MAGNIT PJSC (MGNT)

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Magnit Reports 10.5% Sales Growth in 3Q 2019

Krasnodar, Russia (29 October, 2019): Magnit PJSC (MOEX and LSE: MGNT; the Company), one of Russia's leading retailers, announces its 3Q 2019 operating and unaudited financial results.

3Q 2019 key operating and financial highlights:

- Total revenue increased by 10.5% to RUB 342.6 billion.
- Net retail sales reached RUB 333.0 billion representing 9.1% growth YoY.
- Wholesale revenue increased by 97.8% to RUB 9.6 billion primarily driven by distribution of pharmaceutical products.
- LFL[1] sales growth stood at -0.7% on 2.8% average ticket growth and 3.4% traffic decline.
- The Company opened 613 stores[2] on net basis (276 convenience stores, 1 supermarket and 336 drogerie stores). Total store base as of September 30, 2019 reached 20,497 stores.
- Addition of selling space amounted to 207 thousand sq. m. (or 17.2% growth YoY).
- The Company redesigned 424 convenience stores and 214 drogerie stores. As of September 30, 2019 the share of refurbished and new stores reached 67% and 48% respectively.
- Gross Profit[3] stood at RUB 76.6 billion with margin of 22.4%. The impact of the inventory sell-off held in July-August on gross margin was 144 bps. Adjusted for this one-off factor, gross margin was 23.8% - 31 bps higher YoY due to better commercial terms.
- EBITDA was RUB 19.8 billion with 5.8% margin down 124 bps YoY on passive inventory sell-off, LTI provisions and operating expense partially offset by improvements in commercial terms.
- Net income decreased by 57.3% YoY and stood at RUB 3.3 billion. Net income margin decreased by 151 bps YoY to 0.9%.

Jan Dunning, President and CEO of Magnit, commented:

"I see clear signs of improvement in our business. Our convenience and drogerie formats continue to show positive LFL Sales. LFL Traffic, although still negative, is recovering with LFL Basket continuing its positive trend. In the third quarter we took a strategic decision to sell more than half of our passive matrix stock. It had a one-off negative effect on our EBITDA margin and LFL Sales but allowed us to clear up crucial space for our new assortment, a key component of our CVP. During the reporting period we achieved significant assortment improvements, launched the category management function and raised availability. These developments have not yet been evident in the LFL numbers but I am looking to the coming quarters with growing confidence."

Key events in 3Q and after the reported period:

- In 3Q Magnit sold more than half (RUB ~16.7 billion) of its passive matrix inventory, effecting EBITDA margin 144 bps and LFL sales 117 bps. EBITDA margin adjusted[4] pre sell-off was 7.4% and LFL Sales 0.49%.
- During 3Q 2019 Magnit appointed two members to its senior leadership team: Anna Bobrova as its HR Director and Andrey Bodrov as its Chief Investment Officer.
- Analytical Credit Rating Agency (ACRA) assigned credit rating AA (RU) to PJSC "Magnit" and its securities. The rating outlook is Stable.
- Magnit started to roll-out its unique multi-format loyalty program across Russia after the successful launch in three pilot regions in 2Q 2019. As of today, the Company has over 6 million active card users. In the pilot regions the share of tickets with the use of the loyalty card was 46% with penetration in sales reaching 64%.
- Magnit launched a confectionary factory in its Industrial Park Krasnodar - Konditer Kubani - the largest confectionary enterprise in the South of Russia.
- Magnit started to pilot its new store format - Magnit Vecherniy (Magnit Evening) offering wide range of liquor and low-alcoholic beverages and Private Label products.
- In September Magnit opened a revamped Cash&Carry store with the updated pricing model and new services for customers.
- Magnit launched its fruit and vegetables private label - Magnit Freshness. Most of the SKUs are produced by Magnit greenhouses located in the South of Russia.
- Exchange-traded bonds in a value of RUB 10 billion with an interest rate of 6.9% per annum and 2.5-year duration will be placed on MoEx on November 5th, 2019.

FY 2019 Guidance Update

	Previous	New
Number of store openings, net		

Convenience stores	1,500	~ 1,200
Drogerie stores	1,200	~ 1,200
Pharmacies	2,000	~ 1,200
Number of redesigns	2,000	~ 2,300
EBITDA margin	Sustainable vs FY 2018	6.5%
CAPEX, RUB billion	70-75	70-75

Operating results for 3Q 2019

	3Q 2018	3Q 2019	Change	Change, %
Total net retail sales, million RUB	**305,249**	**332,965**	**27,716**	**9.1%**
Convenience stores	229,682	254,239	24,556	10.7%
Supermarkets	52,142	49,263	-2,880	-5.5%
Drogerie Stores	23,276	28,719	5,442	23.4%
Other formats	148	745	596	401.7%
Number of Stores (EOP)	**17,392**	**20,497**	**3,105**	**17.9%**
Convenience stores	12,813	14,507	1,694	13.2%
Supermarkets	457	467	10	2.2%
Drogerie Stores	4,122	5,523	1,401	34.0%
New Store Openings (NET)	**482**	**613**	**131**	**27.2%**
Convenience stores	310	276	-34	-11.0%
Supermarkets	0	1	1	n/a
Drogerie Stores	172	336	164	95.3%
Total Selling Space (EOP), th. sq. m.	**6,092**	**7,143**	**1,051**	**17.2%**
Convenience stores	4,205	4,900	695	16.5%
Supermarkets	931	941	10	1.0%
Drogerie Stores	954	1,280	325	34.1%
New Selling Space, th. sq. m.	**148**	**207**	**59**	**40.2%**
Convenience stores	112	123	10	9.2%
Supermarkets	-2	2	3	-179.5%
Drogerie Stores	37	72	35	93.6%
Number of tickets, million	**1,137**	**1,217**	**80**	**7.0%**
Convenience stores	960	1,028	68	7.1%
Supermarkets	102	96	-6	-6.0%
Drogerie Stores	73	90	16	22.0%
Average ticket[5], RUB	**269**	**274**	**5**	**1.9%**
Convenience stores	239	247	8	3.4%
Supermarkets	509	512	3	0.5%
Drogerie Stores	317	321	4	1.1%

Operating results for 9M 2019

	9M 2018	9M 2019	Change	Change, %
Total net retail sales, million RUB	**889,994**	**975,976**	**85,982**	**9.7%**
Convenience stores	673,330	750,016	76,686	11.4%
Supermarkets	151,209	146,262	-4,947	-3.3%
Drogerie Stores	65,049	78,477	13,428	20.6%
Other formats	407	1,222	815	200.3%
Number of Stores (EOP)	**17,392**	**20,497**	**3,105**	**17.9%**
Convenience stores	12,813	14,507	1,694	13.2%
Supermarkets	457	467	10	2.2%
Drogerie Stores	4,122	5,523	1,401	34.0%
New Store Openings (NET)	**1,094**	**2,149**	**1,055**	**96.4%**
Convenience stores	688	1,080	392	57.0%
Supermarkets	6	0	-6	-100.0%
Drogerie Stores	400	1,069	669	167.3%
Total Selling Space (EOP), th. sq. m.	**6,092**	**7,143**	**1,051**	**17.2%**
Convenience stores	4,205	4,900	695	16.5%
Supermarkets	931	941	10	1.0%
Drogerie Stores	954	1,280	325	34.1%
New Selling Space, th. sq. m.	**337**	**718**	**381**	**113.0%**
Convenience stores	247	456	209	84.8%
Supermarkets	1	-1	-2	-305.2%
Drogerie Stores	90	244	154	171.2%

Number of tickets, million	**3,257**	**3,472**	**215**	**6.6%**
Convenience stores	2,755	2,940	185	6.7%
Supermarkets	295	284	-11	-3.6%
Drogerie Stores	206	243	37	17.9%
Average ticket[6], RUB	**273**	**281**	**8**	**2.9%**
Convenience stores	244	255	11	4.4%
Supermarkets	513	515	2	0.4%
Drogerie Stores	315	323	7	2.3%

LFL results

3Q 2019

LFL composition, %	Average Ticket	Traffic	Sales
Total	**2.8%**	**-3.4%**	**-0.7%**
Convenience stores	3.6%	-3.4%	0.1%
Supermarkets	1.6%	-7.4%	-6.0%
Drogerie Stores	2.1%	1.6%	3.7%

9M 2019

LFL composition, %	Average Ticket	Traffic	Sales
Total	**3.7%**	**-3.0%**	**0.5%**
Convenience stores	4.4%	-3.0%	1.3%
Supermarkets	1.6%	-5.8%	-4.3%
Drogerie Stores	3.2%	0.4%	3.6%

Total net retail sales for the 3Q 2019 was RUB 333.0 billion or 9.1% growth YoY (10.1% growth YoY including VAT) driven by a combination of selling space growth of 17.2% and negative LFL sales growth of 0.7%.

LFL sales growth declined from 1.7% in 2Q 2019 to -0.7% in 3Q 2019 on the back of (1) abnormally cold weather, (2) decelerating inflation, (3) clearance of passive matrix inventory and (4) strong base of 3Q18.

Average ticket growth slowed down to 2.8% in 3Q 2019 due to stock sell-off campaign resulting in shelf deflation. This was offset by trading up and growing number of items per basket (for the first time in the last two years) driven by continued assortment improvements and promo enhancement. Net of VAT, average ticket continued to grow across all formats, including 3.4% in convenience stores, 0.5% in supermarkets and 1.1% in drogeries.

LFL traffic dynamics in 3Q 2019 were under pressure from less customer visits due to cold weather. LFL traffic decline stood at -3.4%. September was the strongest month within the quarter demonstrating visible improvements in LFL traffic dynamics.

76.4% of total net retail sales was generated by the convenience segment. In 3Q 2019 Magnit opened 276 convenience stores (net) adding 123 thousand sq. m. Sales in the convenience format grew by 10.7% driven by selling space growth of 16.5% and LFL sales growth of 0.1% in 3Q 2019. LFL traffic stood at -3.4%. LFL average ticket growth continued to be strong and stood at 3.6% in 3Q 2019.

Supermarkets account for 14.8% of the Group's net retail sales. During 3Q 2019 Magnit opened one supermarket- a revamped Cash&Carry store in Lipetsk with updated pricing system and new services for its customers. New supermarkets CVP is being piloted in one store in Moscow and a new superstore is soon to be opened in Krasnodar. Sales growth in this segment was -5.5% on the back of selling space growth of 1.0% YoY and negative LFL sales of 6.0%.

Sales growth in the drogerie format (representing 8.6% of the total net retail sales) continued to accelerate and stood at 23.4% compared to 20.2% in 2Q 2019 driven by a combination of selling space growth of 34.1% and strong LFL sales growth of 3.7%. During 3Q 2019 Magnit opened 336 cosmetics stores and added 72 thousand sq. m. of selling space. LFL traffic improved from -0.7% in 2Q 2019 to 1.6% in 3Q 2019 due to the launch of the traffic-generating promo campaign while LFL average ticket growth decelerated from 4.5% to 2.1% correspondingly primarily on the back of passive matrix sell-off project.

Magnit continued its renovation program with 424 convenience stores and 214 drogerie stores being redesigned during the third quarter. As a result, the share of refurbished and new stores was 67% for convenience and 48% for drogerie format.

Monthly operating results for 3Q 2019

	July	YoY, %	August	YoY, %	September	YoY, %
Total net retail sales, million RUB	**114,735**	**9.4%**	**112,247**	**7.4%**	**105,983**	**10.5%**
Convenience stores	88,065	11.0%	85,266	8.8%	80,907	12.4%
Supermarkets	16,818	-5.8%	16,884	-6.0%	15,561	-4.7%
Drogerie Stores	9,687	26.9%	9,853	21.7%	9,179	21.6%
Other formats	165	259.0%	245	373.8%	335	559.0%
Number of Stores (EOP)	**20,112**	**n/a**	**20,310**	**n/a**	**20,497**	**n/a**
Convenience stores	14,333	n/a	14,418	n/a	14,507	n/a
Supermarkets	465	n/a	467	n/a	467	n/a
Drogerie Stores	5,314	n/a	5,425	n/a	5,523	n/a
New Store Openings (NET)	**228**	**n/a**	**198**	**n/a**	**187**	**n/a**

Convenience stores	102	n/a	85	n/a	89	n/a
Supermarkets	-1	n/a	2	n/a	0	n/a
Drogerie Stores	127	n/a	111	n/a	98	n/a
Total Selling Space (EOP), th. sq. m.	**7,007**	**17.3%**	**7,075**	**17.7%**	**7,143**	**17.2%**
Convenience stores	4,820	17.3%	4,855	17.3%	4,900	16.5%
Supermarkets	937	-0.1%	942	0.9%	941	1.0%
Drogerie Stores	1,236	33.8%	1,260	35.0%	1,280	34.1%
New Selling Space, th. sq. m.	**71**	**n/a**	**68**	**n/a**	**68**	**n/a**
Convenience stores	43	n/a	35	n/a	45	n/a
Supermarkets	-2	n/a	5	n/a	-1	n/a
Drogerie Stores	28	n/a	24	n/a	20	n/a
Number of tickets, million	**409**	**5.0%**	**412**	**6.2%**	**396**	**10.1%**
Convenience stores	346	4.8%	347	6.2%	335	10.4%
Supermarkets	33	-6.2%	33	-6.3%	31	-5.5%
Drogerie Stores	30	21.4%	31	21.2%	29	23.5%
Average ticket[7], RUB	**281**	**4.2%**	**273**	**1.1%**	**267**	**0.4%**
Convenience stores	255	5.9%	246	2.5%	241	1.8%
Supermarkets	513	0.4%	514	0.3%	509	0.9%
Drogerie Stores	328	4.5%	321	0.4%	313	-1.5%

Financial results for 3Q and 9M 2019 (IAS 17)

million RUB	3Q 2019	3Q 2018[8]	Change	9M 2019	9M 2018	Change
Total revenue	342,583	310,112	10.5%	1,000,499	905,374	10.5%
Retail	332,965	305,249	9.1%	975,976	889,994	9.7%
Wholesale	9,618	4,863	97.8%	24,523	15,380	59.4%
Gross Profit	76,609	72,860	5.1%	232,208	217,802	6.6%
Gross Margin, %	22.4%	23.5%	-113 bps	23.2%	24.1%	-85 bps
EBITDA adjusted[9]	25,290	21,742	16.3%	71,626	66,608	7.5%
EBITDA Margin adjusted	7.4%	7.0%	37 bps	7.2%	7.4%	-20 bps
EBITDA pre LTI[10]	20,351	21,742	-6.4%	64,645	66,608	-2.9%
EBITDA Margin pre LTI, %	5.9%	7.0%	-107 bps	6.5%	7.4%	-90 bps
EBITDA	19,780	21,742	-9.0%	63,099	66,608	-5.3%
EBITDA Margin, %	5.8%	7.0%	-124 bps	6.3%	7.4%	-105 bps
EBIT	8,625	12,127	-28.9%	28,674	39,556	-27.5%
EBIT Margin, %	2.5%	3.9%	-139 bps	2.9%	4.4%	-150 bps
Profit before tax	4,767	9,690	-50.8%	18,015	32,151	-44.0%
Taxes	-1,514	-2,072	-26.9%	-4,957	-6,769	-26.8%
Net Income	3,253	7,618	-57.3%	13,058	25,383	-48.6%
Net Income Margin, %	0.9%	2.5%	-151 bps	1.3%	2.8%	-150 bps

Total revenue in 3Q 2019 increased by 10.5% and stood at RUB 342.6 billion driven by 17.2% selling space growth (613 store additions) and -0.7% LFL sales growth.

Gross Profit in 3Q 2019 stood at RUB 76.6 billion with margin of 22.4%. The impact of the inventory sell-off held in July-August on gross margin was 144 bps. Adjusted for this one-off factor, gross margin in 3Q 2019 was 23.8% - 31 bps higher YoY due to better commercial terms. Magnit continued to implement various initiatives aimed at shrinkage optimization. Due to better forecasting, replenishment and quality in fruits and vegetables, shrinkage started to gradually improve in 3Q 2019. Logistics costs are also improving on the back of savings in transportation and increased productivity in the distribution centers.

EBITDA was RUB 19.8 billion with 5.8% margin down 124 bps YoY on passive inventory sell-off, LTI provisions and operating expense partially offset by improvements in commercial terms. The growth of operating expense YoY was driven by rental, utilities and maintenance costs partially mitigated by lower payroll, marketing, packaging and raw materials expense.

Depreciation of assets in the 3Q 2019 was RUB 11.2 billion, 24.8% higher than in the 3Q 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, useful life of reconstructions has been decreased from 30 years to 10 years and depreciation has been recalculated accordingly.

Net finance costs increased by 81.5% to RUB 3.8 billion compared to 3Q 2018 (RUB 2.1 billion) due to a combination of higher interest rates and higher average amount of borrowings compared to the previous year. The weighted average effective interest rate for 3Q 2019 was 8.0% (including the effect of subsidized debt).

Income tax for 3Q 2019 was RUB 1.5 billion. Effective tax rate increased to 31.8% compared to 21.4% in 3Q 2018 due to higher share of non-deductible expenses.

As a result, net income in 3Q 2019 decreased by 57.3% YoY and stood at RUB 3.3 billion. Net income margin decreased by 151 bps YoY to 0.9%.

As of 30 September 2019 Net Debt was RUB 168.7 billion compared to RUB 137.8 billion as of December 31, 2018. The net debt increase was due to acceleration of redesign program and store openings. Company's debt is fully RUB denominated matching revenue structure. As of end of 3Q 2019 it was 67% long-term debt. Net Debt to EBITDA ratio was 2.0x.

	30 September 2019	31 December 2018	30 September 2018
Net Debt, RUB billion	168.7	137.8	115.8
Net Debt/EBITDA	2.0x	1.5x	1.3x

Inventory Sell-off and Working Capital

During 3Q 2019 Magnit sold passive matrix inventory for the total amount of RUB 16.7 billion. The impact was 144 bps YoY on EBITDA margin and 115 bps YoY on Net Income.

These sell-out efforts enabled to reduce the share of passive matrix in total assortment from 40% down to 13% which is a manageable level for the Company to operate on a regular basis. Further steps include gradual optimization down to 8% without any material one-off impact on profitability.

The management plans to release around RUB 20 billion from working capital by the year end compared to year end 2018.

Due to the preparation activities for the high season, the current level of inventory does not yet reflect improvements in turnover days. The effect will be visible by year end.

2020 negotiation campaign with suppliers to improve commercial terms and extend payable days is ongoing. Inventory days turnover is expected to be lower in the 2H 2019 vs 2H 2018.

IFRS 16

million RUB	3Q 2019	3Q 2018	Change	9M 2019	9M 2018	Change
Total revenue	342,583	310,112	10.5%	1,000,499	905,374	10.5%
Retail	332,965	305,249	9.1%	975,976	889,994	9.7%
Wholesale	9,618	4,863	97.8%	24,523	15,380	59.4%
Gross Profit	76,609	72,860	5.1%	232,208	217,802	6.6%
Gross Margin, %	22.4%	23.5%	-113 bps	23.2%	24.1%	-85 bps
EBITDA adjusted	41,361	35,282	17.2%	118,749	107,683	10.3%
EBITDA Margin adjusted	12.1%	11.4%	70 bps	11.9%	11.9%	-2 bps
EBITDA pre LTI	36,422	35,282	3.2%	111,769	107,683	3.8%
EBITDA Margin pre LTI, %	10.6%	11.4%	-75 bps	11.2%	11.9%	-72 bps
EBITDA	35,851	35,282	1.6%	110,222	107,683	2.4%
EBITDA Margin, %	10.5%	11.4%	-91 bps	11.0%	11.9%	-88 bps
EBIT	14,024	17,099	-18.0%	42,918	54,625	-21.4%
EBIT Margin, %	4.1%	5.5%	-142 bps	4.3%	6.0%	-174 bps
Profit before tax	1,990	7,846	-74.6%	7,973	26,128	-69.5%
Taxes	-959	-1,703	-43.7%	-2,949	-5,564	-47.0%
Net Income	1,031	6,143	-83.2%	5,024	20,564	-75.6%
Net Income Margin, %	0.3%	2.0%	-168 bps	0.5%	2.3%	-177 bps

Under the IFRS 16 methodology rent expense went down by RUB 15.6 billion bringing new EBITDA up to RUB 35.9 billion and EBITDA margin of 10.5%, which is 469 bps better versus IAS 17 result.

Depreciation increased by RUB 10.7 billion and interest expenses grew by RUB 8.2 billion compared to IAS17.

3Q 2019 income tax compared to IAS 17 improved by 36.7% or RUB 0.6 billion, while profit before tax decreased by 58.3% or RUB 2.8 billion. New effective tax rate was 48.2% compared to 31.8% in 3Q 2019 pre-IFRS 16 driven by increased share of non-deductible expenses.

As a result, IFRS 16 net income stood RUB 1.0 billion or 0.3% margin. It was RUB 2.2 billion and 65 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 September 30, 2019, Magnit operated 38 distribution centres and 20,497 stores (14,507 convenience, 467 supermarkets and 5,523 drogerie stores) in 3,694 cities and towns throughout 7 federal regions of the Russian Federation.
In accordance with the unaudited IFRS management accounts for 9M 2019, Magnit had revenues of RUB 1,000 billion and an EBITDA of RUB 63 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.

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[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] During 2018 and 1H 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.). The Company applied changes retrospectively and recalculated comparable data for 2018.
[4] Adjusted for the inventory sell-off and LTI expense.
[5] Excluding VAT
[6] Excluding VAT
[7] Excluding VAT
[8] 3Q 2018 numbers have been recalculated to be comparable with the 3Q 2019 approach, including new methodology of gross profit calculation.
[9] Adjusted for the accident on Voronezh DC, costs related to the management structure, inventory sell-off and LTI expense.
[10] Long-Term Incentive Program

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