

Bimeks

Undervalued after acquisitions

- **We are initiating our coverage of Bimeks with a 12-month target share price of TL2.42 and 'Outperform' rating.** This points to 35% upside at the current share price. Bimeks completed the acquisitions of two major players, Electroworld and Darty, in the Turkish consumer electronics retail market, becoming one of the strongest players in the sector. With its strategy of growth through multi-channel distribution (own stores, franchise model and online) we believe Bimeks is poised to benefit from the strong growth in the sector. Bimeks trades at discounts of 20% and 36% on its 2014F and 2015F EV/EBITDA multiples of 6.2x and 4.8x, compared to the 8.0x and 6.9x median multiples of its global peers (including Teknosa).
- **Turkish consumer electronics retail sector poised for double digit growth.** We forecast a 13% CAGR in the top-line of Turkish Technology superstores over in US\$ terms over the 2013 – 16 period. This translates to a 23% CAGR in TL terms based on own projections for exchange rates. With the Electroworld and Darty acquisitions, we forecast a CAGR of 39% in Bimeks's turnover over the same period. Hence, Bimeks is in a much stronger position to benefit from the strong growth expected in the sector. We believe the market has not fully accounted for Bimeks's expanded size.
- **After overcoming obstacles in 2014, we expect steady profitability going forward.** Credit card restrictions on installment payments, local and presidential elections and lower consumer confidence negatively impacted profitability for Bimeks in 2014. We believe that consumer confidence will recover in 2015, and that this will be supported by increased use of in-store consumer financing, launched in 1H14. Furthermore, Bimeks's strategy of increasing the share of major domestic appliances, appropriate for the larger stores acquired with the EW and Darty acquisitions, will help boost profitability. We forecast an increase in the EBITDA margin from 4.8% in 2014 to 5.0% in 2015-16, before stabilizing at 4.5% from 2017-23.
- **Efforts to secure profitable growth.** Bimeks implemented an automated inventory program that became fully operational in 3Q14. The Company aims to reduce its inventory turnover to 90-100 days in 2015 and to 80-90 days in 1H16 from 144 days in 2013 and 128 days in 1H14. We are more cautious, forecasting 115 days in 2015 and 105 days in the rest of the forecast period. The extending geographical reach through the Company's unique franchise system enables low cost expansion. Bimeks was among the first to introduce online retailing (at the end of 2009) that it has integrated as part of its multi-channel distribution strategy. Going forward, the Company aims to focus on increasing its mega stores, online sales and geographical reach.

OUTPERFORM

Current price: 1.80TL
12-mo T.Price: 2.42 TL

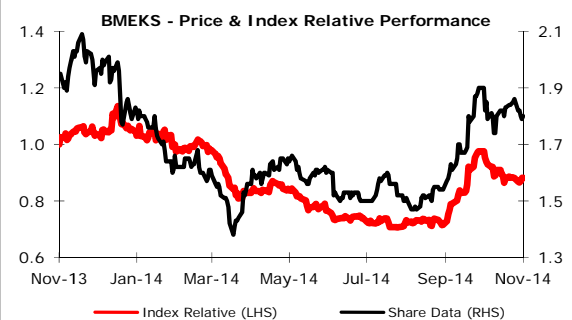
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Stock Data*

Ticker (Reuters, Bloomberg)	BMEKS
Market Cap. (TLmn)	216
Number of Shares (000)	120,000
Free Float	33%
Daily Vol. (3 Month, TLmn)	2.5
Net Debt (2014/06, TLmn)	168
BIST-100 Index (TL)	77,958 / 34,332

(*) Stock data as of November 7, 2014



Stock Performance

	1 W.	1M.	3M.	1Y.
TL	0.4%	2.4%	6.2%	30.9%
Index Rel.	3.4%	10.1%	11.6%	28.8%

Forecasts (TLmn)

	2013A	2014F	2015F	2016F
Net Sales	697	1,307	1,601	1,785
EBITDA	37	62	79	88
EBITDA marg.	5.3%	4.8%	5.0%	5.0%
Net Profit	8	7	12	13
EV/Sales	0.4	0.3	0.2	0.2
EV/EBITDA	7.1	6.2	4.8	4.3
P/E	23.2	31.2	18.5	16.6

Shareholding Structure

SPV Bilisim ve Dis Ticaret	31.9%
Mehmet Murat Akiray	18.5%
East Capital Asset Mgmt	5.9%
Free Float & Others	43.6%

INVESTMENT THESIS**Growth boosted by recent acquisitions**

Strong player in Turkey's fast growing consumer electronics sector offers significant upside

We are initiating coverage of Bimeks with an “Outperformer” rating and 12-month target share price of TL2.45, pointing to 32% upside. We see significant upside for Bimeks based on two key factors. Firstly, the strong forecasted growth in the sector; we forecast a 13% CAGR in US\$ revenues for the Turkish technology superstores segment for 2013 – 2016 and a CAGR of 23% in TL terms, based on our in-house projections for exchange rates. This is supported by the forecasts of GFK (an independent consumer retail consultancy and research firm). By comparison, historically, this CAGR is 26% CAGR for the segment in US\$ terms and 37% in TL terms for the 2010 – 2013 period. Our forecasts are half of what was seen in the 2010-2013 period. Bimeks’ revenues exhibited a CAGR of 32% in the 2010 – 13 period, broadly in parallel with the sector’s rate of growth. Over the 2013 – 16 period, we forecast a CAGR of 39% - which includes the Electroworld (EW) and Darty acquisitions. Secondly, with its recent acquisitions, Bimeks has boosted its market share in the Technology Superstores (TSS) segment from 9% in 2013 to a forecasted 15% in 2014. Bimeks has nearly doubled in size with these acquisitions. It will be in a much stronger position to benefit from the strong growth expected in the sector. We believe the market has not fully accounted for the larger size of Bimeks.

2014 has been challenging and we see it as a transition year for Bimeks

We assume 2014 will be a transition period as the Company integrates the two acquisitions of EW and Darty. In addition, margins have been under pressure this year amid the weak growth in the first half of the year on the back of the restrictions on credit card installments that were imposed in February. Going forward, we expect some improvement in margins thanks to i) the increased use of consumer financing, which is an alternative to credit cards, especially for mobile phones, ii) economies of scale from the EW and Darty acquisitions, iii) an increased share of Major Domestic Appliances (MDA) and Small Domestic Appliances (SDA) in the sales mix that will enhance profitability, as they have higher margins than the other product categories, iv) an increased share of online revenues, which benefit from lower operating costs and v) the expectation of further consolidation in the sector.

We forecast strong top-line growth and margin improvement for Bimeks

After the jump in the top-line following the acquisitions of EW and Darty, we forecast a CAGR of 17% in revenues over the 2014 – 16 period in TL terms. We then forecast a 10% CAGR in revenues for the rest of our forecast period (2017-23). Bimeks’s EBITDA margin averaged 5.7% in the 2010 – 13 period (excluding the impact of the EW acquisition in 2013). With the digestion of the EW and Darty acquisitions in 2014, combined with the negative impact of weaker consumer demand and restrictions on credit card installments, the management is guiding for an EBITDA margin of 5.0% in 2014. We predict a 2014 EBITDA margin of 4.8% (1H14: 4.6%). The second half of the year is seasonally the stronger, with 60% of sales realized in 2H in 2013. On the back of the drivers cited above, we expect profitability

Bimeks is pursuing successful strategies which will support its performance going forward

to improve to 5.0% in 2015 and 2016; the management is guiding for an EBITDA margin of 5.0% - 5.6% for the 2015 -2016 period. For the rest of the forecast period (2017-2023), we assume a stable 4.5% EBITDA margin.

In our view, Bimeks has pursued a successful strategy through its recent inorganic growth. These acquisitions are proving to be a good fit for the company as they had increased the number of large size (mega) stores from 10 to 44 as of November 2014. These large scale stores are necessary in sales of major domestic appliances that have higher profitability than the other consumer electronics category. The early introduction of online sales provided Bimeks with some early-mover advantages such as establishing itself as a trusted online retailer. Bimeks has developed a “multi-sales channel / one business” model. This model places in-store inventories as being available for on-line sales. This model allows for cost efficiencies as there is only one inventory and logistics structure to manage. Bimeks is the only retailer in Turkey to have fully integrated all of its stores in real time with online orders. Best Buy in the US has recently embarked on a similar strategy whereby store inventories are now available for on-line purchases, while Amazon announced it was opening its first bricks and mortar store in New York City

Geographical reach is another area that the company is pursuing. Bimeks’s unique franchise model (“store-based partnerships”) allows for quick and flexible expansion in small store formats in less-populated areas and paves the way for increased penetration. This model also limits Bimeks’ operating expenses (lower personnel expenses) while keeping investment spending under control.

Bimeks developed its own software, which was fully implemented in 3Q14. The software offers algorithmic management of inventory and prices, enabling process engineering. It is geared towards optimizing gross margins using algorithmic price mechanisms. The program offers efficient inventory management with artificial intelligence tools. The procurement process is fully automated and there is real-time optimization of inventories in stores. We believe this software package is an important tool that will help the Company achieve its goals of optimizing working capital requirement and which will support profitability.

RISKS AND OPPORTUNITIES

Continued government concerns about the high bill paid for imported smart phones is an ongoing risk

There is a risk from higher duties on imported consumer electronics products, especially mobile phones: We have already seen the risk that regulatory changes can bring, with the imposition of limits on credit card installments imposed in February. There have recently been reports that the government is considering higher duties on imported consumer electronics, but these were later denied. The government is uncomfortable with the level of imported mobile phones, as demand has increased in recent years with the proliferation of more expensive smartphones. Such imports are seen as having a negative impact on the current account deficit.

Hence, the number of installments permitted on sales of mobile phones was reduced to zero from February. Retailers have started to overcome this impediment through consumer financing, where they may extend installments up to 36 months but with the added cost of interest payments. Consumer financing of 9-12 months is generally extended with a minimal additional interest cost burden. The government's concern surrounding smartphone imports is another driving force of the diversification in Bimeks' product range, with the Company now focusing on expanding sales of major and small domestic appliances. Despite the consumer financing alternative, additional obstacles such as higher taxes on mobile phones and other imported consumer electronics products remain a risk.

Lower than-expected inventory days could offer upside. Bimeks developed its own in-house software to automate inventory levels. The new program was fully implemented in 3Q14. The Company expects the new program to set the stage for a significant reduction in inventory days from 144 in 2013 to 90 – 100 days in 2015, and to 80 – 90 days in 1H16. We are more cautious, assuming 115 inventory days in 2015, falling to 105 throughout the rest of the forecast period thanks to the Company's new software. The decline could be stronger than expected if the software proves more effective than our expectations, leading to lower inventory days than we have forecasted.

Potential new plan for installments on credit cards for mobile phones. Another potential upside challenge is the possibility of some retreat in the government's credit card restrictions on mobile phones. There have been some reports that the government may be considering allowing payment by credit cards through installments for purchases of mobile phones from consumer electronics retailers, based on income of the credit card holders. It appears that the restriction to reduce the number of credit card installments to zero for mobile phones purchased from consumer electronics retailers has spurred a run on mobile phone purchases from abroad, reducing government tax receipts from mobile phone purchases; this is another incentive for the government to reinstate some sort of installment plan.

VALUATION & FORECASTS

Bimeks - Valuation Summary			
TLmn	Value	Weight	Weighted Value
DCF	319	50%	160
Median of peers' multiples*	245	50%	122
Est. Equity Value (TLmn)			282
12-month target value			323
12-month Target Share Price (TL)			2.69
Small Cap discount @ 10%			2.42
Current Share Price (TL)			1.85
Upside / (Downside)			35%
Source: Ak Investment			
* Using 2014F & 2015F EV/EBITDA and PER			

In our equity valuation for Bimeks, we apply equal weightings to the results obtained from DCF analysis and the analysis of peer group multiples, and carry this value 12 months forward with a TL cost of equity of 14.5% (beta = 1). We calculate a DCF equity value of TL319mn for Bimeks. This compares to a value of TL245mn derived from international peers and Teknosa's 2014F – 15F EV/EBITDA and P/E multiples. We apply a 50% weighting to each valuation method. We arrive at an estimated equity value of TL282mn, which we then inflate at the cost of equity to arrive at our 12-month target equity value of TL323mn. We apply a 10% discount to reflect the small market capitalization and low daily trading volume of TL2.5mn. As such, we arrive at a 12-month target share price of TL2.42.

DCF Valuation Assumptions

Revenues: Inorganic growth in 2014 should boost revenues by 88% YoY to TL1,307mn. There is the contribution from the 51,000 m² of retail space added from the Electroworld acquisition in 4Q13, so we will see the full-year effect of this in the 2014 results. The Darty acquisition in 1Q14 will contribute fully from 2Q14, with the addition of 26,000 m² on top of the 2,300 m² in organic retail sales space growth that we forecast. This represents 5% YoY growth for organic selling space for Bimeks, comparing with the 13% expansion in organic retail space realized in 2013, which we believe to be reasonable. The management guides for a 19% CAGR in revenues between 2014 and 2016, which is slightly more optimistic than our forecast of 17%. Beyond 2016, we forecast revenue growth to slow to 10% per year until the terminal year in 2023.

Profit: Integrating the Electroworld and Darty operations is likely to give rise to increased operating costs during the transition. Accordingly, we forecast a 2014 EBITDA margin of 4.8% - down from the 5.3% in 2013 when adjusted for the Electroworld acquisition. It should be noted that similar adjustments to EBITDA have not been made for the Darty acquisition, as only the stores were purchased, not the whole entity, as was the case with Electroworld. The acquisitions should be fully

digested and economies of scale should then come into play, allowing the EBITDA margin to expand to 5.0% in 2015 and 2016. With consolidation, a higher share of both major and small domestic appliances in the sales mix and an increased share of e-commerce are expected to create efficiencies, so we would expect to see a stable EBITDA margin of 5% throughout the rest of the forecast period (2017F – 2023F).

Capex and net working capital: With the addition of stores from EW and Darty in 2014, Bimeks is undertaking renovations and re-decoration at the acquired stores. Bimeks has also reduced the retail space at some of the larger stores it has acquired; stores which had 5,500 m² of retail space were downsized to 3,000m² with the disposed selling space being rented out to clothing and furniture retailers, on the premise that these Bimeks stores will benefit from increased customer footfall. Bimeks' capex/sales ratio rose to 3.5% in 1H14 from 2.0% in 2013 and 1.7% in 1H13. Bimeks started to ramp up its capex spending in 2H13 with the EW acquisition that was realized at that time. We assume a capex/sales ratio of 2.5% in 2014, falling to 1.2% in 2015-2016 before rising slightly to 1.5% in 2017-2023. Bimeks completed an in-house software package to automate inventory, which became fully operational in 3Q14. Bimeks refers to this as Supply/Demand Management and claims the system employs artificial intelligence. The system measures and optimizes the entire process in real-time, from procurement to in-store inventories and the volume of products to put on display shelves. Bimeks is able to do this for its 20,000 SKUs and plans to increase its range of SKUs to 30,000 - 40,000 SKUs in the near future as it adds new categories like personal health care, sports and fitness products, etc. The Company aims to reduce its inventory days from 144 in 2013 to 90 - 100 in 2015 and then to 80 – 90 days by 1H16. We are more cautious in our forecasts, assuming 115 days in 2015 and a steady 105 days throughout the rest of the forecast period. We expect receivables days to remain at their 2013 level of 12 days, with payable days to remain at 90 going forward, compared to 113 in 2013 and 78 in 1H14. Based on these assumptions, we forecast net working capital days (NWC) of 45 in 2014, compared to 43 in 2013. Yet, with improved inventory days, we expect NWC days to improve to 37 in 2015 and then to 27 days for the remainder of our forecast period.

WACC assumptions: In calculating the TL cost of equity, we assume a risk-free rate (RfR) of 9.0%. On our expectation of a sustainable fall in inflation and that Turkey will continue to take strides towards a more developed market status, we lower the RfR to 7.5% in 2023, the terminal year in our DCF. For Bimeks, we calculate a re-levered beta of 1.24 based on the emerging markets consumer electronics retail sector unlevered beta of 0.8 (source: Damodaran website). Our calculation for the cost of debt is based on corporate bond yields issued by Bimeks over the past few years.

Bimek WACC Assumptions

WACC Calculation (TL)	2014F	2015F	2016F	2017F	2018F	2019F	2020F	2021F	2022F	2023F
Risk free rate	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	7.5%
Equity risk premium	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.0%
Re-levered Beta	1.24	1.24	1.24	1.24	1.24	1.24	1.24	1.24	1.24	1.24
Cost of Equity (TL)	15.8%	15.8%	15.8%	15.8%	15.8%	15.8%	15.8%	15.8%	15.8%	13.7%
Cost of Debt	12.8%	12.8%	12.8%	12.8%	12.8%	12.8%	12.8%	12.8%	12.8%	10.6%
after tax cost of debt	10.2%	10.2%	10.2%	10.2%	10.2%	10.2%	10.2%	10.2%	10.2%	8.5%
Weight of equity	31%	34%	32%	44%	40%	34%	28%	21%	13%	4%
Weight of debt	69%	66%	68%	56%	60%	66%	72%	79%	87%	96%
WACC	12.0%	12.1%	12.0%	12.7%	12.4%	12.1%	11.8%	11.4%	10.9%	8.7%

Bimeks Consolidated Discounted cash flow (TLmn)

	2014F	2015F	2016F	2017F	2018F	2019F	2020F	2021F	2022F	2023F
Revenues	1,307	1,601	1,785	1,902	2,085	2,284	2,502	2,752	3,027	3,329
EBIT (Pre non-recurring)	35.6	46.9	52.3	46.2	50.6	55.5	60.7	66.8	73.5	80.8
-Taxes	(7.1)	(9.4)	(10.5)	(9.2)	(10.1)	(11.1)	(12.1)	(13.4)	(14.7)	(16.2)
Net operating profit after taxes	28.5	37.5	41.8	37.0	40.5	44.4	48.6	53.5	58.8	64.7
+ Depreciation & amortization	26.4	32.4	36.1	38.5	42.2	46.2	50.6	55.7	61.2	67.3
- Increase in operating working capital	(42.2)	(3.6)	23.8	(8.2)	(12.2)	(13.3)	(14.5)	(16.8)	(18.4)	(20.2)
- Net Capital Expenditures	(32.3)	(19.2)	(21.4)	(28.5)	(31.3)	(34.3)	(37.5)	(41.3)	(45.4)	(49.9)
Free cash flow	(19.5)	47.1	80.3	38.7	39.2	43.0	47.1	51.1	56.2	61.9
Weighted Average Cost of Capital	12.0%	12.1%	12.0%	12.7%	12.4%	12.1%	11.8%	11.4%	10.9%	8.7%
Present value of free cash flow	(18.7)	40.3	61.3	26.2	23.6	23.1	22.7	22.1	21.9	22.2
Terminal value free cash flow	740									
Long-term growth rate	5%									
Sum of PV of free cash flow	223									
Present value of terminal value	265									
Enterprise Value	488									
1H2014 Net Debt	168									
Equity value	319									

Source: Ak Investment estimates

Bimeks Peers Comparison

	Country	EV/EBITDA		P/E		Sales CAGR	EBITDA Margin	
		2014F	2015F	2014F	2015F	2013 - 15F	2014F	2015F
Arrow Electronics	US	7.2	6.9	9.7	9.0	6%	4.5%	4.6%
Best Buy	US	5.1	4.7	14.8	13.0	-2%	5.0%	5.4%
Conn's	US	8.0	6.8	10.7	9.2	21%	14.5%	14.4%
Gamestop	US	5.8	5.1	11.5	9.7	10%	8.2%	8.6%
HHGregg	US	8.0	5.1	-	-	-4%	0.6%	0.9%
Dixons Carphone	UK	8.4	7.5	18.2	14.9	69%	5.2%	5.7%
M.Video	Russia	3.7	3.5	7.5	7.0	-2%	5.8%	5.8%
Mobilezone	Switzerland	11.0	10.9	15.6	14.5	2%	10.0%	10.5%
Gome	China	9.0	7.7	12.4	11.2	12%	3.3%	3.5%
JB Hi Fi	Australia	7.3	6.9	12.1	11.4	1%	6.4%	6.4%
K'S Holdings	Japan	8.2	7.8	9.4	8.8	-3%	5.0%	5.0%
Lotte Himart	South Korea	10.5	8.8	14.3	11.3	10%	5.5%	6.0%
Teknosa	Turkey	6.0	3.2	55.4	13.4	0%	3.3%	4.4%
United Electronics	Saudi Arabia	13.8	12.4	17.5	15.8	10%	6.2%	6.2%
MEDIAN		8.0	6.9	12.4	11.3	4%	5.4%	5.8%
Bimeks	Turkey	6.2	4.8	31.2	18.5	52%	4.8%	5.0%
Premium / Discount		-20%	-36%	27%	27%			

Source: Bloomberg, Ak Investmenrt

THE COMPANY & SECTOR**Bimeks**

Bimeks was the first consumer electronics retailer to be established in Turkey, opening its first store in 1990. As of October, Bimeks was operating in 58 cities with 140 stores, and a total retail sales area of 115,000 m². The consumer electronics retail sector in Turkey posted a CAGR of 13% in US\$ terms between 2010 – 13, and we are forecasting an 8% CAGR for the 2013 – 16 period. These figures are supported by the GFK Group, which independently monitors the consumer electronics retail sector.

The Company's strategy is focused on four areas:

- 1) Multi-channel distribution with one business model. This implies the convergence of offline and online retail. Bimeks stores are used as fulfilment centers for online sales. The new retail logo is bimeks.com.tr. The system is supported by the Supply/Demand Management software that was implemented in 3Q14. This approach will help increase online sales, which benefit from a lower cost base than store-based sales. Online sales reached 6.4% of total sales in 1H14, growing by 91% YoY, and are expected to grow at a 60% CAGR (from 2014F to 2016F). Bimeks was also the first company to implement same-day delivery for online sales and within-the-hour delivery with its "bidakka" branded service. The Company is targeting this level to surpass 15% in the coming years.
- 2) An increasing geographical reach with its hybrid franchise system dubbed "Store-based Partnership (SbP)". This model was launched in 2010 and the number of SbPs had reached 57 as of September 2014. The model is attractive for the franchisee as they carry no inventory risk, allowing the Company to control its cash flow. The model also offers a rapid means to achieve geographical expansion. With no rental expenses, operating expenses are reduced. The majority of SbPs have been opened in smaller Anatolian cities. The SbP is not required to undertake any capital investments, while Bimeks is responsible for inventories and store decorations. The minimum store size requirement is 300 m² for shelf management, but Bimeks has stated that smaller stores are possible, if necessary. Typically, the franchisee would be a local well-known merchant.
- 3) The company employs multi-store management with diversity in store size, from 250m² to 3,000m², providing optimal access to customers on a geographical basis while also providing customers with access to a greater variety of products.

- 4) Software developed in-house. This software designed in-house by Bimeks and fully implemented from 3Q14 offers algorithmic management of inventories and prices. The software allows for process engineering and is geared to optimize gross margins using algorithmic price mechanisms. The program offers efficient inventory management with artificial intelligence tools. The procurement process is fully automated and there is real-time optimization of inventory in stores.

Bimeks acquired Electroworld from the UK based Dixons for a net price of TL6mn with the payment in two equal annual payments. The first TL3mn payment was completed in October 2014. The Share Purchase Agreement was signed on September 5, 2013 and the sale transaction had been completed as of October 31, 2013. Electroworld Turkey was a loss-making operation with negative net assets of TL38mn on its balance sheet at the time of the acquisition. As part of the agreement with Bimeks, Dixons agreed to inject TL70mn of capital into Electroworld, which provided it with net assets of TL32mn. There was a one-off expense for the Electroworld acquisition that was completely written off in 2Q14. This one-off charge was to clean up debts and close lossmaking stores, and also to cover redundancy payments for employees who were laid off. There were 18 franchise stores in the Electroworld chain at the time of the acquisition, nine of which were brought into the Store-Based Partnership system while agreements with the other 9 franchisees being terminated. The Electroworld acquisition brings the benefit of larger store sizes. Prior to the acquisition, the average size of each Bimeks store was 559 m²; since the acquisition, the average store size had increased by 33% to 742 m² by the end of 2013 (this compares to an average store size of 532 m² for Teknosa at the end of 2013, 9% more than the 488 m² average at the end of 2012).

There was a decrease in Electroworld's paid-in capital in February. The Bimeks Board decided to postpone the merger of Electroworld, which was to be based on financial statements for the end of December 2013 to take into account this decrease in the paid-in capital. Accordingly, the merger will be based on financial statements dated at the end of June 2014 and would therefore, most likely, take place in 4Q14. The merger allows Bimeks to realize a tax advantage. Turkish law states that the book value (net of losses) of the acquired entity may be deducted from the buyer's tax base. As of June, EW's book value stood at TL43mn; so with a 20% corporation tax rate, this allows for a TL8.6mn deduction from Bimeks' tax base. Accordingly, this will shield the Company from paying corporation tax in 2H14, 2015 and 2016.

In January, Bimeks came to an agreement with the Kesa Group to acquire Darty stores in Turkey. A total of 11 mega and 13 regular stores, with a combined retail space of 26,000 m², are being added to the Bimeks network. The Darty acquisition brings the benefit of prime locations as well as larger store sizes, allowing for

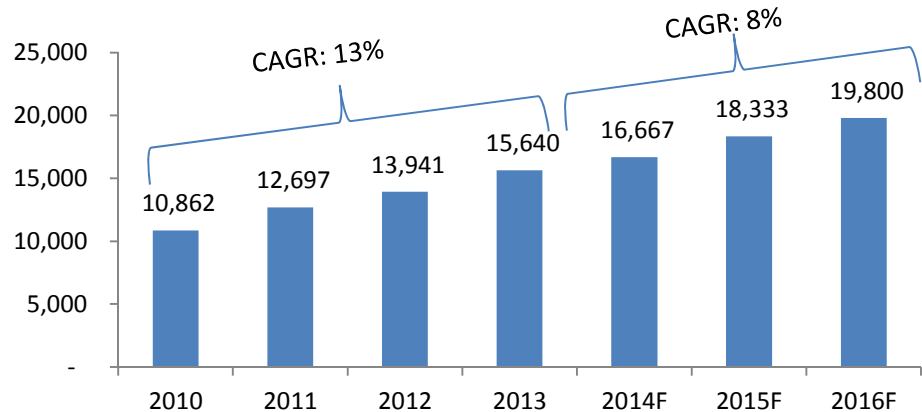
increased sales of major domestic appliances. The transfer of the stores was completed at the end of 2Q14.

With these acquisitions, Bimeks has jumped from the number five ranking Technology Superstore (with a market share of around 8-9%) to being in the top three (with a market share of around 14%). We assume that Bimeks will maintain a 14% market share going forward, although we believe this may prove a conservative assumption that could create an upside challenge to our forecasts and valuation.

The increased proportion of major domestic appliances (MDAs) and small domestic appliances (SDAs) in the sales mix has supported profitability. These appliances accounted for 2% of Bimeks' revenues in 2010, increasing to 7% in 2013 and 13% in 1H14, and expected to comprise 11% of revenues for the 2014 full year. These products command higher than average gross margins, at 18-20% for major domestic appliances and 25-30% for small domestic appliances. The Company targets that 15% of sales will be derived from major domestic appliances and small domestic appliances by 2016, thus adding a full percentage point to the gross margin. The Personal Care category, introduced in 2013, also enjoys a high gross margin of c.35%. The share of Personal Care products in total sales is projected to double from 1% in 2013 to 2% in 2014.

Turkish Consumer Electronics Retail Sector

Consumer Electronics Retail Sales in Turkey (US\$mn)



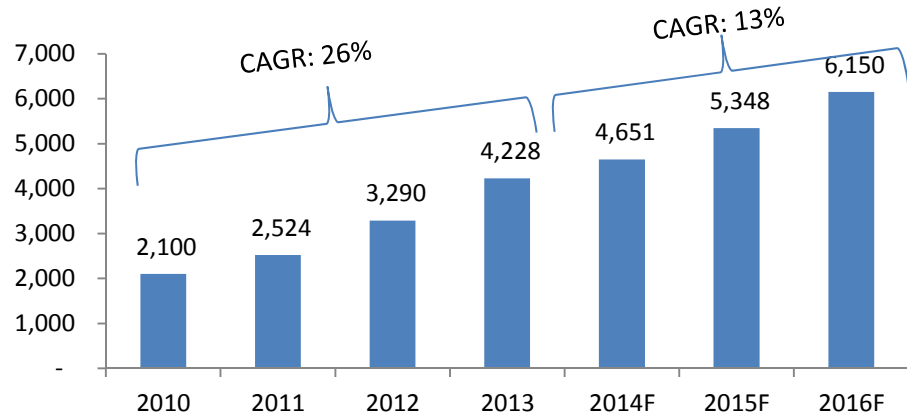
Source: GfK Group

The Consumer Electronics Retail sector in Turkey realized a CAGR of 13% in US\$ terms between 2010 and 2013, with sales reaching US\$15.6bn. We project an 8% CAGR for the 2013 – 2016 period, with sales reaching US\$19.8bn. These projections are supported by sector data as collected by GfK.

In contrast, the Technology Superstores Segment (TSS) within the CES grew about twice as fast as the overall CES market, with a 26% CAGR between 2010 -13, with

GfK forecasting a CAGR of 13% over the 2013-2016 period - again, about double the rate of growth in the sector and placing the sector in Turkey as one of the fastest growing in the world.

Technology Superstores Segment Sales in Turkey (US\$mn)



Source: GfK Group

Growth Drivers

	2013	CAGR	2016F	CAGR
GDP per capita (US\$)	11,000	5%	12,300	4%
Share of Organized Retail	27%	4%	31%	5%
PC sales ('000s)	2,040	10%	2,600	8%
Flat Screen TV sales ('000s)	5,270	15%	7,500	12%
Mobile Phone Sales (000s)	12,000	10%	15,000	8%
Internet Subscription ('000s)	21,900	15%	26,000	6%

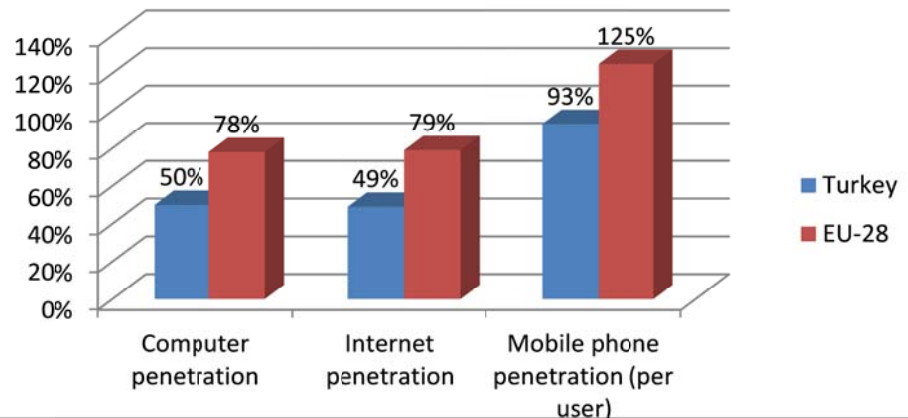
Source: GfK Group, International Data Corporation (IDC), Information & Communications Technologies Authority (ICTA), TurkStat, Eurostat

There are a number of growth drivers specific to Turkey that will support the sector's growth in the coming years. As shown in the table below, per capita GDP is expected to grow at an annual rate of 4% between 2013 and 2016, when it is forecasted to reach US\$12,300 - which is likely to boost demand for consumer electronics. Another driver is the rising share of organized retail, that is set to rise from 27% in 2013 to 31% in 2016. PC sales are projected to grow at a CAGR of 8%, from 2.04mn units in 2013 to 2.6mn in 2016. One of the fastest growing and most important drivers for CES is flat screen TVs, which are expected to grow at a CAGR of 12% until 2016, with sales rising from the 5.27mn TV sets in 2013 to 7.5mn by 2016. Mobile phone sales are also expected to rise at a CAGR of 8% over the 2013 – 2016 period.

Low penetration rates in Turkey, especially when compared to Europe, also point to the potential for further growth. Turkey lags behind the EU-28 in the major categories of computer ownership, internet usage and ownership of mobile phones. Turkey is likely to catch up in all of these areas and narrow the gap with the EU-28 in the coming years.

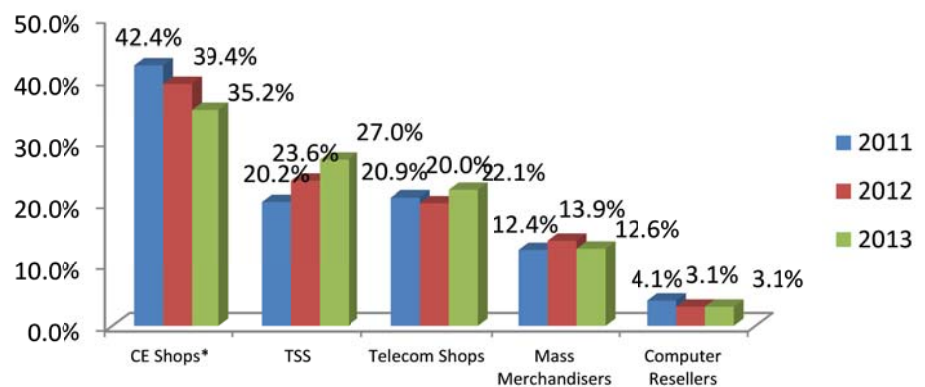
The breakdown of the channels reflects the more rapid growth in the TSS segment compared to the other segments. The share of TSS in the entire CE retail market rose from 20.2% in 2011 to 27.0% in 2013. The TSS share is expected to continue to rise going forward and reach 31% by 2016.

Penetration Comparison – Growth Drivers



Source: International Data Corporation (IDC), Information & Communications Technologies Authority (ICTA), TurkStat, Eurostat

Consumer Electronics Retail Market Breakdown by Sales



Source: GfK Group

* Small independent chains & individual consumer electronics shops

BIMEKS Summary Financials (IFRS, TLmn)

Income Statement	2013	2014F	2015F	2016F
Net Sales	697	1,307	1,601	1,785
Cost of Goods Sold	-570	-1,065	-1,317	-1,468
Gross Profit	126	242	284	317
Operating Expenses	-103	-207	-237	-264
EBIT	23	36	47	52
EBITDA	37	62	79	88
Net Other Inc/Exp	-6	1	1	1
Net Invest. & Partial Eq. Inc/Exp	9	0	0	0
Net Finan. Inc/Exp	-16	-29	-36	-40
Profit before Tax&Min. Interest	10	7	12	13
Taxes	-2	0	0	0
Minority Interest	0	0	0	0
Net Profit	8	7	12	13
Nominal Gr. (YoY)	2013	2014F	2015F	2016F
Net Sales	41%	88%	22%	11%
EBITDA	33%	68%	28%	11%
Net Profit	327%	-14%	69%	11%
Margins	2013	2014F	2015F	2016F
Gross Profit	18.2%	18.5%	18.0%	18.0%
EBIT	3.9%	2.7%	3.2%	3.2%
EBITDA	6.1%	4.8%	5.3%	5.3%
Net margin	1.7%	0.5%	0.8%	0.8%
Cash Flow Statement	2013	2014F	2015F	2016F
Profit before tax	10	7	12	13
Depreciation	14	26	32	36
Changes in WC	-49	-42	-4	24
Operating Cash Flow	-25	-9	40	73
Capex	-14	-32	-19	-21
Change in debts	66	65	5	-36
Dividends paid	0	0	0	0
Other	-24	-21	8	-10
Financing Cash Flow	27	11	-6	-67
Cash-beginning of per.	68	70	72	107
Cash-end of period	70	72	107	113

Balance Sheet	2013	2014F	2015F	2016F
Current Assets	413	518	610	633
<i>Cash & Equivalents</i>	70	72	107	113
<i>Trade Receivables</i>	25	43	53	59
<i>Inventory</i>	295	359	415	422
L/T Assets	110	114	105	97
<i>Tangible Assets</i>	57	60	53	44
<i>Intangible Assets</i>	50	46	48	48
TOTAL ASSETS	522	632	715	730
S/T Liabilities	370	372	439	459
<i>Financial Debt</i>	134	100	103	85
<i>Trade Payables</i>	224	262	325	362
L/T Liabilities	18	119	123	105
<i>Financial Debt</i>	11	110	113	94
Shareholders' Equity	135	140	153	166
Minority Interest	0	0	0	0
TOT.LIA.&SH.EQU.	522	632	715	730
Key Metrics	2013	2014F	2015F	2016F
W.Capital days	43	45	37	27
Capex/sales	2.0%	2.5%	1.2%	1.2%
Net debt (TLmn)	75	138	109	67
Net debt / equity	0.56	0.98	0.71	0.40
Net Debt / EBITDA	2.04	2.22	1.37	0.76
ROA (%)	1.9%	1.2%	1.7%	1.8%
ROIC (%)	11.1%	11.7%	13.9%	16.9%
ROE (%)	6.5%	5.0%	8.0%	8.2%
Dividend payout (%)	0.0%	0.0%	0.0%	0.0%
Dividend yield (%)	0.0%	0.0%	0.0%	0.0%
Effect.tax rate (%)	21.1%	0.0%	0.0%	0.0%
Valuation	2013	2014F	2015F	2016F
EV/Sales	0.4	0.3	0.2	0.2
EV/EBITDA	7.1	6.2	4.9	4.4
PE	23.2	31.5	18.7	16.8
FCF yield (%)	36%	30%	25%	15%

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