customers choose to shop with us for our significant share of global brands in what is a fairly local market. About 2/3 of our NMV comes from retail, but most of our top 30 brands in the region are both on retail and marketplace. Turning to our performance in Latin America.

Our NMV has grown 29% since 2019 in constant currency. After becoming profitable in 2018, this reversed in 2021 due to increased competition and macro challenges. As a result, we have implemented an investment plan to improve the business and return it to profitability. Last year, we refocused our marketing spend away from customer acquisition to customer retention and engagement. We continue to work on improving customer experience via a stronger assortment, new front-end, marketing efficiency and improved delivery service. We remain confident in the longer-term prospects in LATAM as well as the return to profitability in the region over the medium term.

Though each of our regions are different, the same strategic drivers are relevant for all of them and key to their success. I'll now hand over to Matthew to take you through our financials.

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

Thank you, Christoph. Last year saw both the sale of our CIS region and a different demand environment. We changed in response to these. I'll now show how these changes come together in a clear financial plan, returning the business to profitability and then on to free cash flow delivery.

The financial strategy remains unchanged since the IPO. This is four pillars: First, we focus on building a valuable and loyal customer base and over time, increase their spending with us. Second, we gradually improve our gross margin by expanding marketplace and platform services and use data to run a disciplined retail business. Third, as our business grows, we create operating leverage across overheads such as fulfillment and technology. Finally, we consistently reinvest in our technology and fulfillment to drive innovation and power the flywheel for growth.

Before I outline our ambition, I'd like to reflect on our performance over the last 4 years. This period has seen both pandemic headwinds and then the subsequent tailwinds, so our progress has not been smooth and linear. Notably, our group changed with the sale of CIS. The graphs on the slide includes CIS up to 2021 and with the sale excluded entirely in 2022. Looking at the period when CIS was part of the group, you can see we increased our NMV by over 50% and turned this growth into profitability. With the expansion of marketplace and solid retail margins, our gross margin increased 5.5 percentage points. Adjusted EBITDA grew nearly 4 percentage points, a little slower than gross margin because of the rapid growth of our marketplace. The accounting for marketplace is different and changes the shape of the income statement. I'll demonstrate in a moment that as a percent of NMV, we delivered leverage on the key cost lines that support both marketplace and retail. I'll now look at our performance over the last year and share how we will build from here.

2022 was characterized by softer consumer demand. The bridge shows adjusted EBITDA evolution last year. In 2021, we delivered a positive margin of 0.9%, including CIS and stepped down to a negative 3.7% margin in 2022, excluding CIS. The sale of the CIS region explains nearly 2/3 of the overall margin change. The sale impacted profits both directly as we no longer had that adjusted EBITDA coming in and also indirectly as the group had to absorb its central costs over a smaller revenue base. Turning to gross margin. We lost nearly 1 percentage point from pricing activity in the face of lower demand. We saw our fulfillment costs rise with fixed cost deleverage and some additional costs in ANZ. Looking at our other costs, the picture is mixed. We took strong action to reduce customer acquisition costs, while some deleverage unwound part of the gain. We expect this to be temporary.

I'd like to turn now to our customer base. We work to attract and retain customers with an emphasis on improving loyalty. As a result, our retention rates have consistently improved so that last year, 80% of NMV came from existing customers with just 20% from new customers. This is a significant change from 2018, the year before our IPO, when just 60% of our trade came from existing customers. The NMV from existing customers alone in 2022 is the same as that of the whole business in 2020. With the onset of COVID in 2020, we attracted the highest number of new customers ever. We saw some churn in this cohort last year as online adoption normalized after the pandemic. Even with this churn, the 2020 cohort remains the largest in our customer base. In the current environment of subdued demand, we chose to reduce customer acquisition spend. Our customer acquisition processes are robust, and we will accelerate them again when the moment is right.

Next, you can see how our three business models: Retail, Marketplace and Platform Services, enabled us to grow our gross margin. In 2022, we saw a small decrease in retail margin, as we reduced inventories in the face of lower demand. Looking forward, we expect to recover this margin investment before continuing stable retail margins. However, the start of 2023 will continue the negative trends of last year. As Marketplace becomes a larger part of NMV, we estimate a 0.3 percentage point margin expansion for every additional point of marketplace share. Since 2019, marketplace growth has contributed 2 percentage points to the overall margin. We expect this to continue as marketplace share approaches 40% of NMV. The IFRS accounting for marketplace and retail is different. However, the percentage margin on NMV after fulfillment costs is very similar for both retail and marketplace. Platform Services are very accretive to gross margin. Whilst today, they account for just 3% of revenue, we're planning to grow them to between 5% and 10% of revenue, increasing gross margin. Taken together, we aim to deliver a gross margin of around 47% overtime.

Moving on to our cost base. 2019 is the last normal comparison year. And since then, we've achieved better economics across all operating cost lines, leading to improved margins. We achieved good fulfillment cost leverage in 2020 and 2021, but experienced a step back in '22 as volumes declined, resulting in an overall 0.4 percentage point improvement since 2019. During the period of uncertain demand last year, we reduced our marketing investment and focused on our existing customers. As a result, our marketing cost as a percent of NMV is slightly below our typical 7%. We delivered significant cost efficiencies and leverage in Tech and Admin from 2019 to '21. In 2022, the disruption from the war in Ukraine and our decision to continue investing in key technology platforms, meant these costs increased as a percent of NMV. Overall, we saw a net 1 percentage point improvement in these costs as a percent of NMV across the 4 years. Looking ahead, we expect double-digit NMV growth to resume as the market normalizes and demand returns. We then expect to continue to deliver scale efficiencies across Fulfillment, Tech and Admin, driving better unit economics.

This slide shows the cash balance and normalized free cash flow, which represents cash invested in the business before funding, exceptionals and one-off tax payments. In 2022, you can see an operating cash outflow of EUR 54 million, which is made up of trading losses, cash lease costs and improved working capital. We continue to invest in CapEx with roughly 3/4 related to technology, and we expect CapEx to remain around 3% of revenue The other line includes interest on working capital facilities and recurring tax payments. Together, this means our normalized cash outflow was EUR 111 million for the year, a EUR 34 million improvement from 2021. In addition, the group has a strong liquidity position with EUR 562 million of proforma cash, of which EUR 280 million relates to our convertible bond. So let's look at how these elements come together in the financial plan.

This chart illustrates the three key areas that will drive improved profitability and ultimately cash generation: First, improve gross margin; second, deliver cost benefits from operating leverage and efficiency; and third, increase our NMV by 40% to 50%.

Together, these achieve free cash flow breakeven. In the absence of growth in the near term, we're confident we can achieve adjusted EBITDA breakeven with just the cost and margin actions alone. We have a clear roadmap for how the group will finance its growth using internally generated cash flows: First, we need to increase NMV by 40% to 50% to EUR 2.2 billion to EUR 2.5 billion. This increase will start out slowly. We then expect to return to double-digit growth rates once market conditions normalize. As an illustration, if we assume a 10% NMV CAGR across 4 years, we would achieve this level of NMV in around 2026. We plan to grow Marketplace to around 40% of NMV and Platform Services to between 5% and 10% of revenue, generating a gross margin of about 47%. As explained in our 2023 guidance, we're focused on improving our economics this year rather than driving growth in the short term. Therefore, we will improve profitability by taking action on cost to achieve adjusted EBITDA breakeven in 2024. We then expect growth to return and our increased scale to deliver operating cost leverage. Taken together, this means we are targeting an adjusted EBITDA margin of around 6% in the midterm. We know that developing our technology and fulfillment assets is important to both our customers and brand partners. We are planning for CapEx of around 3% of revenue. For the next few years, we do not expect major fulfillment center expansion.

So to conclude, 2022 was a challenging year, and we took swift action in response to the war in Ukraine and subsequent economic headwinds. Looking to the future, we see significant growth opportunities with low fashion e-commerce penetration in our markets. We have a strong track record of delivery for both our customers and our brand partners. And our business expansion is supported by a clear financial strategy, delivering adjusted EBITDA breakeven in 2024 and free cash flow breakeven when NMV grows to EUR 2.2 billion to EUR 2.5 billion. Thank you. We're now happy to take your questions.

QUESTIONS AND ANSWERS

Operator

Our first question comes from Nicolas Katsapas from BNP Paribas

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

I have about four questions, but I'll go through them all at once like we did on the Q4 call. So the first question is sort of a high-level one. Online penetration has clearly stepped back in both in mature and immature markets across the globe. So I guess I just -- I want to know what gives you confidence that we haven't reached a plateau in that channel shift? Or put another way, remind us what the key drivers are for online to continue to take that share that you envisaged to do? Then secondly, you laid out Beauty Home and Premium as categories that you've entered into. Do you have a target for these as a percent of the sales mix? Is there a gross margin impact that you need to call out on that? And then the third question I have is, I guess, why is the platform service share in Southeast Asia is so high and you haven't sort of managed to get the other regions there yet. And as you tend towards that target, will [SEA, ANZ] will lead the other regions? Or will they converge? And then the fourth question I have is on LATAM. I was quite -- I was struck by how high the sportswear penetration was in that region. So I'm wondering, do you see winning in a fashion category amongst women as a key priority there?

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

Great. Thank you for the questions. So let's take them one by one. So first of all, in terms of the online penetration, as you've seen in the presentation, there has been a little bit of a step back. I think what gives us a lot of confidence in the longer term opportunity to grow that penetration very significantly in all our markets, but in particular, in Latin America and FEA is just the comparison to the more developed markets. And we see no structural reason why there shouldn't be over a longer period, effectively those markets following the more developed markets. Ultimately, we believe we're going to get to around 50%. And by the time we get to that probably a lot of people will not be even making a strong distinction between what online and offline really means in terms of, is it where the customer makes a purchase decision? Is it the form of delivery, et cetera, et cetera. But fundamentally, we think that there is no reason to see that as a plateau now. We see it as a temporary breathing time effectively where there was a real jump in adoption in 2020 and '21, driven by COVID then a little bit of, let's call it, revenge shopping in -- partially related to travel and physical retail and then a normalization of the longer-term trend line. What we're excited about is that through the last few years, more people in our markets have actually tried out online shopping. And therefore, have that experience and now understand better what is available there. And I think that is, ultimately, creating a really good opportunity to build on, even if some of those people have shifted a good chunk of their wallet back to offline in the short term. So we're very excited about that longer-term opportunity. And I think we shouldn't confuse the COVID impact of an accelerated penetration and a tougher macro environment with the long-term trend line that has been true in pretty much all markets around the world. On the second point regarding Beauty Home in some of those categories, we don't have a particular share of NMV gold, but we expect that they will become a greater share of our overall NMV overtime. Our core is certainly fashion and sports and lifestyle, but these adjacent categories are very natural add-on products for customers. And we do see that, in particular, our most loyal customers and the customers with the strongest purchasing power, really like shipping across the categories. So we are seeing that we're not attracting a different customer demographic with these categories, but rather enhancing the proposition for our most loyal, most valuable customer, and that's why we're really focus on continuing to drive those categories. In terms of margin, there can be some impact in both directions, positive and negative, but we don't expect this to be a major factor in how our gross margin evolves inside of the guidance that Matthew went through. In terms of the FDA platform services and maybe also the broader market dynamics there, I'll hand it over to Gunjan in a second, but I'll just cover your last question, Nicolas, which is on LATAM. We do have a higher share of sportswear there. Our primary explanation around that is, in particular, that it is a category that generally needs less try-on and return, mainly because the size charts of the large sportswear brands are very much known. Most people know their shoe size in one of the large sportswear brand. And so try on and return, therefore, are not as important as it is, for example, in women's fashion. So it goes hand in hand with the low return rates that we see in the region and tracking that will enable other categories to normalize. And also, we have a slightly higher share of male customers in that region relative to others. So that explained part of it as well, but we don't think this is structurally long term going to be like this. It is more a history of the market in terms of the returns. And as you said, women's fashion is certainly the core opportunity that we're very focused on. We have a very strong business in, for example, accessories, hand bag and women's footwear. We're not yet as strong in women's fashion in terms of apparel, and that's a huge focus and some of the brands we talked about today are obviously very strongly positioned in that space. Gunjan, over to you.

Gunjan Soni - Global Fashion Group S.A. - COO, CEO of Zalora & Member of Management Board

Thank you, Christoph, and thank you, Nicolas, for your questions. I think as I reflect on what is helping the share in Southeast Asia be high. I think there are three primary drivers of this. Number one, we obviously started to invest in this journey early and especially the focus on one hand on both the technology and the second driver being a clear or focus with a dedicated team has definitely made a difference. This, together with the fact that we are also operating in really complex markets, which I had highlighted earlier. And that makes it even more attractive for our brand partners. We're learning from this experience, and we think that pretty much in every region that we operate in, the same conditions do hold true. And therefore, we are -- with the investments and the strategic focus we do expect all regions to move in the positive direction, including to your question, Southeast Asia would also continue to drive movement forward.

Operator

The next question comes from Michael Benedict from Berenberg.

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

Three from my side, please. Firstly, could you just give a bit more color on the cost benefits over the next couple of years in the absence of growth, what specific parts of the cost base will you be addressing? And secondly, I think it was in this morning's presentation, you updated on the [pies] of progress in LATAM. Can you remind us how full those prices have to be before you set back on the marketing peddle? And then lastly, sticking to LATAM, could you just update us on your thoughts on beauty in that market, please?

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

Thanks Michael, Matthew, do you want to take the first one around cost, and I (inaudible) in the other ones?

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

Yes, absolutely. Yes. So really, where we're thinking about the cost and margin benefits to get to -- get back to adjusted EBITDA breakeven. Probably, the main chunk is actually both in terms of gross margin and also fulfillment cost is actually reversing some of the impact from that we saw in '22. So in '22, really, as you know, we had a demand environment, which was different to what we set out at the start of the year and it came through in different times in different regions, particularly ANZ that was later than others. So there's, let's say, roughly a point of gross margin that we can recover because we now have bought for a flat demand environment. Therefore, we don't see that we would need to be for the full year, chasing sales down to manage that whole inventory cycle efficiently. Secondly, we talked this morning about fulfillment cost, where the reduction in the throughput in them, we've seen some fixed cost deleverage on leases on the fixed cost in those areas. We both will -- we both want to drive volume -- our loan volume back up in there. And also, we have a number of plans to bring in more third-party volume, be that with marketplace, be that also possibly with some platform services that will give that extra volume in the system and help leverage the fixed cost. So I think those are the main bits. We also then have some significant ongoing plans around Tech and Admin efficiency and efficiency programs that will give us some benefit over time. Marketing is probably about right where we're sitting at the moment in the environment.

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

And just to answer the LATAM part of the question, Mike. So in terms of progress there, we've obviously made some progress. We would also like to go faster and see more of the results, in particular, also come through on the financials. We are continuing to invest in marketing. We're just doing that very carefully given the environment and also given what we're seeing around payback. So we think that we can improve the proposition when it comes to the assortment, the front end, further, which then, ultimately, strengthens our marketing efficiency and lets us spend a bit more money in acquiring new customers. So we are very much focused on the existing customers, the most loyal customers, CRM, reengagement of customers, that's where we're investing currently. We will go after new customers when we feel like the proposition has moved sufficiently forward that we really want to do that at scale. And then there's also a bit of differences between what we're doing in Brazil versus the Spanish-speaking markets we're in. So clearly, these things are not completely identical, but at a high level, that would be how we're thinking about it. In terms of the beauty opportunity, it is a massive opportunity in the region, in particular, in Brazil. Our beauty share is still very low. We are not focusing a lot on it. It is a category we're in, but not something that we're putting a lot of effort in because there is clearly an additional need to differentiate the experience around that and many complexities that come with it, plus in terms of the average selling price it is not the easiest category to make work economically. We want to get the core fashion and lifestyle categories really working well and then see beauty as an attachment product for the customer. But I think that's a bit further out, but it is an opportunity that ultimately is there in the market.

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

That's great. And can I just ask one follow-up, please, just on cash. Are there any -- you've given very helpful EBITDA guidance for this year and you've got a sort of idea where it might go in the next few years, CapEx. Any other sort of big working capital -- sorry, free cash flow moving parts or (inaudible) that we should be aware of over the next few years?

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

Happy to take that. No, nothing that we're aware of it. We aren't planning any major fulfillment center changes or development. So I think that's the main piece. We do occasionally see tax payments, which can be a little bit lumpy because of the nature of the markets we're in. We're not aware of anything, which is going to be that's coming up versus that's (inaudible) material. So I think it's fairly clean from our point of view for the next few years.

Operator

Thank you. And there are no further questions in the queue. I'd like to hand the call back over to Christoph for any additional closing remarks.

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

Sorry, I'll pick up with just a few webcast questions, starting off there are few from Richard Sarissky from Inflection Point Investments. First question. I appreciate you see long-term value into PD, but how do you think about trading off maximizing long-term value versus reducing risk to the overall group? Would you be willing to sell such wind down to PD if losses don't substantially reduce in 2023?

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

Thank you. Sorry for the question. And thank you, Richard. So I think we clearly communicated our commitment to the region. We have a clear investment plan that we are executing on. We are improving the proposition. We believe in the market opportunity and our position to capture that opportunity. It is a slower market and lower consumer discretionary spend a moment in terms of the cyclical and we hope that, obviously, the market will return to a better place to aid this investment that we are making into the proposition. It also certainly doesn't feel like it is an appropriate time to be a seller of pretty much any business in our sector in pretty much any geography. And so our financial performance since currently doesn't really represent the opportunity. We think we first want to improve that financial performance, and that's what we're focused on. This year, we think we have any risks to the group from this well under control. We have a very clear financial plan on how we want to deliver this year improvement in the region and overall for the group. And so we think this is something that we can execute on similar to how we've executed tougher moments from a financial perspective, for example, in Southeast Asia at Gunjan shared earlier.

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

The next question from Richard, could you talk about the underperformance in ANZ relative to market expectations in terms of NMV and revenue. How confident are you that you're gaining share in the region? Any signs of competition reducing?

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

Yes. I mean in terms of the ANZ market, we are actually -- when we look at market share, and as always, I'm a little bit cautious around some of the data there. But when we look at the long-term trends, we actually think we've gained market share if you compare it back to 2019. 2020 and '21 were obviously quite unusual with a lot of the off-line players having a different level of a different level of online shares or their stores being closed and therefore, having most of their sales online. So we think from the market share perspective, we're doing well in the long-term trend. We'd, obviously, like to capture more market share. We believe we've gained some last year as well. And ultimately, it is an economy which is very driven of private consumption. It is wealthy, but the consumer sentiment has been trending negative now for slight sometime. And we have seen that in some of the behavior even at a more micro level when we look at conversion rates, when we look at activities such as wish listing, but people that are actually not going through with the order. So we have certainly seen that the consumer is becoming more discerning in the market and more careful around making purchases in our category given how they're feeling about the broader economy also affected by interest rates, which is having a significant impact there on the whole home market and all of that. So I think we're cautious, but long term, very optimistic, and we certainly don't feel like we're losing a market share gain here. If anything, this is an opportunity to gain market share in a soft environment.

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

The next question to confirm are you saying you plan to reach free cash flow breakeven in 2026? Any chance you can bring that forward?

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

Yes, absolutely, it would be possible to bring it forward. So as I said in response to Michael's question on the phone line earlier. We are focused on getting to adjusted EBITDA breakeven in 2024. The biggest part of that is recovering the cost and margin impact that happened from the change in volume last year. Then we have programs to make those costs incrementally a bit better. That gets us to adjusted EBITDA breakeven. The real gap to move from adjusted EBITDA breakeven in terms of our cost base then is some scale and growth, and we talk about getting to EUR 2.2 billion to EUR 2.5 billion to deliver that. plus a little bit of platform service growth in LATAM and ANZ. So that platform service growth will take us at least a couple of years to progress. the actual growth itself is really where -- we don't know how fast growth will return our markets will normalize. As Christoph said, we are very confident and optimistic about the return to growth. We are very conservative about how we're setting up the business and thinking about growth in the coming 6 to 12 months because we can see the reality of the situation we're in at the moment, and we don't want to make a mistake in terms of resource allocation inside it. But we really can't see any reason at all why we can't be getting up to double digit and indeed actually good double-digit growth rates thereafter. So just taking the arithmetic of that, you can see versions where you achieve it in '25 you can equally see versions, which are in a little bit later than '26, so that 2026 is an illustration.

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

Next, we have two main questions from Miriam at Morgan Stanley. First, does management think it can do better than a 10% [NMV CAGR] to 2026. How should we square this to the previous growth objective of 25% the last CMD, assuming the demand environment normalizes

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

Yes, I'll take that. So on the first question, clearly, I mean, I think Matthew addressed that point a little bit as well. I think we want to be very careful in terms of indicating levels of growth that are very far away from what we've seen in '22 and what we're expecting for '23. We longer term, absolutely have the ambition to have a high-growth business that is really capturing the opportunity and that outgrows the online fashion and lifestyle market. So that has not changed in terms of our ambition, but we're very cautious in what that underlying growth actually will be. and we're very committed to deliver the cost improvement and the margin improvement that enable us to achieve the targets that Matthew mentioned both from an EBITDA perspective and from a cash flow perspective. And so we will not be chasing growth in '23 and potentially '24, but rather focus on those improvements. And then when there is more of a tailwind from a market recovery we certainly see an opportunity to go back to 10% growth, and we also see an opportunity to go beyond that when the market is returning to its long-term trajectory of increased online penetration again, it all goes back, we're still at a very low level of online penetration, especially in [SDA] and in Latin America and so. The opportunity there, I think, is very, very clear to see the market are not growing faster than 10% a few years out. On the second point around marketing activity, we have obviously maintained a level of marketing. Some of it, I would call, is baseline level of marketing to engage our existing customer base, and that will always be there, and that is obviously from a cost/income ratio being more pressure in an environment that is flat to down in terms of volume. So I think we've seen a little bit also the deleverage, if you want, on that last year. We are very comfortable that, roughly speaking, that 7% level would also support us in a more positive environment to make some of the growth investments for new customers. So we don't see a need for a significant step-up in the marketing ratio to achieve growth over the medium term. .

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

Next question from (inaudible). On your midterm outlook chart, is it fair to assume that you reach positive free cash flow already before you reach 6% adjusted EBITDA, given that you invest 3% of sales as CapEx.

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

So as a reference back to -- there's also a slide we put out showing what the normalized free cash flow is in the slide. And I think when you look at that, at the kind of scale of business that we're talking about, the EUR 2.2 billion to EUR 2.5 billion top line. The 6% gets us to free cash flow breakeven because it's not just 3% of CapEx you deduct from that. There's also the lease costs, the cash lease costs, which IFRS 16 related, they're around EUR 20 million a year. And there's a combination of both operating tax payments and interest on working capital facilities that we put together on the other line in that table, which together with another EUR 15 million to EUR 20 million working capital is neutral to generally slightly positive. So that's really why we're saying 6% at that scale is the right number. But clearly, different operates, different combinations can also deliver it probably within a band of 5.5% to 6% depending on the on scale.

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

Next question from a private investor. You agree that it is not a seller market for the e-commerce space as valuations are generally very low that makes to the buyer market. A small share of buybacks that let the company opportunistically take advantage of the current undervaluation. Why not institute a small buyback.

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

I'll take this one again, Matthew. It's a really good question. We have a strong balance sheet and a strong funding position but we also have negative cash flow last year, and we are sitting in a relatively uncertain market where we have lower visibility of growth and sales than what normally would. And therefore, as a company, we do need to balance managing the value creation in the short term, but also making sure that we're in a great position to manage through the volatility. So our view at the moment is that we don't have any plans to return capital to shareholders at the moment. Sitting alongside that, of course, we also have a convertible bond and we will always consider opportunities for liability management because I think this is slightly different because that also is a benefit to the bondholder to the company and ultimately to our shareholders. And so we will look for opportunities. And then we have EUR 280 million pre full outstanding on the convertible.

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

There are no further questions on the webcast. Thank you, everyone, for joining. If you have any other questions, please reach out to the Investor Relations team directly.