President and CEO’s Statement

Magnit had another remarkable year in 2021. We are now bigger than ever and have consolidated our market position as one of Russia’s leading retailers and private companies. This has been achieved through a strategically important acquisition, organic expansion and an unwavering focus on delivering our strategic objectives.

We continued to enhance our value proposition founded on high quality at an affordable price, and addressing a wide range of consumer missions. Our customers are responding positively to the changes as evidenced by our growing loyalty programme, increased footfall and average spend.

Trading performance

We have delivered yet another year of record results, with robust sales growth and improved efficiencies in our operations and processes. Our strong sales increase benefitted from both organic and acquired growth.

Total sales grew by 19.5% to RUB 1,856.1 bln as a result of an increase in like-for-like sales and retail space growth. Net retail sales, adjusted for Dixy, grew by 11.3% to RUB 1,680.5 bln, outpacing selling space growth on further improvement of sales densities. LFL sales grew 7.0%, driven by a 7.1% average ticket growth with traffic flat year-on-year (0.1% LFL traffic decline).

The strategically important acquisition of Dixy was completed in July and the subsequent performance of Dixy has been consolidated into the Magnit Group results, with sales and operating performance of the Dixy brand also reported separately. The integration of Dixy has progressed well, with the first portion of synergies successfully extracted and further efficiencies to be gained.

EBITDA was RUB 133.1 bln with a 7.2% margin, a small improvement on 2020 as a result of stronger gross margin and efficiency initiatives, which were partially offset by the consolidation of Dixy.

At an operating level, the Dixy brand will remain separate to Magnit, but sharing a single loyalty programme and many synergistic back office functions such as finance, investment, project management, procurement and supply chain.

A dedicated integration management office (IMO) providing cross functional support, driving decision-making and tracking progress is making headway in aligning Dixy’s operations as well as in the brick-and-mortar aspect of the business. Dixy stores located in close proximity to existing Magnit convenience stores are being evaluated with a view to being converted into a complementary format should they prove to generate better value that way. The integration process is expected to be largely completed by mid-2022.

Magnit further opened 2,281 stores (gross) across all major formats with a particular focus on convenience stores and drogeries. Convenience stores achieved the strongest performance across all Magnit store formats, driven by an increase in average ticket value and selling space growth. Several new formats were piloted to meet diverse consumer missions such as City stores, My Price discounters and kiosk-style Magnit Go, which offers on-the-go food and snacks.

Note: All financial metrics are provided in accordance with IAS 17 standard.
Of these, we believe the discounter format may become a substantial business segment within the Company’s ecosystem. The format is aimed at price-sensitive consumers and has a limited assortment and high proportion of private label products. Compared to convenience stores, they have higher sales densities, faster stock rotation, significantly lower operational expenses and lease costs, and around 40% less capital expenditures ensuring an attractive return on investment. During the year, 175 My Price stores were opened, bringing the total at year-end to 190 stores, compared with 15 at 31 December 2020. Further My Price store openings are planned in 2022 and beyond, to build on the success of this format.

eCommerce sales grew throughout 2021 with orders fulfilled via our own delivery and partner services linked to nearly 4,500 brick-and-mortar stores. An average of 72,000 orders per day were fulfilled in December, compared to 7,000 in the same period in 2020. Sales grew 32x overall during 2021, dedicated to serving online customers and their specific preferences. By the year end we had a total of 20 dark stores.

In line with our customer-centric approach, we implemented a number of initiatives to enhance our customer value proposition and perception. The focus was on improving our in-store experience and offering modern, well-designed and attractive shopping experiences. A total of 703 Magnit stores were refurbished during 2021, resulting in over 78% of convenience stores, 45% of supermarkets and 62% of drogeries operating under the new concept.

During the year the number of loyalty programme cardholders reached 58.7 million, with the proportion of tickets using the loyalty card reaching 56% with sales penetration of 69%. The loyalty programme continued to deliver positive cross-format gains with 43% of our customer base visiting two or more formats. The average ticket of the active user is 1.8x higher compared to transactions without a loyalty card in a convenience store and 2.0x higher in larger formats.

We have continued to improve and expand our private label range to support a variety of consumer missions and price points. Our ambition to have an up to 25% private label share in sales by 2025 is being achieved through a focus on quality and price, investment in our own production, direct imports to differentiate our offering and strategic partnerships with suppliers. Private label sales grew by 23.8% during the year.

Magnit remains the only retailer in Russia that operates its own food production facilities out of 17 sites spread across Russian regions. The facilities currently manufacture around 500 articles, including socially important goods. Our own greenhouses ensure the availability and quality of fresh vegetables, including those that may be subject to import restrictions.

Output grew by 17% in 2021 to 360,000 tons reflecting the expansion of the private label range through a ramp-up of production rates and increased yields from greenhouse complexes.

Special private label and own production is tied strongly to Magnit’s sustainability commitments to 2025, since we can directly affect the decisions made in the products we produce. Our aim is to achieve a 50% share of recyclable, reusable or compostable packaging, and ensure 100% responsible production and agriculture. Our rapid growth resulted in a 13% increase in staff at our operations to a headcount of about 360 thous., including the Dixy acquisition, a significant jump which cements our position as one of the largest private employers in Russia. We recognise the huge responsibility this comes with, so we keep working to be the nation’s number one employer in retail in order to attract and retain the best talent.

Our strategy is driven by the desire to create value for employees, which will result in a constant improvement in employees net promoter score and reduced staff turnover. This is important since the labour market is experiencing increased competition, fuelled by an aging population, and by restrictions on population movements. In response, the HR team have been developing our employer value proposition (EVP), working on our corporate culture, and communications, recruitment, talent development, as well as benefits and employee loyalty programmes.