

O'KEY Group S.A. (OKEY)

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Press Release
18 October 2019

O'KEY GROUP ANNOUNCES OPERATING RESULTS FOR Q3 AND 9M 2019

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

All materials published by the Group are available on its website www.okeygroup.lu.

9M 2019 operating highlights

- Underlying Group net retail revenue, excluding the effect of the supermarket business sale, increased by 3.6% YoY. Group net retail revenue increased by 2.9% YoY, from RUB 113,697 mln to RUB 117,003 mln
- Underlying net retail revenue generated by O'KEY hypermarkets increased by 0.8% YoY. Net retail revenue generated by O'KEY hypermarkets increased by 0.1% YoY, from RUB 104,092 mln to RUB 104,162 mln
- Net retail revenue generated by DA! grew by 33.7% YoY to RUB 12,840 mln
- Like-for-like (LFL) net retail revenue of the Group increased by 1.3% YoY in 9M 2019, supported by continued growth of 1.9% in the LFL average ticket despite modest LFL traffic decline of 0.6% YoY
- Like-for-like (LFL) net retail revenue generated by O'KEY hypermarkets was flat YoY as stable LFL average ticket growth of 2.6% YoY fully offset the decline in LFL traffic
- Like-for-like (LFL) net retail revenue generated by DA! increased by 16.4% YoY in 9M 2019, driven by a 9.0% YoY increase in LFL traffic and a 6.8% YoY increase in the LFL average ticket
- Five discounters (in the Moscow and Kaluga regions) were opened during the first nine months of 2019

Q3 2019 operating highlights

- Underlying Group net retail revenue, excluding the effect of the supermarket business sale, increased by 4.4% YoY to RUB 38,077 mln, up from RUB 36,484 mln in Q3 2019. The revenue increase was supported by ongoing average ticket growth and moderate traffic uptrend
- Underlying net retail revenue generated by O'KEY hypermarkets increased by 2.0% YoY to RUB 33,820 mln, driven by steady average ticket growth of 3.5% YoY
- Net retail revenue generated by DA! grew by 27.5% YoY to RUB 4,257 mln, supported by steady growth in traffic (up 19.5% YoY) and average ticket (up 6.7% YoY)
- Like-for-like (LFL) net retail revenue of the Group increased by 3.0% YoY due to a favourable pricing environment which resulted in higher LFL average ticket and almost flat YoY LFL traffic
- Like-for-like (LFL) net retail revenue generated by O'KEY increased by 2.1% YoY, supported by continued average LFL basket growth of 3.3% YoY, while LFL traffic dynamics remained slightly negative (down 1.2% YoY)
- Like-for-like (LFL) net retail revenue generated by DA! increased by 12.1% YoY, driven by a 3.8% YoY increase in LFL traffic and a 8.0% YoY increase in the LFL average ticket

Stores development of the Group

Indicator	Q3 2019	Q3 2018	Net change	Change (%)
Number of stores	165	151	14	9.3%
Number of net store openings	1	4	(3)	(75.0%)
Total selling space (sq. m)	589,362	579,150	10,212	1.8%
Total selling space added (sq. m)	653	5,955	(5,302)	(89.0%)

Group key operating indicators for the first nine months of 2019

Segment	9M 2019			9M 2018		
	Net retail revenue	Traffic	Average ticket	Net retail revenue	Traffic	Average ticket
Group	2.9%	1.3%	1.6%	(9.4%)	(13.0%)	4.1%
Group LFL	1.3%	(0.6%)	1.9%	(3.5%)	(2.4%)	(1.2%)

Group key operating indicators for the quarter

Segment	Q3 2019			Q3 2018		
	Net retail revenue	Traffic	Average ticket	Net retail revenue	Traffic	Average ticket

Segment	Net retail revenue	Traffic	Average ticket	Net retail revenue	Traffic	Average ticket
Group	4.4%	2.4%	2.0%	(10.7%)	(14.1%)	3.9%
Group LFL	3.0%	(0.2%)	3.2%	(5.9%)	(4.0%)	(2.0%)

Underlying Group net retail revenue dynamics by quarter, YoY

Parameter	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	9M 2019
Underlying Group net retail revenue	(2.4%)	0.8%	0.7%	6.1%	4.4%	3.6%

Key operating indicators by month

Indicator	July	August	September
Net retail revenue	5.9%	6.7%	0.7%
LFL net retail revenue	3.7%	3.4%	(0.6%)
Customer traffic	3.2%	1.9%	1.9%
LFL customer traffic	0.3%	(0.6%)	(0.4%)
Average ticket	2.6%	4.6%	(1.2%)
LFL average ticket	3.4%	4.0%	(0.2%)

O'KEY: Operating Review

Stores development

Indicator	Q3 2019	Q3 2018	Net change	Change (%)
Number of stores	78	79	(1)	(1.3%)
Number of net store openings	0	1	(1)	(100.0%)
Total selling space (sq. m) ^[1]	529,055	529,469	(414)	(0.1%)
Total selling space added (sq. m)	0	3,967	(3,967)	(100.0%)

In Q3 2019, O'KEY did not open any new hypermarkets. As at 30 September 2019, the total number of stores was 78, while total selling space came to 529,055 sq. m.

Key operating indicators for the first nine months of 2019

Segment	9M 2019			9M 2018		
	Net retail revenue	Traffic	Average ticket	Net retail revenue	Traffic	Average ticket
O'KEY	0.1%	(3.4%)	3.6%	(11.9%)	(18.3%)	7.7%
O'KEY LFL	(0.0%)	(2.5%)	2.6%	(4.6%)	(4.5%)	(0.1%)

Key operating indicators for the quarter

Segment	Q3 2019			Q3 2018		
	Net retail revenue	Traffic	Average ticket	Net retail revenue	Traffic	Average ticket
O'KEY	2.0%	(1.4%)	3.5%	(13.4%)	(19.6%)	7.8%
O'KEY LFL	2.1%	(1.2%)	3.3%	(6.9%)	(6.2%)	(0.8%)

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

Parameter	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	9M 2019
Underlying O'KEY net retail revenue	(4.8%)	(1.3%)	(2.2%)	3.0%	2.0%	0.8%

Key operating indicators by month

Indicator	July	August	September
Net retail revenue	3.4%	4.7%	(1.9%)
LFL net retail revenue	2.7%	2.7%	(1.7%)
Customer traffic	(0.7%)	(1.2%)	(2.2%)
LFL customer traffic	(0.8%)	(1.0%)	(1.8%)
Average ticket	4.2%	6.0%	0.3%
LFL average ticket	3.5%	3.8%	0.1%

In Q3 2019, the Company continued to demonstrate gradual recovery in operating performance, posting a 2.0% YoY growth in net retail revenue. Business efficiency initiatives launched towards the end of 2018 were focused on an overall improvement in fresh and ultra-fresh offer, service level, and logistics operations. Implemented with the ultimate goal of improving shopping frequency, the initiatives continued to deliver impact throughout the quarter while partially offsetting the macroeconomic headwinds.

To enhance our assortment management and improve the customer shopping experience, we initiated an in-store rezoning programme in Q3 2019. The programme will help harmonise and standardise the assortment within our available trading space in accordance with approved clustering. The rezoning initiative was successfully piloted in the O'KEY hypermarket located in the Columbus shopping centre in Moscow during the third quarter.

During the quarter, we continued to work on our customer value proposition by expanding the assortment range of 'O'KEY's selection' private label brand to target middle-class customers, modernizing promo areas in hypermarkets, and improving our promo offers.

Successful marketing campaigns for the non-food category during the reported quarter helped sustain the average ticket growth. As continuous improvement of our assortment mix and higher quality of fruit and vegetables remain our top priority we continue to grow own imports and focus more on capturing the synergies with our discounter business.

To improve on-shelf availability to better meet the daily needs of modern customers, we implemented a series of logistics initiatives in Q3 2019, aimed at more efficient palletising processes at distribution centres and faster pallet unloading at hypermarkets.

In the third quarter, we strengthened our [top-management team](#) with the addition of Olga Surnina, Marketing Director, and Tatyana Bukanova, Real Estate Director.

DA! Operating Review

Stores development

Indicator	Q3 2019	Q3 2018	Net change	Change (%)
Number of stores	87	72	15	20.8%
Number of net store openings	1	3	(2)	(66.7%)
Total selling space (sq. m)	60,307	49,681	10,626	21.4%
Total selling space added (sq. m)	653	1,988	(1,335)	(67.2%)

In Q3 2019, the Company opened one new discounter in Kaluga. Total selling space amounted to 60,307 sq. m as at 30 September 2019. In line with our guidance, the remaining 14 stores will be opened before the end of the year.

Key operating indicators for the nine months of 2019

Segment	9M 2019			9M 2018		
	Net retail revenue	Traffic	Average ticket	Net retail revenue	Traffic	Average ticket
Discounters	33.7%	25.3%	6.7%	33.2%	30.1%	2.5%
Discounters LFL	16.4%	9.0%	6.8%	13.3%	12.9%	0.4%

Key operating indicators for the quarter

Segment	Q3 2019			Q3 2018		
	Net retail revenue	Traffic	Average ticket	Net retail revenue	Traffic	Average ticket
Discounters	27.5%	19.5%	6.7%	29.3%	25.7%	2.8%
Discounters LFL	12.1%	3.8%	8.0%	8.8%	10.3%	(1.3%)

Key operating indicators by month

Indicator	July	August	September
Net retail revenue	29.3%	25.6%	27.8%
LFL net retail revenue	13.7%	10.5%	11.8%
Customer traffic	21.5%	16.3%	21.0%
LFL customer traffic	5.4%	1.2%	5.3%
Average ticket	6.4%	8.0%	5.6%
LFL average ticket	7.8%	9.1%	6.2%

In the third quarter of 2019, the Company continued to demonstrate solid LFL growth, with net retail revenue up by 12.1% YoY and the discounter value proposition continuing to gain traction with customers. The average LFL ticket increased by 8.0% YoY, supported by an improving basket mix and continued food CPI growth. LFL traffic went up by 3.8% YoY, driven by better pricing and a more attractive assortment. Prices for essential goods at the Group's discounters remained among the most competitive in the industry in Q3 2019.

During the third quarter, the Company continued to refine and enhance its customer value proposition by improving the assortment mix. Paying high attention to the quality and appeal of our private label (PL) products, we rebrand them on an ongoing basis as well as continuously enhance their recipes. In the third quarter, the Company rebranded several existing private label brands and introduced new private label SKUs, bringing the total number of SKUs to 2,500. The share of private labels as a percentage of revenue was 49% as at the end of the quarter. To enhance the appeal and user-friendly style of our store interiors, we also redesigned the in-store bakery area during the quarter.

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 DA! brand.

As at 18 October 2019, the Group operates 166 stores across Russia (78 hypermarkets and 88 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%.

DISCLAIMER

These materials contain statements about future events and expectations that are forward-looking statements. These statements typically contain words such as 'expects' and 'anticipates' and words of similar import. Any statement in these materials that is not a statement of historical fact is a forward-looking statement that involves known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements.

None of the future projections, expectations, estimates or prospects in this announcement should be taken as forecasts or promises nor should they be taken as implying any indication, assurance or guarantee that the assumptions on which such future projections, expectations, estimates or prospects have been prepared are correct or exhaustive or, in the case of the assumptions, fully stated in this announcement. We assume no obligations to update the forward-looking statements contained herein to reflect actual results, changes in assumptions or changes in factors affecting these statements.

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

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