

Financial Review¹



Dmitry Ivanov,
Chief Financial Officer

In 2021, Magnit maintained strong financial discipline across its operations. We upheld a return-based approach in opening new stores and refurbishing the existing ones. We've been rolling out e-commerce in a prudent way to avoid financial losses. We managed to increase both revenue and EBITDA margin boosting value for our shareholders.

I am delighted that having completed a relatively large deal – acquisition of Russia's fifth-largest food retailer Dixy – Magnit managed to keep leverage at a healthy level of 1.5x EBITDA with average cost of debt being low at 6.4%. Another big achievement for us has been the decrease of the working capital cycle by more than 7 days, which released RUB 18.3 bln of cash for the Company.

FY 2021 key financial highlights

Total revenue increased by

19.5%

YoY to RUB 1,856.1 bln. Total revenue adjusted for the Dixy acquisition increased by 10.8%

Net retail sales reached

RUB 1,808 bln

increasing 19.7% YoY. Net retail sales growth adjusted for the Dixy acquisition was 11.3%

Gross profit increased by

20.1%

YoY to RUB 439.2 bln with a margin of 23.7% as a result of better promotional margin, lower shrinkage and favourable format mix

Cash SG&A² increased by

25 bps

to 17.8% due to higher advertising and other costs

EBITDA was

RUB 133.1 bln

with a 7.2% margin – an improvement of 13 bps YoY as a result of stronger gross margin but partially offset by Dixy consolidation

Net income increased by

36.8%

YoY to RUB 51.7 bln with a margin of 2.8% vs 2.4% a year ago

As of 31 December 2021

Net Debt was

RUB 197.0 bln

The Net Debt to EBITDA ratio was 1.5x

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.

Total revenue in FY 2021 increased by 19.5%. This growth was underpinned by net retail sales growth of 19.7% and wholesale revenue growth of 10.6%. Wholesale operations accounted for 2.6% of total sales.

The latter positively impacted gross margin, with the share of wholesale operations decreasing to 2.6% from 2.8% a year ago. Promotional intensity was slightly higher YoY driven by the dynamics of the 1H.

Alongside the growing share of fresh products, overall improvement of on-shelf availability and consolidation of the Dixy business, shrinkage as a proportion of sales decreased further by 20 bps YoY. This was driven by ongoing optimisation of supply chain processes, renegotiation of quality standards with suppliers and other initiatives.

Gross Profit in FY 2021 increased by 20.1% YoY to RUB 439.2 bln with a margin of 23.7%. An improvement of 13 bps YoY was a result of better promotional margin, lower shrinkage and favourable format mix.

Transportation expenses were flat YoY and stood at 2.5% as a percentage of sales despite continued increase of on-shelf availability. This was due to higher productivity and utilisation at distribution centres, which offset the negative impact of the increased container shipping tariffs.

FY 2021 Key Financial Results

RUB mln	IAS 17			IFRS 16		
	FY 2021	FY 2020	Change	FY 2021	FY 2020	Change
Total Revenue	1,856,079	1,553,777	19.5%	1,856,079	1,553,777	19.5%
Retail	1,807,752	1,510,071	19.7%	1,807,752	1,510,071	19.7%
Wholesale	48,327	43,707	10.6%	48,327	43,707	10.6%
Gross Profit	439,238	365,729	20.1%	439,264	365,756	20.1%
Gross Margin, %	23.7%	23.5%	13 bps	23.7%	23.5%	13 bps
SG&A, % of Sales	-20.6%	-20.5%	-17 bps	-19.2%	-19.1%	-15 bps
EBITDA pre-LTI ³	134,054	110,264	21.6%	215,132	179,043	20.2%
EBITDA Margin pre-TI, %	7.2%	7.1%	13 bps	11.6%	11.5%	7 bps
EBITDA	133,143	109,410	21.7%	214,220	178,189	20.2%
EBITDA Margin, %	7.2%	7.0%	13 bps	11.5%	11.5%	7 bps
EBIT	79,744	63,493	25.6%	108,897	88,424	23.2%
EBIT Margin, %	4.3%	4.1%	21 bps	5.9%	5.7%	18 bps
Net Finance Costs	-12,966	-13,497	-3.9%	-46,578	-44,268	5.2%
FX Gain/ (Loss)	302	-1,310	-123.1%	281	-1,453	-119.3%
Profit before Tax	67,081	48,686	37.8%	62,600	42,703	46.6%
Taxes	-15,387	-10,905	41.1%	-14,494	-9,709	49.3%
Net Income	51,694	37,781	36.8%	48,106	32,993	45.8%
Net Income Margin, %	2.8%	2.4%	35 bps	2.6%	2.1%	47 bps

¹ THE COMPANY PROVIDES ANALYSIS OF FINANCIAL METRICS USING THE IAS 17 APPROACH IN THE CURRENT SECTION OF THE REPORT

² SELLING, GENERAL AND ADMINISTRATIVE EXPENSES EXCLUDING DEPRECIATION AND AMORTISATION

³ LTI – LONG-TERM INCENTIVE PROGRAMME

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Selling, General and Administrative Expenses (SG&A)

RUB mln	IAS 17			IFRS 16		
	FY 2021	FY 2020	Change	FY 2021	FY 2020	Change
Staff costs	166,606	139,886	19.1%	166,606	139,886	19.1%
as a % of sales	9.0%	9.0%	–3 bps	9.0%	9.0%	–3 bps
Rent	80,834	67,011	20.6%	2,739	1,429	91.7%
as a % of sales	4.4%	4.3%	4 bps	0.1%	0.1%	6 bps
Depreciation, amortisation & impairment	53,399	45,917	16.3%	105,323	89,765	17.3%
as a % of sales	2.9%	3.0%	–8 bps	5.7%	5.8%	–10 bps
Utilities & communication services	34,252	28,827	18.8%	34,252	28,827	18.8%
as a % of sales	1.8%	1.9%	–1 bps	1.8%	1.9%	–1 bps
Advertising	11,475	7,628	50.4%	11,475	7,628	50.4%
as a % of sales	0.6%	0.5%	13 bps	0.6%	0.5%	13 bps
Other expenses	10,944	7,265	50.6%	10,907	7,265	50.1%
as a % of sales	0.6%	0.5%	12 bps	0.6%	0.5%	12 bps
Bank Services	9,022	7,108	26.9%	9,022	7,108	26.9%
as a % of sales	0.5%	0.5%	3 bps	0.5%	0.5%	3 bps
Repair & maintenance	8,216	6,732	22.1%	8,192	6,732	21.7%
as a % of sales	0.4%	0.4%	1 bps	0.4%	0.4%	1 bps
Taxes, other than income tax	2,944	2,925	0.7%	2,944	2,925	0.7%
as a % of sales	0.2%	0.2%	–3 bps	0.2%	0.2%	–3 bps
Packaging & materials	5,500	4,861	13.1%	5,500	4,861	13.1%
as a % of sales	0.3%	0.3%	–2 bps	0.3%	0.3%	–2 bps
Total SG&A	383,194	318,159	20.4%	356,962	296,425	20.4%
as a % of sales	20.6%	20.5%	17 bps	19.2%	19.1%	15 bps
Cash SG&A (excl. D&A)	329,795	272,242	21.1%	251,638	206,660	21.8%
as a % of sales	17.8%	17.5%	25 bps	13.6%	13.3%	26 bps

SG&A costs increased by 17 bps YoY to 20.6% as a percentage of sales.

Cash SG&A expenses as a percentage of sales increased by 25 bps to 17.8% on higher advertising and other costs.

Advertising expenses increased by 13 bps YoY to 0.6% as a percentage of sales on higher marketing activities including digital marketing and loyalty campaigns.

Rental costs as a percentage of sales increased by 4 bps YoY to 4.4% driven by the consolidation of Dixy stores predominantly located in the Moscow and St. Petersburg regions with higher rent rates, acceleration of stores openings and, subsequently, a larger number of stores in the ramp-up period as well as a higher share of leased selling space. The share of leased selling space increased to 80.2% at the end of 2021 vs 78.0% a year ago. Despite the above-mentioned factors, rent expense of Magnit's standalone business decreased as a percentage of sales thanks to higher sales density, improved lease terms with landlords and the closure of inefficient stores.

Staff costs as a percentage of sales remained flat YoY at 9.0% (–3 bps YoY). Higher productivity of in-store personnel, ongoing automation of business processes partially offset additional pressure from new stores in the ramp-up phase and slightly higher staff rotation due to the pandemic last year.

Utilities, repair and maintenance, packaging and materials, bank and tax expenses remained broadly flat as a percentage of sales YoY.

Other costs increased by 12 bps YoY to 0.6% as a percentage of sales on higher advisory services, online order picking and delivery and software maintenance.

Other income and expense increased by 25 bps to 1.3% as a percentage of sales due to higher income from sales of packaging materials as well as advertising, rental and sublease income.

As a result, EBITDA was RUB 133.1 bln with a 7.2% margin – an improvement of 13 bps YoY. This was driven by gross margin dynamics partially offset by higher SG&A costs. LTI expenses in the reported period stood at 0.05% of sales – as a result, EBITDA margin pre-LTI was 7.2% (in line with the reported EBITDA).

Depreciation as a percentage of sales reduced by 8 bps YoY to 2.9% due to consolidation of the Dixy business with a lower share of depreciation as a percentage of sales as well as positive operating leverage effect.

As a result, operating profit in 2021 stood at RUB 79.7 bln with 4.3% EBIT margin.

Net finance costs in 2021 decreased by 3.9% and stood at RUB 13.0 bln. In the reporting period the Company increased its total debt by RUB 104.3 bln by obtaining long-term bank loans and bond issuance. These supported the Company's accelerated expansion and the acquisition of Dixy.

As a result, average cost of debt increased to 6.4% (33 bps YoY). 99.8% of the Company's debt profile is represented by long-term borrowings and bonds with an average maturity of 18 months.

Higher interest expense was offset by higher interest income compared to the previous year.

In 2021 the Company reported FX gain in the amount of RUB 0.3 bln related to direct import operations.

Income tax in 2021 was RUB 15.4 bln with effective tax rate of 22.9%.

As a result, net income in 2021 increased by 36.8% YoY and stood at RUB 51.7 bln. Net income margin increased by 35 bps YoY to 2.8%.

NOTE: 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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Balance Sheet and Cash Flows

Inventories increased by RUB 18.9 bln (9.2%) compared with 31 December 2020 and stood at RUB 225 bln on the back of total sales growth of 19.5%. Adjusted for the Dixy acquisition, inventories of Magnit’s standalone business reduced substantially. This was driven by a number of ongoing projects, including the reduction of slow-moving items, assortment harmonisation and IT solutions that are aimed at better on-shelf availability and promotion forecasting.

Trade and other payables grew by RUB 56.4 bln compared with 31 December 2020 and stood at RUB 240.8 bln, driven by higher sales and increased payment days. Accounts receivable increased by RUB 3.2 bln vs 31 December 2020 and stood at RUB 11.7 bln due to higher sales and improved commercial terms with suppliers.

As a result, working capital as of 31 December 2021 turned negative with the cash release of RUB 18.3 bln. Negative working capital was achieved for both the standalone Magnit and Dixy businesses.

Debt Composition and Leverage

As at 31 December 2021 Gross Debt increased by RUB 104.3 bln or 62.8% compared to 31 December 2020 and stood at RUB 270.4 bln. The Company’s cash position increased to RUB 73.4 bln as at 31 December 2021 from RUB 44.7 bln as at 31 December 2020. As a result, Net Debt increased by 62.3% YoY to RUB 197.0 bln as at 31 December 2021.

Financial Position Highlights (IFRS 16)

RUB mln	31 Dec 2021	31 Dec 2020
Non-current assets	889,346	678,461
Inventories	224,873	205,949
Trade and other receivables	11,727	8,564
Cash and cash equivalents	73,399	44,700
Other current assets	10,100	7,718
Assets	1,209,444	945,392
Equity	178,985	182,889
Long-term loans and borrowings	205,287	147,695
Other long-term liabilities	410,132	330,535
Trade and other payables	240,771	184,325
Short-term loans and borrowings	65,139	18,392
Other short-term liabilities	109,129	81,557
Equity and liabilities	1,209,444	945,392

Debt Composition and Leverage

	31 Dec 2021	30 June 2021	31 Dec 2020
IAS 17			
Total Debt, RUB bln	270.4	265.5	166.1
Long-Term Debt	205.3	222.9	147.7
Short-Term Debt	65.1	42.6	18.4
Net Debt, RUB bln	197.0	136.1	121.4
Net Debt/EBITDA	1.5x	1.2x	1.1x
IFRS 16			
Net Debt, RUB bln	653.3	498.9	479.0
Net Debt/EBITDA	3.0x	2.7x	2.7x

The Company’s debt is fully RUB-denominated, matching its revenue structure. The Net Debt to EBITDA ratio was 1.5x as at 31 December 2021 vs 1.1x as at 31 December 2020.

Cash Flow Statement for 2021

RUB mln	IAS 17			IFRS 16		
	12M 2021	12M 2020	Change	12M 2021	12M 2020	Change
Operating cash flows before working capital changes	136,443	109,930	24.1%	215,359	175,540	22.7%
Changes in working capital	18,298	30,217	−39.4%	18,499	30,580	−39.5%
Net interest expense and income tax paid	−30,776	−25,738	19.6%	−64,388	−56,509	13.9%
Net cash from operating activities	123,965	114,409	8.4%	169,470	149,611	13.3%
Net cash used in investing activities	−127,903	−29,533	333.1%	−126,689	−29,020	336.6%
Net cash generated / (used) from/(in) financing activities	32,638	−49,077	−166.5%	−14,082	−84,793	−83.4%
Net cash increase / (decrease)	28,699	35,798	−19.8%	28,699	35,798	−19.8%

Cash Flow Statement for 2021

The Company’s cash flows from operating activities before changes in working capital in 2021 equalled to RUB 136.4 bln, which was RUB 26.5 bln or 24.1% higher YoY. The change in working capital continued to improve and stood at RUB 18.3 bln compared to RUB 30.2 bln in 2020 as a result of higher YoY trade and other payables partially offset by higher inventories.

Net interest expense and income tax paid in 2021 increased by RUB 5.0 bln or 19.6% to RUB 30.8 bln. Net interest expenses decreased by 0.7% YoY to RUB 12.6 bln in 2021 due to higher average amount of cash on bank accounts during the reported period. Income tax paid for 2021 increased by 39.2% to RUB 18.2 bln.

With this net cash flow from operating activities in 2021 increased by 8.4% to RUB 124.0 bln as a result of higher EBITDA and positive movement of working capital.

Net cash used in investing activities predominantly composed of capital expenditures increased by 333.1% to RUB 127.9 bln in 2021 due to acceleration of expansion and redesign programmes as well as the Dixy acquisition.

Capital expenditure for the full year of 2021 almost doubled and stood at RUB 66.9 bln, compared with RUB 32.1 bln in 2020. This increase was driven by almost twofold acceleration of the Group’s expansion and store redesign programme (2,295 store openings on gross basis including Dixy and 703 redesigns (Magnit only) in 2021 vs 1,292 and 385 respectively in 2020).

In 2021 net cash generated from financing activities was RUB 32.6 bln vs RUB 49.1 bln used in 2020. In 2021 the Company paid dividends in the total amount of RUB 48.1 bln¹.

As a result of the factors mentioned above net cash position in 2021 increased by RUB 28.7 bln to RUB 73.4 bln as of 31 December 2021.

¹ EXCLUDING INTERCOMPANY TRANSACTIONS BETWEEN PJSC MAGNIT AND JSC TANDER