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Magnit announces 10.5% revenue growth and adjusted EBITDA margin of 6.9% in 1H 2019

Krasnodar, Russia (20 August, 2019): Magnit PJSC (MOEX and LSE: MGNT), one of Russia's leading retailers announces its reviewed 1H 2019 results prepared in accordance with IFRS.

Key operating and financial highlights for 1H 2019:

- Total revenue increased by 10.5% from RUB 595.3 billion in 1H 2018 to RUB 657.9 billion in 1H 2019.
- LFL^[1] sales growth improved to 1.1% on 4.1% average ticket growth and 2.9% traffic decline.
- The Company opened 1,536 stores^[2] on net basis (804 convenience stores and 733 drogerie stores as well as 1 supermarket closure) compared to 612 stores (378 convenience stores, 6 supermarkets and 228 drogerie stores) opened in 1H 2018. Total store base reached 19,884 stores as of June 30, 2019.
- Addition of selling space in 1H 2019 amounted to 511 thousand sq. m. representing 16.7% selling space growth YoY compared to 190 thousand sq. m. in 1H 2018.
- During the reported quarter the Company redesigned 1,027 convenience stores and 438 drogerie stores (compared to 414 convenience stores and 40 drogerie stores in 1H 2018). As of June 30, 2019 the share of stores operating under the new concept reached 63% and 40% respectively.
- Gross Profit in 1H 2019 stood at RUB 155.6 billion with margin of 23.7%. The impact of the fire at the Voronezh DC on gross margin was 15 bps or RUB 1.0 billion. Adjusted for this one-off factor, gross margin in 1H 2019 was 23.8% or 90 bps lower compared to 1H 2018 due to higher shrinkage partially offset by improvements in commercial terms with suppliers.
- Adjusted EBITDA^[3] in 1H 2019 was RUB 45.3 billion with 6.9% margin. The decline of 65 bps YoY was caused by gross margin dynamics and increased operating expenses a lot driven by additional pressure coming from stores in the ramp up phase.
- Net income in 1H 2019 decreased by 44.8% YoY and stood at RUB 9.8 billion. Net income margin decreased by 149 bps YoY to 1.5%.
- As of 30 June 2019, Net Debt was RUB 181.4 billion. Compared to the end of 2018 it was RUB 43.6 billion higher due to payments of dividends for the full year 2018 and accelerated redesign program and store openings. Net Debt / EBITDA ratio was 2.1x.

Events after the reported period:

- The Company announced appointment of Anna Bobrova to the position of the HR Director.

Financial results for 1H 2019

million RUB	IAS 17			IFRS 16		
	1H 2019	1H 2018 ^[4]	Change	1H 2019	1H 2018	Change
Total revenue	657,917	595,263	10.5%	657,917	595,263	10.5%
Retail	643,012	584,746	10.0%	643,012	584,746	10.0%
Wholesale	14,905	10,517	41.7%	14,905	10,517	41.7%
Gross Profit	155,598	147,067	5.8%	155,598	147,067	5.8%
Gross Margin, %	23.7%	24.7%	-106 bps	23.7%	24.7%	-106 bps
EBITDA adjusted ^[5]	45,295	44,866	1.0%	76,348	72,400	5.5%
EBITDA Margin adjusted	6.9%	7.5%	-65 bps	11.6%	12.2%	-56 bps
EBITDA pre LTI ^[6]	44,294	44,866	-1.3%	75,346	72,400	4.1%
EBITDA Margin pre LTI, %	6.7%	7.5%	-80 bps	11.5%	12.2%	-71 bps
EBITDA	43,319	44,866	-3.4%	74,371	72,400	2.7%
EBITDA Margin, %	6.6%	7.5%	-95 bps	11.3%	12.2%	-86 bps
EBIT	20,049	27,429	-26.9%	28,894	37,526	-23.0%
EBIT Margin, %	3.0%	4.6%	-156 bps	4.4%	6.3%	-191 bps
Profit before tax	13,248	22,462	-41.0%	5,983	18,282	-67.3%
Taxes	-3,443	-4,697	-26.7%	-1,990	-3,861	-48.5%
Net Income	9,805	17,765	-44.8%	3,993	14,421	-72.3%
Net Income Margin, %	1.5%	3.0%	-149 bps	0.6%	2.4%	-182 bps

Total net retail sales in 1H 2019 stood at RUB 643.0 billion or 10.0% higher than in 1H 2018 driven by 16.7% selling space growth (or 1,536 new stores) and LFL sales growth of 1.1%. The main contribution to sales comes from the convenience segment while strongest sales growth was demonstrated by the drogerie format.

Wholesale revenue in 1H 2019 increased by 41.7% up to RUB 14.9 billion primarily driven by contribution from SIA Group. Share of wholesale segment increased from 1.8% in 1H 2018 to 2.3% in 1H 2019.

Gross Profit in 1H 2019 increased by 5.8% YoY and stood at RUB 155.6 billion with margin of 23.7%. Gross profit margin deteriorated by 106 bps as a result of the following factors:

- The growth of the cost of goods sold outpaced the sales growth representing 133 bps of margin contraction due to:
 - The fire at the Voronezh DC causing gross margin contraction in the amount of RUB 1.0 billion or 15 bps;
 - Changes in the accounting policy starting in 2019, related to the reclassification of warehousing costs from G&A expenses to the cost of goods sold applied only for 2019 numbers resulting in gross margin contraction (as well as G&A contraction) for the reported period while 2018 numbers remained unchanged;
 - Combination of investments into prices and higher shrinkage due to assortment review and increased share of wholesale segment;
 - Improvements in commercial terms from suppliers and increased share of drogerie segment.
- Transport costs as percentage of sales decreased by 28 bps as higher centralization ratio (90% vs 89% in 1H 2018), reduced average distance per trip and other operational efficiency more than offset the impact of higher fuel prices and increased external transport rates.

million RUB	IAS 17			IFRS 16		
	1H 2019	1H 2018	Change	1H 2019	1H 2018	Change
Payroll and related taxes	59,339	53,304	11.3%	59,339	53,304	11.3%
as a % of Sales	9.0%	9.0%	6 bps	9.0%	9.0%	6 bps
Rent	30,674	26,692	14.9%	221	71	209.6%
as a % of Sales	4.7%	4.5%	18 bps	0.0%	0.0%	2 bps
Depreciation & amortization	23,270	17,437	33.4%	45,477	34,874	30.4%
as a % of Sales	3.5%	2.9%	61 bps	6.9%	5.9%	105 bps
Utilities	12,124	11,264	7.6%	12,124	11,264	7.6%
as a % of Sales	1.8%	1.9%	-5 bps	1.8%	1.9%	-5 bps
Advertising	4,127	3,277	25.9%	4,127	3,277	25.9%
as a % of Sales	0.6%	0.6%	8 bps	0.6%	0.6%	8 bps
Other expenses	4,140	3,474	19.2%	4,140	3,474	19.2%
as a % of Sales	0.6%	0.6%	5 bps	0.6%	0.6%	5 bps
Bank services	3,178	3,018	5.3%	3,178	3,018	5.3%
as a % of Sales	0.5%	0.5%	-2 bps	0.5%	0.5%	-2 bps
Repair and maintenance	2,455	1,850	32.7%	2,455	1,850	32.7%
as a % of Sales	0.4%	0.3%	6 bps	0.4%	0.3%	6 bps
Taxes, other than income tax	1,672	1,915	-12.7%	1,672	1,915	-12.7%
as a % of Sales	0.3%	0.3%	-7 bps	0.3%	0.3%	-7 bps
Packaging and raw materials	1,672	1,794	-6.8%	1,672	1,794	-6.8%
as a % of Sales	0.3%	0.3%	-5 bps	0.3%	0.3%	-5 bps
Total SG&A	142,650	124,027	15.0%	134,404	114,843	17.0%
as a % of Sales	21.7%	20.8%	85 bps	20.4%	19.3%	114 bps
SG&A excl D&A	119,380	106,589	12.0%	88,926	79,969	11.2%
as a % of Sales	18.1%	17.9%	24 bps	13.5%	13.4%	8 bps

SG&A expenses in 1H 2019 reached RUB 142.6 billion and as a percentage of sales increased by 85 bps YoY:

- Payroll related expenses increased by 6 bps due to newly introduced LTI program and its' accrued expenses of 15 bps, compensations related to changes in management structure 18 bps, the impact of incoming pressure from new stores in the ramp up phase, offset by increased overall productivity in the Company.
- Rent as a percentage of sales went up by 18 bps as share of rented space in 1H 2019 increased to 71.4% compared to 67.5% a year ago despite falling rent expense per sq. m. of leased selling space.
- Depreciation of assets as a percentage of sales in 1H 2019 was 61 bps higher than in 1H 2018. Under the new IFRS 16 methodology, the Company has adjusted useful life of assets in line with the period of corresponding lease agreements. As a result, the useful life for the most types of leasehold improvements in rented stores changed from 30 to 10 years and depreciation has been recalculated accordingly.
- Utilities went down by 5 bps driven by measures undertaken to reduce energy consumption.
- Advertising costs as a percentage of sales increased by 8 bps due to changes in structure of communication channels.
- Bank services as a percentage of sales went down by 2 bps as introduced automated deposit machines inside stores more than offset increased rates for money collection.
- Repair and maintenance expenses increased by 6 bps as a percentage of sales compared to 1H 2018.
- Taxes other than income tax as a percentage of sales improved by 7 bps compared to 1H 2018 due to increased share of rented stores and cancelled tax on movable property since 2019.
- Packaging and raw materials as a percentage of sales reduced by 5 bps driven by improved purchasing terms with suppliers.
- Other expenses as a percentage of sales increased by 5 bps in 1H 2019 driven by payments for long term consultancy contracts that were expensed in the reported period as the projects were finished.

As a result, operating profit for the Company in 1H 2019 stood at RUB 20.0 billion or 26.9% lower than a year ago.

million RUB	IAS 17			IFRS 16		
	1H 2019	1H 2018	Change	1H 2019	1H 2018	Change
Operating profit	20,049	27,429	-26.9%	28,894	37,526	-23.0%
Net finance cost	-7,442	-4,264	74.5%	-23,551	-18,542	-27.0%
FX gain / (loss)	641	-703	-191.2%	641	-703	-191.2%
Profit before tax	13,248	22,462	-41.0%	5,983	18,282	-67.3%
Income tax	-3,443	-4,697	-26.7%	-1,990	-3,861	-48.5%
Net Income	9,805	17,765	-44.8%	3,993	14,421	-72.3%
Net Income Margin, %	1.5%	3.0%	-149 bps	0.6%	2.4%	-182 bps

Finance costs increased by 74.3% to RUB 7.6 billion compared to RUB 4.4 billion in 1H 2018 due to higher average amount of borrowings compared to the previous year. The weighted average effective interest rate for 1H 2019 was 8.4% (including the effect of subsidized debt).

Income tax for 1H 2019 was RUB 3.4 billion. Effective tax rate increased to 26.0% compared to 20.9% in 1H 2018 due to higher share of non-deductible expenses.

As a result, net income in 1H 2019 decreased by 44.8% YoY and stood at RUB 9.8 billion. Net income margin decreased by 149 bps YoY to 1.5%.

Cash Flow Statement for 1H 2019

million RUB	IAS 17			IFRS 16		
	1H 2019	1H 2018	Change	1H 2019	1H 2018	Change
Operating cash flows before working capital changes	45,176	45,004	0.4%	75,687	71,573	5.7%
Changes in working capital	-22,502	-16,443	36.8%	-21,446	-16,090	33.3%
Net Interest and income tax paid	-8,390	-5,780	45.2%	-24,499	-20,057	22.1%
Net cash from operating activities	14,285	22,780	-37.3%	29,741	35,426	-16.0%
Net cash used in investing activities	-22,070	-20,343	8.5%	-21,374	-19,701	8.5%
Net cash generated / (used) from/(in) financing activities	-2,050	-10,241	-80.0%	-18,203	-23,529	-22.6%
Net cash increase / (decrease)	-9,836	-7,804	26.0%	-9,836	-7,804	26.0%

The Company's cash flows from operating activities before changes in working capital for 1H 2019 equalled to RUB 45.2 billion, which was RUB 0.2 billion or 0.4% higher YoY. The change in working capital increased to RUB 22.5 billion from RUB 16.4 billion in 1H 2018 mainly due to inventories increase as a result of assortment review, increase of trade payables turnover days mainly driven by addition of SIA payables of RUB 18.1 billion in the end of 2018 and overall turnover increase.

Net interest and income tax paid in 1H 2019 increased by RUB 2.6 billion or 45.2% to RUB 8.4 billion. Net interest expenses increased by 36.7% YoY to RUB 6.7 billion in 1H 2019 due to higher YoY average amount of borrowings. Income tax paid for 1H 2019 increased to RUB 1.7 billion.

With this net cash flows from operating activities in 1H 2019 decreased by 37.3% to RUB 14.3 billion.

Net cash used in investing activities predominantly composed of capital expenditures increased by 8.5% from RUB 20.3 billion in 1H 2018 to RUB 22.1 billion in 1H 2019. The result is attributable to higher number of store openings (1,536 stores in 1H 2019 vs 612 in 1H 2018), more refurbishments conducted in 1H 2019 partially offset by decrease of advance payments and lower investments in own production.

In 1H 2019 net cash used in financing activities was RUB 2.1 billion vs RUB 10.2 billion in 1H 2018. In 1H 2019 the Company paid dividends in the amount of RUB 29.9 billion and did a buyback of RUB 5.1 billion. The rest was driven by dynamics of proceeds from borrowings and repayment of loans.

Debt composition and leverage as of 30.06.2019

million RUB	1H 2019	Share, %	FY 2018	Share, %	1H 2018	Share, %
Gross debt	198,313		164,573		115,596	
Long term debt	120,789	60.9%	93,736	57.0%	67,013	58.0%
Short term debt	77,524	39.1%	70,837	43.0%	48,584	42.0%
Net debt	181,401		137,826		105,063	
Net debt / EBITDA	2.1		1.5		1.2	

As of 30 June 2019 Net Debt under IAS 17 was RUB 181.4 billion compared to RUB 137.8 billion at the end of 2018. The net debt increase was due to payments of dividends for the full year 2018 and acceleration of redesign program and store openings. Company's debt is fully RUB denominated matching revenue structure. As of end of 1H 2019 it was 61% long-term debt. Net/Debt to EBITDA ratio was 2.1x.

Changes in classification of income and expense in the profit and loss statement

Numbers presented in this press release differ from the numbers prepared in accordance with the management accounts announced by Magnit for the 1Q and 2Q 2019 operating results. Based on the results review, certain income and expense items of the profit and loss statement were reclassified. This reclassification did not impact the final financial result but changed the allocation of items within the profit and loss statement. The changes relate to:

1. Allocation of income from advertising services and lease and sublease income to revenue. It was decided to allocate this income below gross profit;
2. Allocation of income from penalties to suppliers, as well as cost of sales for promo campaigns to cost of goods sold. It was decided to allocate the penalties to other income, while cost of sales for promo campaigns - to selling expense;
3. Breakdown of sales by retail and wholesale.

Adjusted numbers are provided in the table below:

million RUB	Reported during 2019		Restated		Difference
	1Q19	2Q19	1H19	1H19	1H19
Total revenue	318,984	342,879	661,863	657,917	-3,946
Retail	310,598	333,279	643,877	643,012	-865
Wholesale	6,644	7,396	14,040	14,905	865
Other	1,742	2,204	3,946	-	-3,946
Gross Profit	75,853	82,216	158,069	155,598	-2,471
Gross Margin, %	23.8%	24.0%	23.9%	23.7%	-0.23%

IFRS 16 implications

IFRS 16 came into force from the beginning of this year. The Company uses the full retrospective approach. According to the new standard the Company reconsidered rent with fixed rates as financial lease liabilities.

Under the IFRS 16 methodology rent expense went down by RUB 30.5 billion bringing new EBITDA up to RUB 74.4 billion and EBITDA margin of 11.3%, which is 472 bps better versus IAS 17 result.

Depreciation increased by RUB 22.2 billion and interest expenses grew by RUB 16.1 billion.

1H 2019 income tax compared to IAS 17 improved by 42.2% or RUB 1.5 billion, while profit before tax decreased by 54.8%

or RUB 7.3 billion. New effective tax rate was 33.3% compared to 26.0% in 1H 2019 pre-IFRS 16 driven by increased share of non-deductible expenses.

As a result, IFRS 16 net income stood at RUB 4.0 billion or 0.6% margin. It was RUB 5.8 billion and 88 bps lower compared to previous accounting methodology.

IFRS 16 has the following key impacts on the statement of financial position:

- Assets increased by RUB 308.6 billion due to the introduction of rights-of-use assets line;
- Liabilities increased by RUB 350.6 billion due to the introduction of lease liabilities line;
- Equity reduced by RUB 42.1 billion, due to the difference between historic rental costs and new depreciation and interest expenses amounts due to discounting approach.

IFRS 16 affects the structure of Cash flow statement with no impact on the Net cash change itself.

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.
3. Please follow the link to view 1H 2019 financial report - <http://ir.magnit.com/en/financial-reports/>

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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 June 30, 2019, Magnit operated 38 distribution centers and 19,884 stores (14,231 convenience, 466 supermarkets and 5,187 drogerie stores) in 3,354 cities and towns throughout 7 federal regions of the Russian Federation.

In accordance with the reviewed IFRS results for 1H 2019, Magnit had revenues of RUB 658 billion and an EBITDA of RUB 43 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] 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.

^[2] The number of stores does not include pharmacies.

^[3] Adjusted for long-term incentive program accruals and one-off costs related to damage caused from the fire at Voronezh DC.

^[4] 1H 2018 numbers have been recalculated for reclassification of lease and sublease income from G&A expenses to a separate line and reclassification of FX differences below EBITDA.

^[5] Adjusted for the accident on Voronezh DC and LTI expense

^[6] Long-Term Incentive Program

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