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Magnit Announces 1Q 2019 results in line with its expectations

Krasnodar, Russia (30 April, 2019): Magnit PJSC (MOEX and LSE: MGNT), one of Russia's leading retailers announces its operating and unaudited financial 1Q 2019 results prepared in accordance with IFRS.

Please note the Company will continue to provide analysis of financial metrics using pre-IFRS 16 approach during 2019 in order to support smooth and transparent transition of the market to the new reporting standard. Respective financial data with IFRS 16 implication is disclosed further in the text.

Key operating and financial highlights for 1Q 2019:

- Total revenue^[1] increased by 10.1% from RUB 289.7 billion in 1Q 2018 to RUB 319.0 billion in 1Q 2019.
- Net retail sales growth was 8.9% reaching RUB 310.6 billion.
- Wholesale revenue increased by 105.8% up to RUB 6.6 billion primarily driven by contribution from SIA Group.
- LFL^[2] sales growth reached 0.6% composed of 4.2% growth of average ticket and 3.5% traffic decline.
- The Company opened 875 stores^[3] on net basis (482 convenience stores and 393 drogerie stores) compared to 277 stores (158 convenience stores, 1 supermarket and 118 drogerie stores) opened in 1Q 2018. Increase of store openings YoY is attributable to a shift in calendarization during the year. Total store base reached 19,223 stores as of end of 1Q 2019.
- Addition of selling space in 1Q 2019 amounted to 293 thousand sq. m. (or 15.2% growth YoY) compared to 75 thousand sq. m. in 1Q 2018.
- During the quarter the Company completed redesigns of 518 convenience stores and 182 drogerie stores (compared to 150 convenience stores and 10 drogerie stores in 1Q 2018) bringing share of stores operating under new concept to 58% and 31% respectively.
- Gross Profit margin^[4] in 1Q 2019 improved versus previous quarter by 29 bps to 23.8%. Margin contraction of 55 bps vs previous year was a result of a combination of higher share of low marginal wholesale segment in total sales, sell off of slow-moving assortment accumulated in 2017 and first half of 2018 and higher shrinkage, offset partially by improved commercial terms from suppliers, increased share of drogerie segment and more efficient logistics.
- EBITDA in 1Q 2019 was RUB 19.1 billion with 6.0% margin. Decline of 107 bps YoY was driven by gross margin dynamics and operating expenses increasing as percentage of sales. Higher productivity in LFL stores and reduced marketing expenses were not enough to offset the combination of: (1) the impact of incoming pressure from new stores in the ramp up phase; (2) accrued LTI provisions; (3) one off compensation to new Management Board member; (4) increased cleaning and electricity expenses; (5) higher rent costs due to added leased space.
- Depreciation of assets in the 1Q 2019 was RUB 11.5 billion, 31.6% higher than in the 1Q 2018 driven by a review of useful life of assets to match the depreciation to the length of the lease agreements in line with IFRS16.
- Net finance costs increased by 51.7% to RUB 3.6 billion compared to 1Q 2018 (RUB 2.4 billion) due to higher debt and increased market rates. The weighted average effective interest rate^[5] for the quarter was 7.8% (including the effect of subsidized debt).
- Income tax for 1Q 2019 was RUB 1 billion. Effective tax rate increased to 22.5% compared to 21.1% in 1Q 2018 due to higher share of non-deductible expenses.
- As a result, we achieved net income of RUB 3.5 billion and margin of 1.1% in 1Q 2019 went down YoY by 52.2% and 145 bps respectively.
- As of 31 March 2019 Net Debt was RUB 182.6 billion compared to the end of 2018 of RUB 137.8 billion. Net Debt growth is attributable mostly to payments of dividends for 9 months 2018, completion of a buyback program for LTI purposes, acceleration of redesign program and store openings. Net Debt / EBITDA ratio as of end of 1Q 2019 was 2.1x.

Key events in 1Q and after the reported period:

- During the 1Q 2019 Management Board was extended to 10 members with Jan Dunning (President), Vladimir Sorokin, Jyrki Talvitie joining the Company and Maria Dei being promoted to the Management Board.
- Magnit launched a unified brand for its family of stores. Magnit's proximity stores, Family and Family+ supermarkets, drogerie and pharmacy stores will come together under single branding unified by the slogan "Let's bring families together!".
- The Company completed a buyback program launched in September 2018 in accordance with previously announced information on 1 March 2019.
- The Company commenced and completed an additional buyback in early April in the total sum of RUB 607 million.
- Magnit launched its cross format loyalty program in the end of 1Q 2019. The pilot started in Yaroslavl, Chelyabinsk and Kostroma regions. With the new loyalty program customers will be able to spend bonuses across all formats of Magnit family of stores.
- The Board of Directors recommended to pay dividends for the results of 2018 reporting year in the amount of RUB 17.0 billion, which accounts for RUB 166.78 per one ordinary share.

Jan Dunning, President of Magnit, commented:

"Our results for the first quarter were on budget and in line with our previous messaging and guidance for 2019. The results also reflect the stage of transformation we are in, as we dismantle and rebuild the whole customer value proposition.

Breaking down the quarter we see that we had a very challenging January and February, with some one-offs and as we had a push to change assortment, getting rid of old and introducing new. This work is still not complete but we have already started to see better trends in sales, LFL's and traffic in March and April."

Olga Naumova, Magnit's Chief Executive Officer, said:

"Magnit sales growth for the first quarter 2019 exceeded 10% on the back of positive LFL sales growth for the second consecutive quarter with an EBITDA margin of 6.0%. While we are pleased to report positive LFL sales growth the target is to achieve positive traffic dynamics across all formats while maintaining strong ticket growth. This is essential to achieving the ambitious targets we have set ourselves for the transformation of Magnit.

We are pleased to see our core convenience format showing improvements through LFL. We are moving in line with internal forecasts and expect stronger improvements in the second half of the year. March and April trends look promising highlighting sound improvement in traffic trends with stable positive ticket dynamics on the back of improved product mix. Strategic projects are on track either at pilot or at integration stage. As a result, we reiterate our guidance to deliver sustainable EBITDA margin for full year 2019."

Operating results for 1Q 2019

	1Q 2018	1Q 2019	Change	Change, %
Total net retail sales, million RUB	285,332	310,598	25,265	8.9%
Convenience stores	215,300	237,475	22,174	10.3%
Supermarkets	48,551	47,752	-799	-1.6%
Drogerie Stores	20,943	24,730	3,787	18.1%
Other formats	537	641	104	19.3%
Number of Stores (EOP)	16,575	19,223	2,648	16.0%
Convenience stores	12,283	13,909	1,626	13.2%
Supermarkets	452	467	15	3.3%
Drogerie Stores	3,840	4,847	1,007	26.2%
New Store Openings (NET)	277	875	598	215.9%
Convenience stores	158	482	324	205.1%
Supermarkets	1	0	-1	-100.0%
Drogerie Stores	118	393	275	233.1%
Total Selling Space (EOP), th. sq. m.	5,830	6,718	888	15.2%
Convenience stores	4,011	4,643	632	15.7%
Supermarkets	924	941	16	1.8%
Drogerie Stores	892	1,130	238	26.6%
New Selling Space, th. sq. m.	75	293	219	292.5%
Convenience stores	53	199	146	274.8%
Supermarkets	-6	-2	5	-76.2%
Drogerie Stores	28	94	66	235.0%
Number of tickets, million	1,005	1,057	52	5.2%
Convenience stores	847	891	44	5.2%
Supermarkets	92	90	-2	-1.8%
Drogerie Stores	65	75	10	14.9%
Average ticket^[6], RUB	284	294	10	3.5%
Convenience stores	254	267	12	4.9%
Supermarkets	527	528	1	0.1%
Drogerie Stores	323	332	9	2.8%

1Q 2019 LFL results

LFL composition, %	Average Ticket	Traffic	Sales
Total	4.2%	-3.5%	0.6%
Convenience stores	4.9%	-3.6%	1.1%
Supermarkets	1.3%	-4.5%	-3.2%
Drogerie Stores	3.2%	0.1%	3.3%

Total net retail sales for the 1Q 2019 was RUB 310.6 billion or 8.9% growth YoY (which is 9.5% growth YoY including VAT) driven by a combination of selling space growth of 15.2% and LFL sales growth of 0.6%.

Increased YoY number of openings is purely the result of shift in calendarization with the plan to even store openings during the year.

LFL dynamics for the total store network was a result of negative traffic -3.5% offset by average ticket growth of 4.2%. We continue adjusting assortment and expanding higher price categories which is appreciated by our customers and reflected in

positive assortment mix (trade up) - the main driver of LFL average ticket growth. Average ticket (net of VAT) in the 1Q 2019 was higher YoY across all formats, including 4.9% in the convenience format, 0.1% in supermarkets and 2.8% in drogerie stores. 4Q 2018 trends continued during the first two months of the 1Q 2019 due to promotional campaigns launched for November 2018 - February 2019 period. March and April results look encouraging and we are pleased to see improving traffic trends.

Sales growth in the convenience format was 10.3% driven by selling space growth of 15.7% and LFL sales growth of 1.1% accelerated from 0.3% in the 4Q 2018. Although traffic growth remained negative -3.6%, the average ticket growth accelerated to 4.9% due to strong trading up as a result of assortment changes, improved availability in the stores and service level of own and external deliveries.

Sales growth in supermarkets was -1.6% on the back of selling space growth of 1.8%. Supermarkets LFL sales growth declined to -3.2% (from -0.7% in 4Q 2018) due to traffic decline to -4.5% (from -1.8% in 4Q 2018) on the back of average ticket growth of 1.3%. The new CVP for the format was approved late March and it is currently being piloted before the full scope roll-out across supermarket stores.

Sales growth in the drogerie segment was 18.1% driven by a combination of selling space growth of 26.6% and LFL sales growth of 3.3%. LFL traffic growth was 0.1% and average ticket growth was 3.2%.

Magnit continues its renovation program with 518 convenience stores and 182 drogerie stores redesigned during the first quarter. As a result, the share of stores operating under new concept reached 58% for convenience and 31% for drogerie format.

Monthly operating results for 1Q 2019

	January	Y-o-Y, %	February	Y-o-Y, %	March	Y-o-Y, %
Total net retail sales, million RUB	100,415	9.5%	97,353	7.3%	112,830	9.7%
Convenience stores	77,451	10.8%	73,972	8.6%	86,052	11.3%
Supermarkets	15,445	0.6%	14,983	-2.9%	17,324	-2.5%
Drogerie Stores	7,377	15.8%	8,133	15.8%	9,221	22.1%
Other formats	144	9.6%	265	48.0%	233	2.3%
Number of Stores (EOP)	18,637	n/a	18,909	n/a	19,223	n/a
Convenience stores	13,583	n/a	13,722	n/a	13,909	n/a
Supermarkets	467	n/a	467	n/a	467	n/a
Drogerie Stores	4,587	n/a	4,720	n/a	4,847	n/a
New Store Openings (NET)	289	n/a	272	n/a	314	n/a
Convenience stores	156	n/a	139	n/a	187	n/a
Supermarkets	0	n/a	0	n/a	0	n/a
Drogerie Stores	133	n/a	133	n/a	127	n/a
Total Selling Space (EOP), th. sq. m.	6,517	12.9%	6,604	14.1%	6,718	15.2%
Convenience stores	4,506	13.5%	4,560	14.5%	4,643	15.7%
Supermarkets	941	1.1%	941	1.6%	941	1.8%
Drogerie Stores	1,068	22.4%	1,099	25.0%	1,130	26.6%
New Selling Space, th. sq. m.	93	n/a	87	n/a	114	n/a
Convenience stores	62	n/a	54	n/a	82	n/a
Supermarkets	-2	n/a	0	n/a	0	n/a
Drogerie Stores	32	n/a	32	n/a	31	n/a
Number of Customers, million	342	4.2%	330	4.5%	384	6.7%
Convenience stores	290	4.2%	278	4.5%	323	6.6%
Supermarkets	30	-0.7%	28	-2.7%	33	-1.9%
Drogerie Stores	23	10.7%	24	14.5%	28	18.9%
Average ticket, RUB	293	5.1%	295	2.6%	294	2.9%
Convenience stores	267	6.4%	266	3.9%	266	4.4%
Supermarkets	522	1.3%	534	-0.2%	528	-0.6%
Drogerie Stores	324	4.6%	339	1.1%	332	2.7%

Financial results for 1Q 2019

million RUB	IAS 17			IFRS 16		
	3M 2019	3M 2018 ^[7]	Change	3M 2019	3M 2018	Change
Total revenue	318,984	289,690	10.1%	318,984	289,690	10.1%
Retail	310,598	285,332	8.9%	310,598	285,332	8.9%
Wholesale	6,644	3,229	105.8%	6,644	3,229	105.8%
Other	1,742	1,128	54.4%	1,742	1,128	54.4%
Gross Profit	75,853	70,492	7.6%	75,853	70,492	7.6%
Gross Margin, %	23.8%	24.3%	-55 bps	23.8%	24.3%	-55 bps
EBITDA pre LTI	19,561	20,480	-4.5%	34,411	33,670	2.2%
EBITDA Margin pre LTI, %	6.1%	7.1%	-94 bps	10.8%	11.6%	-83 bps
EBITDA	19,143	20,480	-6.5%	33,993	33,670	1.0%
EBITDA Margin, %	6.0%	7.1%	-107 bps	10.7%	11.6%	-97 bps
EBIT	7,616	11,722	-35.0%	12,958	15,744	-17.7%
EBIT Margin, %	2.4%	4.0%	-166 bps	4.1%	5.4%	-137 bps
Profit before tax	4,569	9,394	-51.4%	1,761	6,442	-72.7%
Taxes	-1.026	-1.984	-48.3%	-515	-1.394	-63.1%

Net Income	3,543	7,409	-52.2%	1,246	5,048	-75.3%
Net Income Margin, %	1.1%	2.6%	-145 bps	0.4%	1.7%	-135 bps

Total revenue for 1Q 2019 amounted to RUB 319.0 billion or 10.1% driven by:

- new store openings of 875 stores (or 15.2% selling space growth)
- LFL sales growth of 0.6%
- Wholesale revenue of RUB 6.6 billion increased by 105.8% YoY mainly due to consolidated sales of SIA wholesale business.
- Other revenue primarily generated by rent income and income from advertising services reclassified from respective cost centers. The Company applied changes retrospectively and recalculated comparable data for 2018.

Gross Profit in 1Q 2019 stood at RUB 75.9 billion with margin of 23.8%. We note improvement of margin versus 4Q 2018 by 29 bps despite the fact that traditionally gross margin in the 1Q is the weakest for retailers. Margin contraction of 55 bps versus previous year was a result of higher share of wholesale segment in total sales (2.1% vs 1.1% in 1Q 2018), sell off of slow-moving assortment accumulated in 2017 and first half of 2018 and higher shrinkage, offset partially by improved commercial terms from suppliers, increased share of drogerie segment (7.8% vs 7.2% in 1Q 2018) and more efficient logistics.

EBITDA in 1Q 2019 was RUB 19.1 billion and 6.0% margin down 107 bps YoY driven by gross margin dynamics and increased as a percentage of sales operating expenses. With high number of new store openings share of stores in the ramp up phase increased creating additional pressure on SG&A expenses. Increased productivity in LFL store base was more than offset by accrued LTI provisions and one off cash compensation to the President of Magnit, Jan Dunning. Elevated utilities expense was driven mainly by increased rates on cleaning services and indexation of electricity rates in the middle of previous year, partly mitigated by internal measures focused on energy consumption reduction. Higher rental costs were driven by growing share of leased selling space (75.6% in 1Q 2019 versus 71.9% a year ago) while ongoing efforts on contract terms improvement helped to drive down rental costs per sq. m. of selling space.

Depreciation of assets in the 1Q 2019 was RUB 11.5 billion, 31.6% higher than in the 1Q 2018. With new IFRS 16 in place the Company has revised useful life of the assets bringing it in line with the period of respective lease agreements. As a result, useful life of reconstructions was decreased from 30 years to 10 years and depreciation recalculated accordingly.

Net finance costs increased by 51.7% to RUB 3.6 billion compared to 1Q 2018 (RUB 2.4 billion) due to higher interest rates in combination with higher average amount of borrowings compared to previous year. The weighted average effective interest rate for 1Q 2019 was 7.8% (including the effect of subsidized debt).

Income tax for 1Q 2019 was RUB 1 billion. Effective tax rate increased to 22.5% compared to 21.1% in 1Q 2018 due to higher share of non-deductible expenses.

As a result, we achieved net income of RUB 3.5 billion and margin of 1.1% in 1Q 2019 went down YoY by 52.2% and 145 bps respectively.

As of 31 March 2019 Net Debt was RUB 182.6 billion compared to RUB 137.8 billion at the end of 2018. The net debt increase was due to payments of dividends for 9 months 2018, completion of a buyback program for LTI purposes, acceleration of redesign program and store openings. Company's debt is fully RUB denominated matching revenue structure. As of end of 1Q 2019 it was 59% long term debt. Net/Debt to EBITDA ratio was 2.1x.

IFRS 16 implications

IFRS 16 equalizes presentation of leased assets with owned assets. Thus, rent expenses were replaced with depreciation and interest payments. The lease capitalized is reduced on straight line basis but interest is charged on outstanding lease liabilities, thus interest is higher in the earlier years and decreases over time. As a result, the impact on the net income depends a lot on average lease maturity - the higher maturity of the store is, the lower interest charges are. As Magnit leased store base is relatively young, with an average of 3.5 years, the impact on net income is high but will decrease significantly going forward. Share of lease contracts with rental periods of 10 years or over is about 80%, while share of contracts with at least half of duration left is almost 75%.

Due to the above changes rent expense went down by RUB 14.8 billion bringing new EBITDA up to RUB 34.0 billion and EBITDA margin of 10.7%, which is 466 bps better versus IAS 17 result.

Depreciation increased by RUB 9.5 billion and interest expenses grew by RUB 8.1 billion.

1Q 2019 income tax compared to IAS 17 improved by 49.8% or RUB 0.5 billion, while profit before tax decreased by 61.5% or RUB 2.8 billion. New effective tax rate was 29.2% compared to 22.5% in 1Q 2019 pre-IFRS 16 driven by increased share of non-deductible expenses.

As a result, IFRS 16 net income stood RUB 1.2 billion or 0.4% margin. It was RUB 2.3 billion and 72 bps lower compared to previous accounting methodology.

Note:

1. This announcement contains inside information which is disclosed in accordance with the Market Abuse Regulation which came into effect on 3 July 2016.
2. Please note that there may be small variations in calculation of totals, subtotals and/ or percentage change due to rounding of decimals.

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Note to editors:

Public Joint Stock Company "Magnit" is one of Russia's leading retailers. Founded in 1994, the company is headquartered in the southern Russian city of Krasnodar. As of March 31, 2019, Magnit operated 38 distribution centres and 19,223 stores (13,909 convenience, 467 supermarkets and 4,847 drogerie stores) in 3,077 cities and towns throughout 7 federal regions of the Russian Federation.

In accordance with the audited IFRS results for 2018, Magnit had revenues of RUB 1,237 billion and an EBITDA of RUB 90 billion. Magnit's local shares are traded on the Moscow Exchange (MOEX: MGNT) and its GDRs on the London Stock Exchange (LSE: MGNT) and it has a credit rating from Standard & Poor's of BB.

Forward-looking statements:

This document contains forward-looking statements that may or may not prove accurate. For example, statements regarding expected sales growth rate and store openings are forward-looking statements. Forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause actual results to differ materially from what is expressed or implied by the statements. Any forward-looking statement is based on information available to Magnit as of the date of the statement. All written or oral forward-looking statements attributable to Magnit are qualified by this caution. Magnit does not undertake any obligation to update or revise any forward-looking statement to reflect any change in circumstances.

^[1] Since 2019 the Company reviewed revenue composition and reclassified income from advertising services and rental income from respective cost centres into revenue line. Changes were applied retrospectively and had impact on all ratios calculated as percentage of revenue.

^[2] LFL calculation base includes stores, which have been opened for 12 months since its first day of sales. LFL sales growth and average ticket growth are calculated based on sales turnover including VAT.

^[3] The number of stores does not include pharmacies.

^[4] Note during 2018 and 1Q 2019 the Company extended list of expenses related to cost of sales, including expenses for the processing of goods at distribution centres (payroll, utilities, etc.), penalties for goods for resale, cost of sales for promo campaigns. The Company applied changes retrospectively and recalculated comparable data for 2018.

^[5] Interest expense, including respective fees, divided by average gross debt (including subsidized debt) calculated as the average amount of debt at the end of the month preceding to reporting period and of each month of the reporting period

^[6] Excluding VAT

^[7] 1Q 2018 data was recalculated to be comparable with the 1Q 2019 approach, including new methodology for gross profit calculation.

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