



07 September 2022

Credit Rating

Long-term (National):

(TR) AA

Outlook:

Stable

Short-term (National):

(TR) A1+

Outlook:

Stable

Expiry Date:

07 September 2023

Arzum Elektrikli Ev Aletleri San. ve Tic. A.Ş.

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ARZUM Elektrikli Ev Aletleri San. ve Tic. A.Ş.

Rating Summary

Arzum Elektrikli Ev Aletleri San. ve Tic. A.Ş. ("Arzum", "the Company") was established in 1977 by the Kolbaşı family under the name of Güney İthalat Anonim Şirketi. The Company was merged with Arzum Dış Ticaret Anonim Şirketi and Felix Elektrik Ev Aletleri Anonim Şirketi, which were established in 1993 and 2005 respectively, in order to carry out the marketing activities of the products of the same family, and subsequently has been carrying its activities under the title of Arzum Elektrikli Ev Aletleri San. Ve Tic. Anonim Şirketi since December 29, 2008.

In the first half of 2022, Arzum was second brand in the Turkish small home appliances market with a share of 11.9% on the basis of unit sales, and 5th with a market share of 6.4% in turnover. As of 2020, the Company's shares were offered to the public at the Istanbul stock exchange and traded with the ticker code "ARZUM". As of the date of our report, the percentage of Company shares in circulation was 48.9%.

Following our comparative analysis of the sector and examination of financial/operational risks carried by the Company, as well as its domestic market history and position, Arzum reconfirmed a long-term rating of AA and a short-term rating of A1+.

Outlook

Arzum has a flexible business model in the Small Home Appliances (SHA) market, by which it completely outsources the manufacture of the products after it has designed and developed them in its R&D units and realized the mold investments. The company then markets its products through diversified B2B channels without a retail store chain of its own. In this way, it aims to create a competitive advantage by providing speed and flexibility in product development and cost-effectiveness in procurement processes. Focusing on R&D activities in its offices in Technoparks located in Istanbul and Niğde, the Company reached the highest number of projects in the company's history with 49 projects in the first quarter of 2022 and 53 projects in the first half of 2022, beating its own record.

In 2020, where the global pandemic disrupted demand and supply chains, and in 2021 where despite the decline of the pandemic the effects of its disruption continued, among the most important factors in the growth of the industry was the increasing need for small home appliances and the unprecedented expansion of online sales channels.

In 2021, the Company's sales increased by 34.2% to TL 815.3 million (2020: TL 607.5 million) and its net profit increased by 37.5% to TL 50.1 million (2020: TL 36.5 million). While the net profit margin of the Company increased to 6.1% in

2021 (2020: 6.0%), EBITDA was recorded as TL 92.2 million corresponding to a margin of 11.3%. As of the second quarter of 2022, the Company's sales increased by 64.6% compared to the same period of the previous year and reached TL 677.1 million, while its net profit margin continued to increase to 6.3% and its EBITDA margin to 14.4%.

On the other hand, as precautionary measures to probable shortcomings in receivables and supply-chains expected due to the adverse effects of the pandemic, the Company buffered up its inventories in the last 2 years. This, in turn, increased working capital funding requirements which were financed partly by increasing supplier payables and partly by increasing commercial bank loans. Despite the increases in working capital in 2021, the Company continued its investments thanks to its increasing profitability and positive operational cash flow.

The Company's net foreign currency position, which was recorded as (+) TL 111.7 million at the end of 2021, was realized as (+) TL 101.2 million in June 2022. The Company hedges the risks arising from probable foreign exchange rate fluctuations, by making use of forward derivative instruments.

Taking all of the above factors, as well as the Company's ownership structure, industry experience and moderate growth targets into consideration, in addition to the developments in global money and capital markets in recent years, the Company's short and long-term "Stable" outlook has been confirmed.

Methodology

SAHA's credit rating methodology is composed of quantitative and qualitative sections contributing to the final grade with specific weights. The quantitative analysis components consist of the Company's performance compared to industry peers, analysis of the financial risks, and the assessment of cash flow projections. Default probability analysis measures the distance from the point of default and it is based on relevant sector firms past financial performances, ratios derived from a distinctive default statistics, and statistically derived coefficients. This analysis is based on genuine statistical study of SAHA, covering companies in Turkey. Comparative performance analysis of the sector determines the position of the company concerned in comparison with the sector firms' recent financial performances. Financial risk analysis covers the evaluation of the company's financial ratios on the basis of objective criteria. Liquidity, leverage, asset quality, profitability, volatility and concentration are treated as sub-headings in this analysis. Finally, scenario analysis tackles the company's future base and stress scenario projections subject to scrutiny in the context of the firm's financing tool and assesses the risks of fulfillment of obligations.

Qualitative analysis covers operational issues such as sector and company risks as well as administrative risks in the context of corporate governance practices. Sector analysis evaluates the nature and rate of growth of the sector, its competitive structure, structural analysis of customers and creditors, and sensitivity of the sector to risks at home and abroad. Company analysis discusses market share and efficiency, growth trend, cost structure, service quality, organizational stability, access to domestic and foreign funding sources, off-balance sheet liabilities, accounting practices, and parent / subsidiary company relationships.

Corporate governance plays an important role in our methodology. Our methodology consists of four main sections; shareholders, public disclosure and transparency, stakeholders, and board of directors. The corporate governance methodology of SAHA can be accessed at www.saharating.com.

Rating Definitions

Our long-term credit ratings reflect our present opinion regarding the mid to long term period of one year and above; Our short-term credit ratings reflects our opinion regarding a period of one year. Our long-term credit rating results start from AAA showing the highest quality grade and continue downward to the lowest rating of D (default). Plus (+) and minus (-) signs are used to make a more detailed distinction within categories AA to CCC.

Companies and securities rated with long-term AAA, AA, A, BBB and short-term A1 +, A1, A2, A3 categories should be considered “investment worthy” by the market.

Short Term	Long Term	Rating Definitions
(TR) A1+	(TR) AAA (TR) AA+ (TR) AA (TR) AA-	The highest credit quality. Indicates that ability to meet financial obligations is extremely high. For securities, it is an indication of no more than a slight additional risk as compared to risk-free government bonds.
(TR) A1	(TR) A+ (TR) A	Credit quality is very high. Very high ability to fulfill financial obligations. Sudden changes at the company level and/or economic and financial conditions may increase investment risk, but not significantly.
(TR) A2	(TR) A- (TR) BBB+	High ability to fulfill financial obligations, but may be affected by adverse economic conditions and changes.
(TR) A3	(TR) BBB (TR) BBB-	Sufficient financial ability to fulfill its obligations, but carries more risk in adverse economic conditions and changes. If securities; has adequate protection parameters, but issuer’s capacity to fulfill its obligations may weaken in face of adverse economic conditions and changes.

Companies and securities rated with long-term BB, B, CCC, and short-term B1, B2, C categories should be considered “speculative” by the market.

(TR) B1	(TR) BB+ (TR) BB (TR) BB-	Carries minimum level of speculative features. Not in danger in the short term, but faces negative financial and economic conditions. If securities; below investment level, but on-time payments prevail, or under less danger than other speculative securities. However, if the issuer’s capacity to fulfill its obligations weakens, serious uncertainties may unfold.
(TR) B2	(TR) B+ (TR) B (TR) B-	Currently has the capacity to fulfill financial obligations, but highly sensitive to adverse economic and financial conditions. If securities; there is a risk in due payment. Financial protection factors can show high fluctuations depending on the conditions of the economy, the sector, and the issuer.
(TR) C	(TR) CCC+ (TR) CCC (TR) CCC-	Well below investment grade. In considerable danger of default. Fulfillment of its financial obligations depends on the positive performance of economic, sectoral and financial conditions. If securities; there are serious uncertainties about the timely payment of principal and interest.
(TR) D	(TR) D	Event of default. The company cannot meet its financial obligations or cannot pay the principal and/or interest of the relevant securities.

Disclaimer

This Credit Rating Report has been prepared by Saha Kurumsal Yönetim ve Kredi Derecelendirme Hizmetleri A.Ş. (SAHA Corporate Governance and Credit Rating Services, Inc.) in collaboration with Arzum Elektrikli Ev Aletleri San. Ve Tic. A.Ş. and is based on information disclosed to the public by Arzum Elektrikli Ev Aletleri San. Ve Tic. A.Ş.

This report, edited by SAHA A.Ş. analysts based on their best intentions, knowledge base and experience, is the product of an in-depth study of the available information which is believed to be correct as of this date. It is a final opinion about the overall credibility of the institutions and/or debt instruments they have issued. The contents of this report and the final credit rating should be interpreted neither as an offer, solicitation or advice to buy, sell or hold securities of any companies referred to in this report nor as a judgment about the suitability of that security to the conditions and preferences of investors. SAHA A.Ş. makes no warranty, regarding the accuracy, completeness, or usefulness of this information and assumes no liability with respect to the consequences of relying on this information for investment decisions or other purposes.

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