PJSC “Magnit” Announces Audited FY 2018 Results

Krasnodar, Russia (15 March, 2019): Magnit PJSC (MOEX and LSE: MGNT), one of Russia’s leading retailers announces its audited FY 2018 results prepared in accordance with IFRS.

Key figures presented in this press release immaterially differ from the numbers under management accounts announced by Magnit on February 7, 2019.

Key operating and financial highlights for 2018:

- Revenue increased by 8.2% from 1,143 billion RUR in 2017 to 1,237 billion RUR in 2018.
- The company opened 2,049 stores on net basis (1,302 convenience stores, 731 drogerie stores and 16 supermarkets). Total store base reached 18,399 stores as 2018 year-end.
- Addition of selling space in 2018 amounted to 669 thousand sq. m. (or 11.6% growth YoY) compared to 687 thousand sq. m. in 2017.
- LFL[1] sales declined (2.5%) composed of 0.1% growth of average ticket and (2.6%) traffic decline, but demonstrated positive dynamics towards the end of the year.
- Gross Profit[2] margin in 2018 was 24.0%. Margin contraction of 136bps vs previous year was a result of a combination of investments into prices, higher share of wholesale segment as well as share of fresh & food segment in total sales, sell off of slow-moving assortment accumulated in 2017 and first half of 2018 and higher transportation costs, offset partially by improved commercial terms from suppliers.
- SG&A expenses as percentage of sales improved by 59bps to 20.3%. The main driver of improvement were payroll expenses due to increased productivity being partly offset by higher rent and bank services.
- EBITDA[3] in 2018 was 89.9 billion RUR. Full year EBITDA margin was 7.3% or 75bps lower than a year ago driven by gross margin dynamics partly mitigated by increased operating efficiency.
- Net finance costs decreased by 17.3% to RUR 10.3 billion compared to 2017 (RUR 12.5 billion) due to a reduction of interest rates despite higher net debt.
- Other income was 11.1% higher in 2018 vs 2017 and reached RUR 7.8 billion. As a percentage of revenue it showed marginal improvement by 2bps.
- Income tax for 2018 was RUR 9.2 billion. Effective tax rate was 21.4% vs 21.8% in 2017.
- As a result, we achieved net income of RUR 33.9 billion and margin of 2.7% in 2018 went down YoY by 4.7% and 37bps respectively.
- Capital expenditures of RUR 53.8 billion for 2018 were 28.5% less than in 2017. This was a result of lower number of openings and redesigned stores and more efficient capital deployment for new store openings.
- Net cash generated from operating activities before net interest and income taxes paid decreased modestly by 0.1% to RUR 78.8 billion as a result of positive working capital movements offset by lower profit before income tax.
- As of 31 December 2018 Net Debt was RUR 137.8 billion. Compared to the end of 2017 it was RUR 29.7 billion higher due to buy-back program and debt inherited with SIA acquisition. Net Debt / EBITDA was 1.5x.

[1] LFL calculation base includes stores, which have been opened for 12 months since its first day of sales.
[2] In the 4th quarter of 2018, the Company revised the composition of expenses for the processing of goods, which are included in the cost of goods sold. The Company applied changes retrospectively and recalculated comparable data for the full year 2017-2018
[3] In an effort to conform to industry norms, starting in 2018 Magnit has revised its accounting policy and excluded FX Translation Differences from EBITDA and EBIT. Previously, Magnit reported EBITDA and EBIT including FX Translation Differences. For the sake of comparison, Magnit has applied the same accounting change for the previous periods.

Olga Naumova, Magnit's Chief Executive Officer, said:

"Magnit as a company went through many changes in 2018. After ownership changes early on in 2018, a new Supervisory Board and management team started work in the first half of 2018. From mid-year 2018 we started a turnaround program, with many internal processes and policies being introduced and implemented. At our Capital Markets Day in September we announced our new strategy concentrating on improving the performance of our existing business. We thus embarked on several new projects laying the foundation for our transformation including development our new CVP's for all formats, revamping our category management, planning the launch of a comprehensive cross format loyalty program and developing new procedures for effective inventory management. These projects are now in either pilot phases or being launched and we should see positive results later this year and in 2020.

Despite the challenging macro environment of 2018 with slow macro growth and stagnating consumer purchasing power we were able to post a top line 8.2% growth for the full year, an EBITDA margin of 7.3% for 2018 and first indications of LFL growth in the fourth quarter of the year. These results give us a solid base for our transformation program for this year and allowed us to pay dividends as well as launch a significant share buyback program, which was successfully concluded in March this year.

Late last year we also closed our deal of acquiring SIA, a whole sale pharma business. This transaction was very important as we were able to acquire a solid platform enabling our rapid growth of the highly profitable Magnit Cosmetics format and the launch of our Magnit Pharmacy format. I am delighted to say the initial integration of SIA into Magnit and pilots have gone in line with plans been and now over 2000 cosmetic stores or around 50% of the total shops are already serviced through the platform and the launch of our planned 2000 pharmacies has commenced successfully.

We also embarked on a major effort in launching a culture change basing it on customer centricity and decentralized front office, allowing for faster decision making and more localized customer value propositions.

A lot is happening at Magnit but I am confident that together with Jan and our strong management team we will be successful in our transformation during 2019 and will deliver on our promises in the coming years."

Financial results for FY 2018

	12M 2018	12M 2017	Change
Net sales	1,237,015	1,143,314	8.2%
Convenience stores	917,853	846,113	8.5%
Supermarkets	207,434	206,214	0.6%
Drogerie Stores	91,563	78,786	16.2%
Wholesale	20,164	12,201	65.3%
Gross Profit	296,447	289,498	2.4%
Gross Margin, %	24.0%	25.3%	n/a
EBITDAR	141,140	136,967	3.0%
EBITDAR Margin, %	11.4%	12.0%	n/a
EBITDA	89,931	91,644	(1.9%)
Adjusted EBITDA[4]	91,429	91,644	(0.2%)
EBITDA Margin, %	7.3%	8.0%	n/a
Adjusted EBITDA Margin, %	7.4%	8.0%	n/a
EBIT	53,413	57,928	(7.8%)
EBIT Margin, %	4.3%	5.1%	n/a

[4] Adjusted EBITDA differs by one-time factors in writing off inventories and accrual of reserves in the amount of 1.5 billion rubles accrued in the first half of 2018

Profit before tax	43,072	45,424	(5.2%)
Taxes	(9,207)	(9,885)	(6.9%)
Net Income	33,865	35,539	(4.7%)
Net Income Margin, %	**2.7%**	**3.1%**	**n/a**

Net sales for 2018 amounted to RUR 1,216.9 billion or 7.6% higher than in 2017 driven by new store openings of 2,049 stores (or 11.6% of selling space growth) and LFL sales growth of (2.5%). The main contribution to sales comes from the convenience segment while strongest sales growth was demonstrated by the drogerie format.

Wholesale reached RUR 20.2 billion, an increase of 65.3% compared to 2017.

Gross profit for the whole year increased by 2.4% and gross profit margin for 2018 was 24.0% vs 25.3% a year ago. Gross profit margin deteriorated by 136bps as a result of the following factors:

- Cost of goods sold increased ahead of sales contributing 122bps of the contraction:
  - Due to investments into prices, higher shrinkage due to created provisions for write-offs and increased share of fresh assortment, pressure from selling off the old slow moving stock and increased share of wholesale segment from 1.1% to 1.6% in 2018;
  - Partially offset by improvements in commercial terms from suppliers.
- Transportation expenses as percentage of sales increased by 14bps as higher centralization ratio (89% vs 88%), reduced average distance per trip (560km vs 490 km) and other operational efficiency wasn't enough to offset the impact of higher fuel prices and increased external transport rates.

	12M 2018	**12M 2017**	**Change**
Payroll and related taxes	107,833	107,806	0.0%
as a % of Sales	*8.7%*	*9.4%*	*(0.7%)*
Rent	51,209	45,323	13.0%
as a % of Sales	*4.1%*	*4.0%*	*0.2%*
Depreciation & amortization	36,517	33,716	8.3%
as a % of Sales	*3.0%*	*2.9%*	*0.0%*
Utilities	21,274	19,591	8.6%
as a % of Sales	*1.7%*	*1.7%*	*0.0%*
Advertising	8,601	8,432	2.0%
as a % of Sales	*0.7%*	*0.7%*	*(0.0%)*
Other expenses	7,587	7,376	2.9%
as a % of Sales	*0.6%*	*0.6%*	*(0.0%)*
Bank services	6,059	4,466	35.7%
as a % of Sales	*0.5%*	*0.4%*	*0.1%*
Repair and maintenance	4,421	5,041	(12.3%)
as a % of Sales	*0.4%*	*0.4%*	*(0.1%)*
Taxes, other than income tax	3,804	3,399	11.9%
as a % of Sales	*0.3%*	*0.3%*	*0.0%*
Packaging and raw materials	3,531	3,443	2.5%
as a % of Sales	*0.3%*	*0.3%*	*(0.0%)*
Total SG&A	**250,837**	**238,593**	**5.1%**
as a % of Sales	*20.3%*	*20.9%*	*(0.6%)*
SG&A excl D&A	**214,319**	**204,877**	**4.6%**
as a % of Sales	*17.3%*	*17.9%*	*(0.6%)*

SG&A expense as percentage of sales improved YoY by 59bps in 2018:

- Payroll related expenses decreased 71bps mainly due to increased overall productivity in the Company by 10.1%
- Utilities went up only 1bp as indexation of tariffs in July 2018 were almost completely offset by energy consumption reduction
- Rent as percentage of sales went up by 18bps due to higher share of rented space of 69.5% vs 66.4% a year ago
- Advertising costs as percentage of sales decreased 4bps due to positive impact of more cost effective media channels used for promotion campaigns
- Bank services as percentage of sales were higher by 10bps due to increased rates for money collection which was partly offset by introduction of automated deposit machines inside stores
- Maintenance expenses reduced by 8bps as a percentage of sales vs 2017 due to review of suppliers and improved commercial terms

As a result, operating profit for the Company was RUR 53.4 billion for 2018, 7.8% lower than previous year.

	12M 2018	12M 2017	Change
Operating profit	53,413	57,928	(7.8%)
Finance cost	(8,926)	(12,638)	(29.4%)
FX gain / (loss)	(1,415)	134	n/a
Profit before tax	43,072	45,424	(5.2%)
Taxes	(9,207)	(9,885)	(6.9%)
Net Income	33,865	35,539	(4.7%)
Net Income Margin, %	2.7%	3.1%	(0.4%)

Finance costs decreased by 29.4% to RUR 8.9 billion compared to 2017 (RUR 12.6 billion). It is a result of lower interest rates in combination with refinancing activities and lower average amount of borrowings compared to previous year. The weighted average cost of debt for 2018 was 7.2% (including the effect of subsidized debt).

Income tax for 2018 was RUR 9.2 billion. Effective tax rate was 21.4% vs 21.8% in 2017.

As a result, net income for 2018 was RUR 33.9 billion and net income margin 2.7%, down YoY by 4.7% and 37bps respectively.

Cash Flow Statement for FY 2018

	12M 2018	12M 2017	Change
Operating cash flows before working capital changes	90,434	92,262	(2.0%)
Changes in working capital	(11,604)	(13,386)	(13.3%)
Net Interest and income tax paid	(14,093)	(17,868)	(21.1%)
Net cash from operating activities	64,737	61,008	6.1%
Net cash used in investing activities	(53,208)	(74,195)	(28.3%)
Net cash generated / (used) from/(in) financing activities	(3,119)	14,965	n/a
Net cash increase / (decrease)	8,410	1,778	373.0%

The Company's cash flows from operating activities before changes in working capital for 2018 equalled RUR 90.4 billion, which was RUR 1.8 billion or 2.0% less than a year ago. The change in working capital decreased to RUR 11.6 billion from RUR 13.4 billion in 2017 mainly due to inventories increase as a result of assortment review, increase of trade payables turnover days mainly driven by addition of SIA payables of RUR 18.1 billion and overall turnover increase.

Net interest and income tax paid in 2018 decreased by RUR 3.8 billion or 21.1% to RUR 14.1 billion. Net interest expenses reduced by 25.6% YoY to RUR 9.7 billion in 2018 due to lower interest rates and refinancing activities held during the year supported with lower YoY average amount of borrowings. Income tax paid for 2018 slightly reduced to RUR 4.4 billion with effective tax rate improved to 21.4% vs 21.8% in the previous year.

With this net cash flows from operating activities in 2018 increased by 6.1% to RUR 64.7 billion.

Net cash used in investing activities predominantly composed of capital expenditures decreased by 28.3% from RUR 74.2 billion in 2017 to RUR 53.2 billion in 2018. The result is attributable to lower number of store openings (2,385 stores in 2018 vs 2,665 in 2017), net selling space growth in 2018 was only through rent option, less refurbishments were conducted in 2018, decrease of advance payments and lower investments in own production.

In 2018 net cash generated from financing activities was negative RUR 3.1 billion vs RUR 15 billion in 2017. The Company paid dividends in 2017 in the amount of RUR 29.2 billion, while in 2018 dividend payments were reduced to RUR 13.8 billion due to buyback program which amounted to RUR 17.7 billion for the reported period. As a result, the difference is explained mainly by dynamics of proceeds from borrowings, repayments of loans and a one off effect related to additional issue of shares of RUR 45 billion in 2017.

Debt composition and leverage as of 31.12.2018

	12M 2018	12M 2017	Change
Gross debt	164,573	126,460	30.1%
Long term debt	93,736	86,338	8.6%
Short term debt	70,837	40,122	76.6%
Net debt	137,826	108,123	27.5%
Net debt / EBITDA	1.5	1.2	

As of 31 December 2018 Net Debt was RUR 137.8 billion. Compared to the end of 2017 it was RUR 29.7 billion higher due to buyback program of RUR 17.7 billion and debt inherited with SIA acquisition of RUR 10.4 billion. Company's debt is fully RUR denominated matching revenue structure. As of year-end it was 57% long term. Net/Debt to EBITDA ratio as of year-end was 1.5x, below industry averages.

IFRS 16 implications

IFRS 16 came into force from the beginning of this year. The Company will use the full retrospective approach. According to the new standard the Company has to reconsider rent with fixed rates as financial lease liabilities. As a result, it reduces rent expenses at a cost of depreciation and interest payments. On the balance sheet side Assets increase with new rights-of-use and Liabilities with debt and lower Equity, due to the difference between historic rental costs and new depreciation amounts due to discounting approach.

As a result of these changes the preliminary estimate for FY 2018 EBITDA is about 60% increase, while Net Income is expected to drop less than 25% and leverage ratio to increase to about 3.2 times.

Note the calculation of the IFRS 16 impact is preliminary. First results to be published under IFRS 16 will be Magnit's 1Q 2019 update on 30th of April.

SIA acquisition impact

On 27 November 2018 the Company acquired one of the largest distributors of pharmaceutical products and medical goods SIA Group with the purpose of developing proprietary logistic capacities and increase in performance efficiency of “Magnit Cosmetic” and “Magnit Pharmacy” stores.

From the date of acquisition SIA Group contributed RUR 2 billion of revenue and RUR 0.2 billion to profit before tax from continuing operations of the Group.

The cost of Group purchase was RUR 5.3 billion which with negative net asset at fair value of RUR 17.5 billion resulted to a goodwill of RUR 22.7 billion. The goodwill is attributable to expected synergies arising from the acquisition. The total amount of goodwill is allocated to Group activities under the "Magnit Cosmetic" and "Magnit Pharmacy" formats, including related stores and warehouses.

At the date of acquisition, the Company had information about provisional fair values for SIA Group assets and liabilities mainly composed of: property, plant and equipment of RUR 5.9 billion, deferred tax assets of RUR 2.6 billion, receivables of RUR 5 billion, inventories of RUR 2.2 billion, debt of RUR 11.7 billion and payables RUR 20.7 billion.

Buyback program

In 2018 JSC "Tander" (Magnit's subsidiary company) purchased 4,760,089 of Magnit's shares from the open market, the cost of which amounted to RUR 17.7 billion. Part of this in the amount of 1,513,601 shares or RUR 5.3 billion were transferred as a payment for acquiring a SIA business.

The buyback program was completed in accordance with previously announced information on 1 March 2019. Total number of shares repurchased from the open market was 5,897,776 or RUR 22.2 billion. As of the end of the buyback program Tander's share in total Magnit's shares outstanding reached 4.3%. These shares will be used for long term staff incentive purposes.

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 2018 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, 2018, Magnit operated 37 distribution centers and 18,399 stores (13,427 convenience, 467 supermarkets and 4,505 drogerie stores) in 2,976 cities and towns throughout 7 federal regions of the Russian Federation.
In accordance with the audited IFRS results for 2018, Magnit had revenues of RUB 1,237 billion and an EBITDA of RUR 90 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: