MAGNIT PJSC (MGNT)
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Magnit Reports Audited FY 2019 Results

Krasnodar, Russia (16 March, 2020): Magnit PJSC (MOEX and LSE: MGNT; the Company), one of Russia's leading retailers, announces its audited consolidated IFRS results for the year ending 31 December 2019[1].

Key figures presented in this press release immaterially differ from the numbers under management accounts announced by Magnit on February 6, 2020.

FY 2019 key financial highlights:

- Total revenue increased by 10.6% y-o-y to RUB 1,368.7 billion;
- Net retail sales reached RUB 1,332.9 billion representing 9.5% y-o-y growth;
- Wholesale revenue increased by 77.4% y-o-y to RUB 35.8 billion primarily driven by distribution of pharmaceutical products;
- Gross Profit stood at RUB 312.0 billion with a margin of 22.8% (down 114 bps y-o-y) on higher shrinkage, lower trading margin and growing share of low-margin wholesale segment partially offset by improved commercial terms and increased share of high-margin drogerie format;
- SG&A expenses as percentage of sales increased by 79 bps to 21.3% on higher depreciation, rental and personnel costs;
- Reported EBITDA was RUB 83.1 billion with 6.1% margin down 117 bps y-o-y. Adjusted[2] EBITDA margin was 6.8%;
- Net income decreased by 49.0% y-o-y and stood at RUB 17.1 billion. Net income margin decreased by 146 bps y-o-y to 1.2%;
- Capex in 2019 increased by 9.0% to RUB 58.6 billion on the back of accelerated redesign and expansion program;
- Net cash generated from operating activities decreased by 12.8% to RUR 56.4 billion as a result of negative movement of working capital and higher interest paid;
- As of 31 December 2019 Net Debt was RUR 175.3 billion compared to RUB 137.8 billion as of December 31, 2018. The net debt increase was due to higher gross debt and lower cash position related to unfavorable calendarization of payment days in 2019 vs 2018;
- Net Debt to EBITDA ratio was 2.1x;

FY 2019 Key Financial Results

	IAS 17			IFRS 16		
million RUB	FY 2019	FY 2018	Change	FY 2019	FY 2018	Change
Total revenue	1,368,705	1,237,015	10.6%	1,368,705	1,237,015	10.6%
Retail	1,332,929	1,216,851	9.5%	1,332,929	1,216,851	9.5%
Wholesale	35,777	20,164	77.4%	35,777	20,164	77.4%
Gross Profit	311,999	296,074	5.4%	311,999	296,074	5.4%
Gross Margin, %	22.8%	23.9%	-114 bps	22.8%	23.9%	-114 bps
SG&A, % of sales	-21.3%	-20.5%	-79 bps	-19.8%	-19.1%	-63 bps
EBITDA adjusted[3]	92,974	89,557	3.8%	157,172	144,962	8.4%
EBITDA Margin adjusted	6.8%	7.2%	-45 bps	11.5%	11.7%	-24 bps
EBITDA pre LTI[4]	85,111	89,557	-5.0%	149,309	144,962	3.0%
EBITDA Margin pre LTI, %	6.2%	7.2%	-102 bps	10.9%	11.7%	-81 bps
EBITDA	83,112	89,557	-7.2%	147,310	144,962	1.6%
EBITDA Margin, %	6.1%	7.2%	-117 bps	10.8%	11.7%	-96 bps
EBIT	36,324	53,040	-31.5%	59,216	71,809	-17.5%
EBIT Margin, %	2.7%	4.3%	-163 bps	4.3%	5.8%	-148 bps
Net finance costs	-15,095	-8,926	69.1%	-47,509	-39,331	20.8%
FX gain / (loss)	781	-1,415	-155.2%	873	-1,523	-157.3%
Profit before tax	22,010	42,699	-48.5%	12,579	30,954	-59.4%
Taxes	-4,901	-9,133	-46.3%	-3,015	-6,784	-55.6%
Net Income	17,108	33,566	-49.0%	9,564	24,170	-60.4%
Net Income Margin, %	1.2%	2.7%	-146 bps	0.7%	2.0%	-126 bps

Total revenue in FY 2019 increased by 10.6% and stood at RUB 1,368.7 billion. Net retail sales in FY 2019 grew by 9.5% y-o-y and amounted to RUB 1,332.9 billion driven by a combination of 12.7% selling space growth (2,377 store additions) and 0.4% LFL sales growth. Wholesale revenue in FY 2019 increased by 77.4% up to RUB 35.8 billion primarily driven by distribution of pharmaceutical products. Share of wholesale segment increased from 1.6% in FY 2018 to 2.6% in FY 2019.

Gross Profit in FY 2019 stood at RUB 312.0 billion with a margin of 22.8% down by 114 bps y-o-y on higher shrinkage, lower trading margin and growing share of low-margin wholesale segment partially offset by improved commercial terms and increased share of high-margin drogerie format.

Supply-chain costs as a percentage of sales remained flat y-o-y. Shrinkage increased y-o-y, although was steadily improving every quarter due to management initiatives related to renegotiation of quality standards with suppliers, changes in delivery schedule and other supply chain solutions.

Drogerie format reached record high share of net retail sales of 8.2% compared to 7.5% a year ago, which had a positive impact on the gross margin. On the other side, growth of this format combined with better on-shelf availability resulted in higher inventory level.

Selling, general and administrative expenses (SG&A)

	IAS 17			IFRS 16		
million RUB	**FY 2019**	**FY 2018**	**Change**	**FY 2019**	**FY 2018**	**Change**
Payroll and related taxes	121,677	107,833	12.8%	121,677	107,833	12.8%
as a % of Sales	8.9%	8.7%	17 bps	8.9%	8.7%	17 bps
Rent	63,195	54,152	16.7%	982	551	78.3%
as a % of Sales	4.6%	4.4%	24 bps	0.1%	0.0%	3 bps
Depreciation & amortization	46,788	36,517	28.1%	88,094	73,154	20.4%
as a % of Sales	3.4%	3.0%	47 bps	6.4%	5.9%	52 bps
Utilities	24,737	21,274	16.3%	24,737	21,274	16.3%
as a % of Sales	1.8%	1.7%	9 bps	1.8%	1.7%	9 bps
Advertising	7,715	8,601	-10.3%	7,715	8,601	-10.3%
as a % of Sales	0.6%	0.7%	-13 bps	0.6%	0.7%	-13 bps
Other expenses	8,723	7,587	15.0%	8,723	7,587	15.0%
as a % of Sales	0.6%	0.6%	2 bps	0.6%	0.6%	2 bps
Bank services	6,516	6,059	7.5%	6,516	6,059	7.5%
as a % of Sales	0.5%	0.5%	-1 bps	0.5%	0.5%	-1 bps
Repair and maintenance	5,748	4,421	30.0%	5,748	4,421	30.0%
as a % of Sales	0.4%	0.4%	6 bps	0.4%	0.4%	6 bps
Taxes, other than income tax	3,240	3,804	-14.8%	3,240	3,804	-14.8%
as a % of Sales	0.2%	0.3%	-7 bps	0.2%	0.3%	-7 bps
Packaging and raw materials	3,215	3,531	-8.9%	3,215	3,531	-8.9%
as a % of Sales	0.2%	0.3%	-5 bps	0.2%	0.3%	-5 bps
Total SG&A	291,555	253,779	14.9%	270,648	236,815	14.3%
as a % of Sales	21.3%	20.5%	79 bps	19.8%	19.1%	63 bps
SG&A excl D&A	244,767	217,262	12.7%	182,554	163,661	11.5%
as a % of Sales	17.9%	17.6%	32 bps	13.3%	13.2%	11 bps

SG&A expenses in FY 2019 reached RUB 291.6 billion and as a percentage of sales increased by 79 bps y-o-y:

- Payroll related expenses increased by 17 bps driven by the introduction of the LTI programme representing 0.15% of total sales, changes in the management structure, higher FTE per store to improve the quality of customer service partially offset by productivity gains;
- Rent expenses as a percentage of sales increased by 24 bps to 4.6% driven by growing share of leased selling space (77.2% in FY 2019 versus 74.5% a year ago) partially offset by improvements of lease terms with landlords resulting in lower rental costs per sq. m of selling space;
- Depreciation of assets was RUB 46.8 billion, 28.1% higher than in FY 2018. Under the new 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. Depreciation of assets was also impacted by the non-cash impairment provision in the amount of RUB 1.0 billion as a result of impairment test of operating stores;
- Utilities expenses slightly increased by 9 bps on higher cleaning and electricity costs. Growth in cleaning expenses was primarily driven by a country-wide growth in tariffs as well as some additional focus on this important element of the new CVP resulting in higher standards and frequency of cleaning. Increase in electricity costs was related to annual indexation in July 2019.
- Marketing and advertising expenses decreased by 13 bps y-o-y on the back of more efficient tactics and tools of promo campaigns;
- Taxes other than income tax as a percentage of sales improved by 7 bps compared to FY 2018 due to increased share of rented stores and abolishment of tax on movable property since 2019;
- Packaging and raw materials as a percentage of sales reduced by 5 bps driven by improved purchasing terms and lower write-offs on the back of limits optimization;
- Other expenses as a percentage of sales increased by 2 bps in FY 2019 predominantly due to insurance costs as a result of introduction of insurance program covering all network of stores and distribution centres.

As a result, operating profit for the Company in FY 2019 stood at RUB 36.3 billion or 31.5% lower than a year ago.

Reported EBITDA was RUB 83.1 billion with 6.1% margin down 117 bps y-o-y driven by gross margin dynamics and increased SG&A expenses partially offset by higher y-o-y other operating income. LTI expenses in the reported period stood at 0.15% of sales - as a result EBITDA pre-LTI was 6.2%.

For the full year 2019 the Company recorded a number of significant one-off costs, including accident at Voronezh DC, changes in the management structure, passive stock sell-off and consulting fees for the total amount of 0.57% of sales. EBITDA margin adjusted for the above one-off factors was 6.8% for 2019.

Net finance costs increased by 69.1% to RUB 15.1 billion compared to FY 2018 (RUB 8.9 billion) due to a combination of larger average amount of borrowings and higher cost of debt compared to the previous year.

Income tax for FY 2019 was RUB 4.9 billion. Effective tax rate was 22.3% in FY 2019 compared with 21.4% in FY 2018.

As a result, net income in FY 2019 decreased by 49.0% y-o-y and stood at RUB 17.1 billion. Net income margin decreased by 146 bps y-o-y to 1.2%.

Financial Position Highlights as of 31.12.2019 (IFRS 16)

million RUB	FY 2019	FY 2018[5]
Non-current assets	697,347	660,523
Inventories	218,874	182,141
Cash and cash equivalents	8,901	26,748
Other current assets	23,568	13,805
Assets	948,689	883,216
Equity	188,533	212,442
Long-term borrowings	119,632	93,736
Other long-term liabilities	340,125	309,258
Trade and other payables	161,631	131,101
Short-term borrowings and short-term portion of long-term borrowings	64,578	70,837
Other short-term liabilities	74,189	65,841
Equity and liabilities	948,689	883,216

Increased share of drogerie format to 8.2% of net retail sales leading to lower stock turnover, supplier inflation, organic growth of the Company's store network (12.7% selling space growth y-o-y), improvement of on-shelf availability across all formats as well as assortment changes in the large formats resulted in RUB 36.7 billion increase of inventories to RUB 218.9 billion as of December 31, 2019.

The Company has changed its accounting policy of vendor rebates allocation as management believes that the new approach provides more relevant information by categories of products and it aligns to the industry practice and aids comparability. The Group has applied changes of vendor rebates allocation between closing inventories and cost of goods sold methodology retrospectively[6].

Debt composition and leverage as of 31.12.2019

million RUB	FY 2019	Share, %	1H 2019	Share, %	FY 2018	Share, %
Gross debt	184,211		198,313		164,573	
Long term debt	119,632	64.9%	120,789	60.9%	93,736	57.0%
Short term debt	64,578	35.1%	77,524	39.1%	70,837	43.0%
Net debt	175,310		181,401		137,826	
Net debt / EBITDA	2.1x		2.1x		1.5x	

Gross debt increased by RUB 19.6 billion and stood at RUB 184.2 billion as of 31 December 2019 due to acceleration of redesign programme and store openings, investments in the buy-back programme and two dividend payments within 2019 vs one within 2018. Net debt was RUB 175.3 billion compared to RUB 137.8 billion as of December 31, 2018. The main reason of leverage increase was the growth of gross debt as well as lower cash position related to unfavorable calendarization of payment days in 2019 vs 2018. Company's debt is fully RUB denominated matching revenue structure. As of December 31, 2019 it was 65% long-term debt. Net Debt to EBITDA ratio was 2.1x.

Cash Flow Statement for FY 2019

	IAS 17			IFRS 16		
million RUB	FY 2019	FY 2018	Change	FY 2019	FY 2018	Change
Operating cash flows before working capital changes	86,208	90,061	-4.3%	148,517	143,620	3.4%
Changes in working capital	-12,796	-11,230	13.9%	-10,911	-12,161	-10.3%
Net Interest and income tax paid	-16,968	-14,093	20.4%	-49,377	-44,499	11.0%
Net cash from operating activities	56,444	64,737	-12.8%	88,228	86,959	1.5%
Net cash used in investing activities	-57,781	-53,208	8.6%	-56,323	-50,906	10.6%
Net cash generated / (used) from/(in) financing activities	-16,510	-3,119	429.4%	-49,752	-27,643	80.0%
Net cash increase / (decrease)	-17,846	8,410	-312.2%	-17,846	8,410	-312.2%

The Company's cash flows from operating activities before changes in working capital for FY 2019 decreased by 4.3% or RUB 3.9 billion and stood at RUB 86.2 billion. The change in working capital increased to RUB 12.8 billion from RUB 11.2 billion in FY 2018 mainly due to higher inventories as well as increase of trade payables days.

Net interest and income tax paid in FY 2019 increased by RUB 2.9 billion or 20.4% to RUB 17.0 billion. Net interest expenses increased by 45.7% y-o-y to RUB 14.1 billion in FY 2019 due to a combination of larger average amount of borrowings and higher cost of debt compared to the previous year.

The Group revisited tax amounts paid in the previous years and amended tax declarations with regard to deductible expenses. Income tax paid for FY 2019 decreased from RUB 4.4 billion in FY 2018 to RUB 2.9 billion.

Net cash generated from operating activities in FY 2019 decreased by 12.8% to RUB 56.4 billion as a result of negative movement of working capital and higher interest paid.

Net cash used in investing activities predominantly composed of capital expenditures increased by 8.6% from RUB 53.2 billion in FY 2018 to RUB 57.8 billion in FY 2019. Capex in 2019 increased by 9.0% or RUB 4.8 billion and stood at RUB 58.6 billion on the back of accelerated redesign (2,341 stores in 2019 vs 1,352 stores in 2018) and expansion program (2,841 stores on gross basis in 2019 vs 2,384 stores in 2018).

Net cash used in financing activities increased from RUB 3.1 billion in FY 2018 to RUB 16.5 billion in FY 2019 reflecting dividend payments in the amount of RUB 30 billion and a buyback of RUB 5.1 billion as well as dynamics of proceeds from borrowings and repayment of loans.

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 FY 2019 financial report - http://ir.magnit.com/en/financial-reports/ or http://www.morningstar.co.uk/uk/NSM

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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 December 31, 2019, Magnit operated 38 distribution centres and 20,725 stores (14,622 convenience, 473 supermarkets and 5,630 drogerie stores) in 3,742 cities and towns throughout 7 federal regions of the Russian Federation.
In accordance with the audited IFRS results for FY 2019, Magnit had revenues of RUB 1,369 billion and an EBITDA of RUB 147 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] EBITDA, Adjusted EBITDA and LFL metrics are calculated by the Company and are not audited.
[2] Adjusted for the accident at Voronezh DC, costs related to the management structure, inventory sell-off, consulting fees and LTI expense.
[3] Adjusted for the accident on Voronezh DC, costs related to the management structure, inventory sell-off, consulting fees and LTI expense.
[4] Long-Term Incentive Programme
[5] Inventories, deferred tax and retained earnings have been restated under the new accounting policy described below
[6] Note 4.1 of the audited financial statements under IFRS

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