

Financial Review¹

FY 2020 key financial highlights²

- Total revenue increased by 13.5% year-on-year to RUB 1,553.8 bln.
- Net retail sales reached RUB 1,510.1 bln representing 13.3% year-on-year growth.
- Gross profit margin stood at 23.5% - an increase of 74 bps year-on-year on improved commercial terms, lower promo activity in a combination with better promo coverage and higher promo margin, lower shrinkage and supply chain costs partially offset by ongoing cost of the loyalty programme.
- Cash SG&A expenses³ as percentage of sales improved by 36 bps to 17.5% primarily as a result of lower rent as well as positive operating leverage effect partially offset by higher packaging and raw materials costs.
- EBITDA was RUB 109.4 bln with a 7.0% margin – an increase of 97 bps year-on-year driven by strong gross margin dynamics and lower SG&A expenses.
- Net income increased by 120.8% year-on-year and stood at RUB 37.8 bln. Net income margin increased from 1.2% in 2019 to 2.4% in 2020.
- As of December 31, 2020 Net debt was RUB 121.4 bln. The Net Debt to EBITDA ratio was 1.1x vs 2.1x as at 31 December 2019.

Total revenue in 2020 increased by 13.5% to RUB 1,553.8 bln.

Net retail sales in 2020 grew by 13.3% year-on-year to RUB 1,510.1 bln driven by a combination of 3.6% selling space growth and 7.4% LFL sales growth. Every quarter of the reported year net retail sales growth outpaced selling space growth as strong LFL results have led to a continuous improvement of sales densities across all formats since January 2020.

Wholesale revenue in 2020 increased by 22.2% year-on-year to RUB 43.7 bln primarily driven by improvements of wholesale operations. Share of wholesale segment increased from 2.6% in 2019 to 2.8% in 2020.

Gross Profit in 2020 increased by 17.2% to RUB 365.7 bln with a margin increase of 74 bps year-on-year to 23.5%. This came as a result of improved commercial terms, lower promo activity in combination with better promo coverage and higher promo margin, lower shrinkage and reduced supply chain costs as well as increased share of high-margin drogerie business. This was partially offset by the ongoing investments into Magnit's loyalty programme with higher penetration and growing share of low-margin wholesale business.

Alongside with the growing share of fresh products and overall improvement of on-shelf availability shrinkage as a proportion of sales

decreased by 56 bps year-on-year driven by ongoing optimization of supply chain processes, renegotiation of quality standards with suppliers and other initiatives.

Despite continuous increase of on-shelf availability and improvement of service level, transportation expenses as a percentage of sales improved by 6 bps year-on-year on route optimisation, higher utilization of trucks and other efficiency gains leading to a reduction of cost per kilometre by 7.9% year-on-year.

Implications of IFRS 16

IFRS 16 balances the presentation of leased assets with owned assets. With this, rent expenses are replaced with depreciation and interest payments. The lease capitalised 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 net income is highly dependent on average lease maturity – the higher the maturity, the lower the interest charges.



There may be small variations in calculation of totals, subtotals and/or percentage change due to rounding of decimals.

FY 2020 Key Financial Results

RUB, mln	IAS 17			IFRS 16		
	FY 2020	FY 2019	Change	FY 2020	FY 2019	Change
Total revenue	1,553,777	1,368,705	13.5%	1,553,777	1,368,705	13.5%
Retail	1,510,071	1,332,929	13.3%	1,510,071	1,332,929	13.3%
Wholesale	43,707	35,777	22.2%	43,707	35,777	22.2%
Gross Profit	365,729	311,999	17.2%	365,756	311,999	17.2%
Gross Margin, %	23.5%	22.8%	74 bps	23.5%	22.8%	74 bps
SG&A, % of sales	-20.5%	-21.3%	82 bps	-19.1%	-19.8%	70 bps
EBITDA pre LTI ⁴	110,264	85,111	29.6%	179,043	149,309	19.9%
EBITDA Margin pre LTI, %	7.1%	6.2%	88 bps	11.5%	10.9%	61 bps
EBITDA	109,410	83,112	31.6%	178,189	147,310	21.0%
EBITDA Margin, %	7.0%	6.1%	97 bps	11.5%	10.8%	71 bps
EBIT	63,493	36,324	74.8%	88,424	59,216	49.3%
EBIT Margin, %	4.1%	2.7%	143 bps	5.7%	4.3%	136 bps
Net finance costs	-13,497	-15,095	-10.6%	-44,268	-47,509	-6.8%
FX gain / (loss)	-1,310	781	-267.8%	-1,453	873	-266.5%
Profit before tax	48,686	22,010	121.2%	42,703	12,579	239.5%
Taxes	-10,905	-4,901	122.5%	-9,709	-3,015	222.0%
Net Income	37,781	17,108	120.8%	32,993	9,564	245.0%
Net Income Margin, %	2.4%	1.2%	118 bps	2.1%	0.7%	142 bps

¹ The Company provides analysis of financial metrics using IAS 17 approach in the current section of the report. Respective financial data according to IFRS 16 is also provided further.

² EBITDA, EBITDA pre LTI and LFL metrics are calculated by the Company and are not audited.

³ Selling, general and administrative expenses excluding depreciation and amortization.

⁴ Long-Term Incentive Programme.

Financial Review (continued)

Selling, General and Administrative Expenses (SG&A)

	IAS 17			IFRS 16		
RUB, mln	FY 2020	FY 2019	Change	FY 2020	FY 2019	Change
Payroll and related taxes	138,640	121,677	13.9%	138,640	121,677	13.9%
as a % of Sales	8.9%	8.9%	3 bps	8.9%	8.9%	3 bps
Rent	67,011	63,195	6.0%	1,429	982	45.5%
as a % of Sales	4.3%	4.6%	-30 bps	0.1%	0.1%	2 bps
Depreciation & amortization	45,917	46,788	-1.9%	89,765	88,094	1.9%
as a % of Sales	3.0%	3.4%	-46 bps	5.8%	6.4%	-66 bps
Utilities	28,287	24,737	14.3%	28,287	24,737	14.3%
as a % of Sales	1.8%	1.8%	1 bps	1.8%	1.8%	1 bps
Advertising	7,628	7,715	-1.1%	7,628	7,715	-1.1%
as a % of Sales	0.5%	0.6%	-7 bps	0.5%	0.6%	-7 bps
Other expenses	9,051	8,723	3.8%	9,051	8,723	3.8%
as a % of Sales	0.6%	0.6%	-5 bps	0.6%	0.6%	-5 bps
Bank services	7,108	6,516	9.1%	7,108	6,516	9.1%
as a % of Sales	0.5%	0.5%	-2 bps	0.5%	0.5%	-2 bps
Repair and maintenance	6,732	5,748	17.1%	6,732	5,748	17.1%
as a % of Sales	0.4%	0.4%	1 bps	0.4%	0.4%	1 bps
Taxes, other than income tax	2,925	3,240	-9.7%	2,925	3,240	-9.7%
as a % of Sales	0.2%	0.2%	-5 bps	0.2%	0.2%	-5 bps
Packaging and raw materials	4,861	3,215	51.2%	4,861	3,215	51.2%
as a % of Sales	0.3%	0.2%	8 bps	0.3%	0.2%	8 bps
Total SG&A	318,159	291,555	9.1%	296,425	270,648	9.5%
as a % of Sales	20.5%	21.3%	-82 bps	19.1%	19.8%	-70 bps
Cash SG&A (excl. D&A)	272,242	244,767	11.2%	206,660	182,554	13.2%
as a % of Sales	17.5%	17.9%	-36 bps	13.3%	13.3%	-4 bps

SG&A costs demonstrated solid improvement of 82 bps to 20.5% as a percent of sales.

Cash SG&A expenses as a percentage of sales improved by 36 bps to 17.5% primarily as a result of lower rent costs as well as positive operating leverage effect partially offset by higher packaging and raw materials costs.

Personnel costs as a percent of sales remained flat at 8.9% - one-off COVID-related expenses incurred in March and April 2020 were offset by efficiency improvements. The Company made increased payments to its frontline personnel related to extra working hours and additional hiring to cover high demand in March partially compensated by increased productivity and lower staff turnover. Staff turnover continued to improve during the period driven by on-going automation of business processes and improved working conditions in the Company's stores including a selective increase in compensation for frontline employees as well as higher retention rate.

Rental costs as a percent of sales decreased by 30 bps year-on-year to 4.3% driven by higher sales density, improved lease terms with landlords and closing of inefficient stores. This was achieved despite the increased share of leased selling space to 78.0% in 2020 vs. 77.2% a year ago.

Despite growing costs related to the loyalty programme, advertising expenses as a percentage of sales decreased by 7 bps year-on-year to 0.5% thanks to more efficient tactics and tools of promo campaigns.

Packaging and raw materials expenses increased by 8 bps year-on-year to 0.3% reflecting the ongoing provision of means of sanitary protection to customers and employees during the COVID-19 pandemic.

Other costs including utilities, bank and tax expenses improved on positive operating leverage effect.

Total costs incurred as a result of the Company's response to COVID-19 in 2020 reached RUB 2.8 bln. This included additional payments to frontline personnel (reflected in staff costs) and safety procedures (reflected in other operating expenses).

As a result, EBITDA was RUB 109.4 bln with a 7.0% margin reflecting 97 bps year-on-year expansion due to strong gross margin dynamics and lower SG&A expenses. LTI expenses in the reported period stood at 0.05% of sales – as a result EBITDA margin pre-LTI was 7.1%.

Depreciation as a percent of sales reduced by 46 bps year-on-year to 3.0% driven by operating leverage, slower expansion (839 net openings in 2020 vs 2,377 stores opened last year) and redesign programme (385 refurbishments in 2020 vs 2,341 redesigns made last year).

As a result, operating profit in 2020 stood at RUB 63.5 bln or 74.8% higher than a year ago.

Net finance costs in 2020 decreased by 10.6% year-on-year (or 23 bps) to RUB 13.5 bln due to the lower cost of debt and total amount of borrowings.

As a result of continued focus on financial efficiencies, the cost of debt reduced to 6.1% (102 bps year-on-year).

In 2020 the Company reported FX loss in the amount of RUB 1.3 bln related to direct import operations.

Income tax in 2020 was RUB 10.9 bln with effective tax rate of 22.4%.

As a result, net income in 2020 more than doubled year-on-year and stood at RUB 37.8 bln. Net income margin increased to 2.4%.

Financial Review (continued)

Balance Sheet and Cash Flows

Despite ongoing improvement to on-shelf availability, the increased share of drogerie format by 66 bps as a percent of net retail sales, supplier inflation and total sales growth of 13.5%, inventories decreased by RUB 12.9 bln vs December 31, 2019 and stood at RUB 205.9 bln. This was driven by a number of projects launched in 2020 including a reduction of slow-moving items, assortment harmonization and IT solutions aimed at better on-shelf availability and promo forecasting.

Trade and other payables remained flat year-on-year and stood at RUB 161.1 bln. RUB 4.7 bln increase in trade payables driven by improvement of payment days was offset by RUB 5.2 bln decrease of other payables related to high pace of expansion in 2019. Accounts receivables decreased by RUB 5.4 bln or 38.8% to RUB 8.6 bln as a results of ongoing optimisation initiatives including weekly tracking of overdue debts and clearing activities as well as launch of electronic document flow with suppliers.

Debt Composition and Leverage as of 31.12.2020

RUB, bln	2020	Share, %	1H 2020	Share, %	2019	Share, %
IAS 17						
Gross debt	166.1		208.6		184.2	
Long term debt	147.7	88.9%	117.4	56.3%	119.6	64.9%
Short term debt	18.4	11.1%	91.2	43.7%	64.6	35.1%
Net debt	121.4		187.4		175.3	
Net debt / EBITDA	1.1x		2.0x		2.1x	
IAS 16						
Net debt	479.0		538.8		532.5	
Net debt / EBITDA	2.7x		3.3x		3.6x	

Financial Position Highlights as of 31 December 2020 (IFRS 16)

RUB, mln	31.12.2020	31.12.2019
Non-current assets	678,461	697,347
Inventories	205,949	218,874
Trade and other receivables	8,564	13,993
Cash and cash equivalents	44,700	8,901
Other current assets	7,718	9,574
Assets	945,392	948,689
Equity	182,889	188,533
Long-term borrowings	147,695	119,632
Other long-term liabilities	330,535	340,125
Trade and other payables	161,072	161,631
Short-term borrowings and short-term portion of long-term borrowings	18,392	64,578
Other short-term liabilities	104,809	74,189
Equity and liabilities	945,392	948,689

As a results of repayment activities gross debt decreased by RUB 18.1 bln or 9.8% compared to December 31, 2019 and stood at RUB 166.1 bln as of December 31, 2020 with cash position of RUB 44.7 bln.

As a result, net debt reduced by RUB 53.9 bln compared to December 31, 2019 and stood at RUB 121.4 bln. The Company's debt is fully RUB denominated matching revenue structure,

99% of debt portfolio was long-term with 22 months maturity. The net debt to EBITDA ratio was 1.1x as at 31 December 2020 vs 2.1x as at 31 December 2019.

Cash Flow Statement for FY 2020

RUB, mln	IAS 17			IFRS 16		
	FY 2020	FY 2019	Change	FY 2020	FY 2019	Change
Operating cash flows before working capital changes	109,798	86,183	27.4%	175,408	148,492	18.1%
Changes in working capital	30,349	-13,385	-326.7%	30,712	-11,501	-367.0%
Net Interest and income tax paid	-25,738	-16,968	51.7%	-56,509	-49,377	14.4%
Net cash from operating activities	114,409	55,830	104.9%	149,611	87,614	70.8%
Net cash used in investing activities	-29,533	-57,167	-48.3%	-29,020	-55,709	-47.9%
Net cash generated / (used) from/(in) financ-ing activities	-49,077	-16,510	197.3%	-84,793	-49,752	70.4%
Net cash increase / (decrease)	35,798	-17,846	-300.6%	35,798	-17,846	-300.6%

The Company's cash flows from operating activities before changes in working capital for 2020 equalled to RUB 109.8 bln, which was RUB 23.6 bln or 27.4% higher year-on-year. The change in working capital improved to RUB 30.3 bln from RUB -13.4 bln in 2019 as a result of a decrease in inventory, receivables, higher accrued expenses and taxes payable.

Net interest and income tax paid in 2020 increased by RUB 8.8 bln or 51.7% to RUB 25.7 bln. Net interest expenses decreased by 10.1% year-on-year to RUB 12.6 bln in 2020 due to lower cost of debt and lower amount of borrowings. Income tax paid for 2020 increased to RUB 13.1 bln.

With this net cash flow from operating activities in 2020 increased by 104.9% to RUB 114.4 bln as a result of positive movement of working capital and lower interest paid.

Net cash used in investing activities predominantly composed of capital expenditures decreased by 48.3% to RUB 29.5 bln in 2020. The dynamic was attributable to a slowdown of expansion programme (1,292 store openings on gross basis in 2020 vs 2,841 in 2019) and decelerated redesign programme (385 stores in 2020 vs 2,341 stores in 2019). Capex in 2020 came below the Company's guidance on lower than expected expansion given pandemic restrictions and management's intention to expand selectively following strict return requirements.

In 2020 net cash used from financing activities was RUB 49.1 bln vs RUB 16.5 bln used in 2019. In 2020 the Company paid dividends in the amount of RUB 29.9 bln¹. The rest was driven by dynamics of proceeds from borrowings and repayment of loans.

As a result of factors mentioned above net cash position in 2020 increased by RUB 35.8 bln to RUB 44.7 bln as of December 31, 2020.

¹ Excluding intercompany transactions between PJSC Magnit and JSC Tander.