

O'KEY Group S.A. (OKEY)

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Press Release
29 July 2019

O'KEY GROUP ANNOUNCES OPERATING RESULTS FOR Q2 AND 1H 2019

O'KEY Group S.A (LSE: OKEY, the 'Group') announces its unaudited operating results for the second quarter and first half of 2019.

All materials published by the Group are available on its website www.okeyinvestors.ru.

Q2 2019 operating highlights

- Underlying Group net retail revenue, excluding the effect of the supermarket business sale, increased by 6.1% YoY to RUB 39,510 mln.
- Underlying net retail revenue generated by O'KEY hypermarkets increased by 3.0% YoY in Q2 2019 to RUB 34,911 mln resulting from traffic growth and increased basket size.
- Net retail revenue generated by DA! grew by 37.8% YoY to RUB 4,599 mln in Q2 2019, supported by a steady growth in traffic (up 30.9% YoY) and the average ticket (up 5.3% YoY).
- Like-for-like (LFL) net retail revenue of the Group increased by 3.3% YoY in Q2 2019 due to a 1.7% YoY increase in LFL traffic and a 1.5% YoY increase in the LFL average ticket.
- Like-for-like (LFL) net retail revenue generated by O'KEY hypermarkets increased by 1.8% YoY in Q2 2019 as a result of a 0.3% YoY decrease in LFL traffic and a 2.1% YoY increase in the LFL average ticket. The Group's hypermarkets achieved an ongoing gradual improvement in LFL performance.
- Like-for-like (LFL) net retail revenue generated by DA! increased by 17.9% YoY in Q2 2019, driven by a 11.4% YoY increase in LFL traffic and a 5.8% YoY increase in the LFL average ticket. The Group's discounters saw an ongoing gradual improvement in LFL traffic.
- Two discounters were opened in Q2 2019.

1H 2019 operating highlights

- Underlying Group net retail revenue, excluding the effect of the supermarket business sale, increased by 3.4% YoY to RUB 78,926 mln.
- Underlying net retail revenue generated by O'KEY hypermarkets increased by 0.4% YoY in 1H 2019 to RUB 70,342 mln as a result of increased traffic and higher shelf inflation.
- Net retail revenue generated by DA! grew by 37.0% YoY to RUB 8,583 mln in 1H 2019, supported by a steady growth in traffic (up 28.6% YoY) and the average ticket (up 6.5% YoY).
- Like-for-like (LFL) net retail revenue of the Group increased by 0.6% YoY in 1H 2019 due to a 0.8% YoY decrease in LFL traffic and a 1.4% YoY increase in the LFL average ticket.
- Like-for-like (LFL) net retail revenue generated by O'KEY hypermarkets decreased by 1.0% YoY in 1H 2019 as a result of a 3.2% YoY decrease in LFL traffic and a 2.3% YoY increase in the LFL average ticket.
- Like-for-like (LFL) net retail revenue generated by DA! increased by 18.7% YoY in 1H 2019, driven by a 11.8% YoY increase in LFL traffic and a 6.2% YoY increase in the LFL average ticket.
- Four discounters were opened in 1H 2019.

Guidance 2019

- We expect our hypermarkets' top line growth to be around zero for the full year.
- We expect double-digit LFL growth for DA! and plan to open up to 30 new discounters by year end.

Stores development of the Group

Indicator	Q2 2019	Q2 2018	Net change	Change (%)
Number of stores	164	147	17	11.6%
Number of net store openings	2	2	0	0.0%
Total selling space (sq. m)	587,778	577,248	10,530	1.8%
Total selling space added (sq. m)	1,421	1,314	107	8.1%

Group key operating indicators for the first half of 2019

Segment	1H 2019			1H 2018		
	Net retail revenue	Traffic	Average ticket	Net retail revenue	Traffic	Average ticket
Group	2.2%	0.8%	1.4%	(8.7%)	(12.4%)	4.2%
Group LFL	0.6%	(0.8%)	1.4%	(2.3%)	(1.5%)	(0.8%)

Group key operating indicators for the quarter

Segment	Q2 2019			Q2 2018		
	Net retail revenue	Traffic	Average ticket	Net retail revenue	Traffic	Average ticket
Group	5.7%	5.2%	0.5%	(10.6%)	(13.8%)	3.8%
Group LFL	3.3%	1.7%	1.5%	(4.0%)	(2.2%)	(1.8%)

Underlying Group net retail revenue dynamics by quarter, YoY

Parameter	Q3 2018	Q4 2018	Q1 2019	Q2 2019	1H 2019
Underlying Group net retail revenue	(2.4%)	0.8%	0.7%	6.1%	3.4%

Key operating indicators by month

Indicator	April	May	June
Net retail revenue	5.2%	7.9%	4.2%
LFL net retail revenue	2.8%	4.9%	2.1%
Customer traffic	5.3%	4.2%	6.2%
LFL customer traffic	2.5%	0.1%	2.6%
Average ticket	(0.1%)	3.5%	(1.9%)
LFL average ticket	0.4%	4.8%	(0.5%)

Underlying Group net retail revenue dynamics by month

Parameter	April	May	June
Underlying Group net retail revenue	5.9%	8.1%	4.4%

O'KEY: Operating review

Stores development

Indicator	Q2 2019	Q2 2018	Net change	Change (%)
Number of stores	78	78	-	0.0%
Number of net store openings	-	-	-	0.0%
Total selling space (sq. m) ^[1]	528,124	529,555	(1,431)	(0.3%)
Total selling space added (sq. m)	-	-	-	0

In Q2 2019, O'KEY did not open any new hypermarkets. As at 31 July 2019, the total number of stores was 78, while total selling space came to 528,124 sq. m.

Key operating indicators for the first half of 2019

Segment	1H 2019			1H 2018		
	Net retail revenue	Traffic	Average ticket	Net retail revenue	Traffic	Average ticket
O'KEY	(0.8%)	(4.4%)	3.7%	(11.3%)	(17.6%)	7.6%
O'KEY LFL	(1.0%)	(3.2%)	2.3%	(3.4%)	(3.6%)	0.2%

Key operating indicators for the quarter

Segment	Q2 2019			Q2 2018		
	Net retail revenue	Traffic	Average ticket	Net retail revenue	Traffic	Average ticket
O'KEY	2.6%	0.0%	2.6%	(13.4%)	(19.6%)	7.7%
O'KEY LFL	1.8%	(0.3%)	2.1%	(5.4%)	(4.8%)	(0.6%)

Underlying O'KEY net retail revenue dynamics by quarter, YoY

Parameter	Q3 2018	Q4 2018	Q1 2019	Q2 2019	1H 2019
Underlying O'KEY net retail revenue	(4.8%)	(1.3%)	(2.2%)	3.0%	0.4%

Key operating indicators by month

Indicator	April	May	June
Net retail revenue	2.2%	4.8%	0.8%

LFL net retail revenue	1.4%	3.6%	0.5%
Customer traffic	0.1%	(0.7%)	0.5%
LFL customer traffic	0.3%	(1.6%)	0.4%
Average ticket	2.1%	5.5%	0.3%
LFL average ticket	1.1%	5.3%	0.1%

Underlying O'KEY net retail revenue dynamics by month

Parameter	April	May	June
Underlying O'KEY net retail revenue	3.0%	5.0%	1.0%

Initiatives launched at the end of 2018 aimed at improving on-shelf availability and the overall quality of fresh and ultra-fresh goods led to a gradual recovery in traffic.

In Q2 2019, we finished rolling out Axapta 12 (Microsoft Dynamics) for distribution centres, which will allow a boost in our operational efficiency going forward.

During the quarter, we continued to work on enhancing our customer value proposition by revising the product mix and further developing our middle and premium ranges.

DAI: Operating review

Stores development

Indicator	Q2 2019	Q2 2018	Net change	Change (%)
Number of stores	86	69	17	24.6%
Number of net store openings	2	2	0	0.0%
Total selling space (sq. m)	59,654	47,693	11,961	25.1%
Total selling space added (sq. m)	1,421	1,314	107	8.1%

In Q2 2019, the Company opened two new discounters in Klin and Kaluga.

Key operating indicators for the first half of 2019

Segment	1H 2019			1H 2018		
	Net retail revenue	Traffic	Average ticket	Net retail revenue	Traffic	Average ticket
Discounters	37.0%	28.6%	6.5%	35.6%	32.7%	2.2%
LFL discounters	18.7%	11.8%	6.2%	15.8%	14.3%	1.3%

Key operating indicators for the quarter

Segment	Q2 2019			Q2 2018		
	Net retail revenue	Traffic	Average ticket	Net retail revenue	Traffic	Average ticket
Discounters	37.8%	30.9%	5.3%	35.2%	33.2%	1.6%
LFL discounters	17.9%	11.4%	5.8%	15.7%	15.8%	0.0%

Key operating indicators by month

Indicator	April	May	June
Net retail revenue	37.8%	38.0%	37.7%
LFL net retail revenue	18.3%	17.6%	17.8%
Customer traffic	32.1%	27.6%	33.1%
LFL customer traffic	13.6%	8.1%	12.9%
Average ticket	4.3%	8.2%	3.5%
LFL average ticket	4.2%	8.8%	4.4%

In Q2 2019, the Company demonstrated a strong LFL net retail revenue growth of 17.9% YoY, driven by a combination of continued growth in inflation and customers' growing appreciation for discounters. Further food CPI increases during the reporting quarter resulted in a LFL shelf inflation growth of 7.7% YoY. The solid increase in shelf inflation is largely attributable to the assortment mix structure at discounters and sales structure (characterised by a higher share of essential goods such as bread, sugar, eggs, etc.), and was partially offset by a LFL decline in items per customer by 1.8% YoY - a natural result of inflation. At the same time, prices for essential goods at the Group's discounters remained among the most competitive in the industry, which was reflected in a strong LFL traffic growth of 11.4% YoY.

In Q2 2019, the Company continued to improve its customer value proposition by improving the assortment mix and fine-tuning in-store interiors to make the customer journey more enjoyable. Paying close attention to the quality and appeal of our private label (PL) products, we rebrand and enhance the recipes of our existing PL brands on an ongoing basis. To further enhance the customer experience, we also finished our check-out redesign project in Q2.

We plan to disclose our financial results on 27 August 2019 and hold a conference call on the same day to discuss our performance in greater detail. Details of the conference call will be disclosed soon.

OVERVIEW

O'KEY Group S.A. (LSE: OKEY, RAEX - 'ruA-') operates under two main formats: hypermarkets under the 'O'KEY' brand and discounters under the 'DAI' brand.

As at 29 July 2019, the Group operates 164 stores across Russia (78 hypermarkets and 86 discounters). The Group opened its first hypermarket in St. Petersburg in 2002 and has since demonstrated continuous growth. O'KEY is the first among Russian food retailers to launch and actively develop e-commerce operations in St. Petersburg and Moscow, offering a full range of hypermarket products for home delivery. The Group operates six e-commerce pick-up points in Moscow and six e-commerce pick-up points in St. Petersburg. The Group operates four distribution centres across the Russian Federation - two in Moscow and two in St. Petersburg. As at 31 December 2018 the Group employs more than 20,000 people.

For the full year 2018, revenue totalled RUB 161,303,411 thousand, EBITDA reached RUB 8,644,008 thousand, and net loss for the period amounted to RUB 599,755 thousand.

The O'KEY shareholder structure is as follows: NISEMAX Co Ltd - 44.79%, GSU Ltd - 29.52%, free float - 25.69%.

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[1] Total selling space net of the 9,728 sq. m leased to strategic partners.

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