



08 September 2021

Credit Rating

**Long-term (National):
(TR) AA**

**Outlook:
Stable**

**Short-term (National):
(TR) A1+**

**Outlook:
Stable**

Expiry Date:

08 September 2022

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

Otakçılar Cd. No:78 Kat:1 B Blok
No:B1B, 34050 Eyüp - İstanbul
+90 (212) 467 80 80
Fax: +90 (212) 467 80 00

<http://www.arzum.com.tr>

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.

Under its Arzum brand, the Company ranks first in terms of quantity and among the top three in terms of turnover in the small household appliances market with its diversified product range in food preparation, cooking and frying, hot drink preparation and hair care categories. As of 2020, 47.51% of the Company shares were offered to the public, trading under the ticker "ARZUM".

Following our comparative analysis of the sector and examination of financial/operational risks carried by the Group, as well as its domestic market history and position, Arzum received 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, with the products it has developed with R&D and brick-by-brick investments completely outsourced, and markets it through diversified B2B channels without owning a retail store. By this means, the Company aims to create a competitive advantage by providing speed and flexibility in product development and cost efficiency in procurement processes.

In 2020, when the shock created by the global pandemic in demand and supply chains was dominant, with the effect of price increases in the SHA market, 20% growth was observed globally and 18% in the local market.

Within this period, the Company increased its sales by 35.6% to TL 607.5 million (2019: TL 448.0 million), and its net profit increased by 136.9% to TL 36.5 million (2019: TL 15.4 million). While the net profitability increased by 6.0% (2019: 3.4%), EBITDA of TL 62.4 million corresponds to a 10.3% margin. It is observed that the profitability continued to increase as of the first quarter of 2021 (2021 Q1: TL 25.9 million with 12.8% net profitability;

2020 Q1: TL 4.4 million with 3.7% net profitability).

On the other hand, under the pressure of the pandemic in 2020, the increase in stocks in response to the possible negative effects of the pandemic on trade receivables and supply chains created a need for additional funds in working capital, and such a deficit was partially financed by the increase in trade liabilities and partially by the increase in borrowing. With the contribution of increased profitability despite the deficit in the working capital balance in 2020, the Company continues its investments with positive operational cash.

Considering the market position of the Company and the brands owned, its flexible and cost-effective business model, in addition to its financial structure and performance, the Outlook has been determined as "Stable".

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. Comparative performance analysis determines the relative position of the Company as compared with industry peers' financial performances and industry averages. The financial risk analysis of our methodology 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 evaluates the Company's performance with respect to its capability to fulfill its obligations under the future projections of a base and a stress scenario.

The qualitative analysis covers operational issues such as industry and company risk as well as administrative risks in the context of corporate governance practices. The industry analysis evaluates factors like the nature and rate of growth of the industry, its competitive structure, structural analysis of customers and creditors, and sensitivity of the sector to risks at home and abroad. The company analysis evaluates market share and efficiency, trends and volatilities in key performance indicators, cost structure, service quality, organizational stability, access to domestic and foreign funding sources, off-balance sheet liabilities, accounting practices, and parent / subsidiary company relationships if any.

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.

SAHA A.Ş. has embraced and published the IOSCO (International Organization of Securities Commissions) Code of Conduct for Credit Rating Agencies on its web site (www.saharating.com) and operates on the basis of independence, objectivity, transparency, and analytic accuracy.

©2021, Saha Kurumsal Yönetim ve Kredi Derecelendirme A.Ş. All rights reserved. This publication or parts thereof may not be republished, broadcast, or redistributed without the prior written consent of Saha Kurumsal Yönetim ve Kredi Derecelendirme Hizmetleri A.Ş. and Arzum Elektrikli Ev Aletleri San. ve Tic. A.Ş..

Contacts:

Report Prepared by / Rating Specialist:

Serhat Karakuş
skarakuş@saharating.com

Rating Committee Members

S.Suhan Seçkin
suhan@saharating.com

S.Mehmet İnhan
minhan@saharating.com

Ali Perşembe
apersembe@saharating.com

Saha Corporate Governance and Credit Rating Services, Inc.

Valikonağı Cad., Hacı Mansur Sok., Konak Apt. 3/1, Nişantaşı, İstanbul

Tel: (0212) 291 97 91, Fax: (0212) 291 97 92 • info@saharating.com • www.saharating.com