Magnit Reports 18.5% Sales Growth and 8% LFL Sales Growth in 1Q 2020

Krasnodar, Russia (29 April, 2020): Magnit PJSC (MOEX and LSE: MGNT; the Company), one of Russia's leading retailers, announces its 1Q 2020 operating and unaudited financial results.

1Q 2020 key operating and financial highlights:

- Total revenue increased by 18.5% y-o-y to RUB 376.0 billion;
- Net retail sales reached RUB 364.8 billion representing 17.6% y-o-y growth;
- Wholesale revenue increased by 58.9% y-o-y to RUB 11.3 billion driven by improvements of wholesale operations including expanded assortment and increased customer base;
- LFL[1] sales growth stood at 7.8% on 3.7% average ticket growth and 4.0% traffic growth, excluding leap year effect in February;
- The Company opened 321 stores[2] on gross basis (145 convenience stores and 176 drogeries). Under the previously announced efficiency improvement campaign, 186 stores (173 convenience stores, 1 supermarket and 12 drogerie stores) were closed, thus bringing the total store base as of March 31, 2020 to 20,860 stores (135 net store additions);
- Addition of selling space amounted to 38 thousand sq. m., bringing total selling space to 7,277 thousand sq. m. (8.3% y-o-y growth);
- The Company redesigned 214 convenience stores, 77 drogerie stores and 1 supermarket. As of March 31, 2020 the share of refurbished and new stores reached 71% of convenience stores and 53% of drogeries;
- Gross Profit stood at RUB 85.2 billion with a margin of 22.7% (down 78 bps y-o-y) driven by a combination of lower trading margin and loyalty card roll-out partially offset by improved commercial terms, lower shrinkage and transportation costs, positive impact of product mix, increased share of high-margin drogerie format and first promo margin gains;
- Reported EBITDA was RUB 22.7 billion with 6.0% margin having improved by 14 bps y-o-y and 63 bps q-o-q driven by gross margin dynamics and lower SG&A expenses;
- Net income increased by 30.8% y-o-y and stood at RUB 4.2 billion. Net income margin increased by 10 bps y-o-y to 1.1%.

[1] LFL calculation base includes stores, which have been operating for 12 months since its first day of sales. LFL sales growth and average ticket growth are calculated based on sales turnover including VAT. No VAT effect reflected in y-o-y comparison.
[2] The number of stores does not include pharmacies.

Jan Dunning, President and CEO of Magnit, commented:

"Health and safety of our customers and employees and sustainable operations of our stores are our key priorities during this challenging environment. Serving up to 16 million of customers every day we are responsible for continuous supply, availability of products across all categories and customer-centric services. All our 300,000 employees do everything they can day and night to meet these challenges. We make every effort to ensure safety of our customers and employees and work closely with suppliers and public authorities to secure regular supply of affordable products.

Being a socially responsible company, we think it is important to support our customers and provide them with affordable offering. The Company has launched a support program for socially vulnerable citizens including food aid and additional discounts in stores. We have set zero mark up on certain socially important products. Under the program to support medical workers, the Company has issued special cards with higher level of bonuses and will provide food packages. We also support personnel of other organizations who had to suspend their operations by engaging them in our stores and distribution centers.

Resilient and efficient operations in challenging times is our double responsibility. First quarter results demonstrate our ability to cope well with the extraordinary situation. We continue implementing our strategic initiatives aimed at quality improvements of our customer value proposition and optimization of the key business processes. Positive customer response is reflected not only in the results of the reported quarter as a whole but in each month since the start of the year – for the first time in more than five years we see positive LFL growth across all formats with total sales growth outpacing selling space growth already in January and February on the back of decelerating promo activity.

The ability to make quick and efficient decisions in adjusting commercial and logistics functions, key operational processes and services to changing demand definitely plays crucial role in the environment of restrictive measures and macroeconomic uncertainty. Personalization and clusterization of the customer value proposition supported by our evolving loyalty program and recently launched digital transformation among other initiatives will further strengthen our market position."

Key events in 1Q and after the reported period:

- Magnit paid dividends for 9M 2019 in the total amount of c. RUB 15 billion or RUB 147.19 per one ordinary share;
- The Board of Directors recommended to pay dividends for FY 2019 in the amount of c. RUB 16 billion or RUB 157 per one ordinary share - subject to shareholders' approval, this may bring total dividend payment to RUB 31 billion (RUB 304 per ordinary share) in line with the previous year;
- Exchange-traded bonds in a value of RUB 15 billion with an interest rate of 6.2% per annum and 3-year duration were placed on MoEx on March 5, 2020. Analytical Credit Rating Agency ACRA assigned credit rating AA (RU) to this bond issue;
- It was decided that exchange-traded bonds in a value of RUB 10 billion with an interest rate of 6.7% per annum and 3-year duration will be placed on MoEx from April 29, 2020;
- Magnit launched digital transformation by signing a number of agreements with SAP on integration of IT solutions;
- Since the start of the pilot in March 2019 Magnit issued about 45 million loyalty cards with the number of active users exceeding 31 million. Company-wide the share of tickets with the use of the loyalty card was 47% with penetration in sales reaching 64%[3];
- The Board elected Maxim Shchegolev, previously appointed as the Director for Retail Chain Development, Real Estate, and Maintenance, to the Management Board;

COVID-19 Implications

Safety for customers and employees

The Company undertakes additional measures to protect customers and employees in the pandemic environment. These included intensified cleaning of stores and distribution centres, installation of more than 7,000 screen protectors at the cash desks, purchases of sanitizers, thermometers, thermal imagers, around 1.4 million respirators, more than 2 million gloves and 20.1 million medical masks for 224 thousand of in-store and supply chain employees. Special marking has been made in all the stores to ensure customers keep social distance when shopping.

In the drogerie format cosmetics testers were withdrawn and sales assistants instructed to keep 1.5m distance while consulting customers. DC staff were allocated to separate zones. Employees are not allowed to migrate from one store to another and supervisors can only visit one store per day according to the preliminary agreed schedule. Mobile teams have been formed across all regions and formats as well as logistics network to replace their colleagues in the event of quarantine.

The Company has updated office hygiene program and cleaning procedures, modified travel policies, arranged flexible working plans and introduced daily filling of mandatory health check questionnaire by employees before entering the workplace.

[3] As of March 31, 2020

Personnel at the Company's headquarters in Krasnodar and regional offices across the country started working remotely from mid-March. Up to 90% of the Head Office employees and about 70% of regional offices currently work in the remote mode.

Social Responsibility

The Company made a decision to issue approximately 150,000 loyalty cards for medical officers with an elevated bonus of 20% of the purchase amount (vs regular 0.5-2%). A discount of 10% on the entire assortment in convenience stores and supermarkets provided to pensioners as well as volunteers and social workers making purchases for elderly people who have to follow self-isolation regime. Magnit and X5 Retail Group signed joint agreement setting zero mark-up for selected list of socially important articles in the price-entry segment to support customers during coronavirus epidemic. Magnit has signed an agreement with more than 20 companies representing fast-food chains, restaurants and non-food retailers for a temporary hiring of their employees to work at Magnit stores and distribution centers in 20 Russian regions to satisfy increasing customer demand. The Company also launched special #MagnitCare program to support socially vulnerable groups of people providing set of basic food and non-food articles for free. The support so far has covered over 140,000 targeted recipients in 8 regions.

Increased customer demand

Starting from the second decade of March the Company has increased supply from its distribution centers to the stores by 20%, while for certain product categories in high demand supply has been increased by 30%. This required the whole car fleet of more than 5,400 trucks to be fully utilized in operations. Moreover, the Company concluded mid-term contracts with transport companies with guaranteed volumes to ensure transport availability to be able to serve hikes in supplies. Distribution centers in the Moscow region, which serve around 2,500 stores, arranged additional deliveries during nighttime. Management team reviewed delivery schemes and flow types at DCs to minimize lead times and arranged green corridor custom agreement for all imported goods.

In order to serve extraordinary demand for socially important items the Company had to make adjustments in the auto ordering system. For items under risk of out-of-stock the Company increased stock levels in advance. Faster shelf replenishment required simplification of in-store operational standards and increased shelf space for socially important categories. With all described measures, Magnit managed to maintain stock availability metrics during the reported period at the industry average level of 90%.

For the details and impact on the Company's costs – see financial results section.

Store network

Following decision of the federal and local governments Magnit's stand-alone stores across all formats, including food, drogerie and pharma, continued operating. Out of 180 supermarkets located in the shopping malls only 3 stores temporarily discontinued operations due to closure of the malls, while the remaining continued operating through isolated entrance. In addition, 15 drogerie stores have been temporarily closed due specific regional restrictions. The Company does not expect visible impact on sales from interim closure of the abovementioned stores.

Expansion and redesign program

In the environment of lockdown and other country-wide and regional restrictions the Company is reviewing its store opening and redesign program across all formats to continue selective expansion with greater focus on return requirements.

For the details and impact on the Company's full year 2020 forecast – see guidance section.

1Q 2020 Operating Results

Retail Sales

	1Q 2020	1Q 2019	Change	Change, %
Total Net Retail Sales, million RUB	**364,784**	**310,159**	**54,626**	**17.6%**
Convenience Stores[4]	279,795	237,475	42,320	17.8%
Supermarkets[5]	50,963	47,752	3,211	6.7%
Drogerie Stores	31,406	24,730	6,676	27.0%
Other Formats[6]	2,621	202	2,418	n/a
Number of Tickets, million	**1,195**	**1,057**	**138**	**13.1%**
Convenience stores	1,002	891	111	12.5%
Supermarkets	90	90	0	-0.5%
Drogerie Stores	95	75	20	26.9%
Other Formats	8.5	0.7	7.8	n/a
Average Ticket[7], RUB	**305**	**294**	**12**	**4.0%**
Convenience stores	279	267	13	4.8%
Supermarkets	566	528	38	7.2%
Drogerie Stores	332	332	0	0.0%
Other Formats	305	292	13	4.6%

[4] Convenience Stores include convenience stores and small pilots such as Magnit City and Magnit Evening
[5] Supermarkets include Magnit Family supermarkets, superstores and Magnit Cash&Carry
[6] Other Formats include pharmacies and stores located at Russian Post offices
[7] Excluding VAT

Stores and Selling Space

	1Q 2020	1Q 2019	Change	Change, %
Number of Stores (EOP)	**20,860**	**19,223**	**1,637**	**8.5%**
Convenience Stores	14,594	13,909	685	4.9%
Supermarkets	472	467	5	1.1%
Drogerie Stores	5,794	4,847	947	19.5%
Store Openings (Gross)	**321**	**949**	**-628**	**-66.2%**
Convenience Stores	145	551	-406	-73.7%
Supermarkets	0	0	0	n/a
Drogerie Stores	176	398	-222	-55.8%
Store Closures	**186**	**74**	**112**	**151.4%**
Convenience Stores	173	69	104	150.7%
Supermarkets	1	0	1	n/a
Drogerie Stores	12	5	7	140.0%
Store Openings (Net)	**135**	**875**	**-740**	**-84.6%**
Convenience Stores	-28	482	-510	-105.8%
Supermarkets	-1	0	-1	n/a
Drogerie Stores	164	393	-229	-58.3%
Total Selling Space (EOP), th. sq.m	**7,277**	**6,718**	**559**	**8.3%**
Convenience Stores	4,951	4,643	309	6.7%
Supermarkets	947	941	7	0.7%
Drogerie Stores	1,339	1,130	209	18.5%
Other Formats	39	5	34	n/a
Selling Space Addition (Net), th. sq.m	**38**	**293**	**-255**	**n/a**
Convenience Stores	0	199	-199	n/a
Supermarkets	-1	-2	0	n/a
Drogerie Stores	36	94	-58	n/a
Other Formats	3	2	2	n/a

LFL results

1Q 2020[8]

LFL composition, %	Average Ticket	Traffic	Sales
Total	**3.7%**	**4.0%**	**7.8%**
Convenience stores	4.0%	4.2%	8.4%
Supermarkets	6.8%	-2.4%	4.3%
Drogerie Stores	-0.1%	8.9%	8.8%

[8] Excluding leap year effect, i.e. based on trading results of February 1-28, 2020

Trading performance

Total sales in 1Q 2020 grew by 18.5% y-o-y and stood at RUB 376.0 billion. Better result compared to the previous quarter was achieved thanks to accelerated retail sales and revenue from wholesale operations partly offset by lower selling space growth (8.3% in 1Q 2020 vs 12.7% in 4Q 2019).

Net retail sales in 1Q 2020 grew by 17.6% y-o-y and amounted to RUB 364.8 billion driven by a combination of 8.3% selling space growth and 7.8% LFL sales growth. Starting from January 2020 net retail sales growth has been outpacing selling space growth on strong LFL results leading to improvement of sales densities first time since 3Q 2015. LFL sales growth excludes leap year effect of 4.1% in February (1.4% in 1Q 2020) – including the respective effect it would reach 9.2% in 1Q 2020 (vs reported 7.8%).

All regions of presence showed solid LFL performance in a positive territory with Moscow and Saint-Petersburg outpacing the rest.

After turning positive in 4Q 2019 LFL sales growth continued accelerating and reached 7.8% in 1Q 2020, demonstrating strong improvement in each consecutive month of the reported quarter. LFL traffic growth of 4.0% vs 0.2% decline in 4Q 2019 was the key driver of these improvements, while LFL average ticket growth rose to 3.7%. LFL sales growth in 1Q 2020 was positive for all store formats for the first time since 2Q 2015 driven predominantly by the contribution of stores opened before 2018.

Despite lower promo intensity vs previous quarter, LFL traffic in 1Q 2020 demonstrated solid positive result for the first time since 4Q 2016. In January and February, this uplift was driven by a healthy combination of growing number of unique customers gained from other players, and frequency of visits. Starting from the second decade of March when customers were stocking up on dry food and essentials, traffic growth accelerated mainly on the back of increased visit frequency. Strong LFL traffic results indicate positive response of the customers to on-going operational improvements and initiatives.

In 1Q 2020 Magnit completed the roll-out of its cross-format loyalty program. About 45 million cards have been issued since the start of the pilot in March 2019 with the number of active users exceeding 70%. Company-wide, the share of tickets with the use of the loyalty cards was 47% with penetration in sales reaching 64%.

LFL ticket improvement was driven by growing number of articles per average basket, especially in March on the back of stockpiling. Trading-up effects continued thanks to assortment and on-shelf availability improvements, although without any further acceleration, while in March the Company recorded minor on-shelf inflation after deflationary environment in January and February with the continuous gap between Magnit shelf price inflation and official food CPI.

During the reported quarter promo intensity was gradually easing vs previous quarter on the back of seasonality, lack of pressure coming from inventory sell-out as well as low promo sensitivity of customers under lockdown environment. Despite the share of promo being still higher y-o-y, the gap has been narrowing each consecutive month of the quarter.

Store network development and performance by format

Convenience segment generated 76.7% of total net retail sales in the reported quarter. In 1Q 2020 Magnit opened (gross) 145 convenience stores (compared to 551 in 1Q 2019) and closed 173 stores under the previously announced efficiency campaign, bringing the total number of convenience stores to 14,594 stores (28 stores (net) less vs. December 31, 2019). Selling space of convenience stores increased by 6.7% y-o-y and reached 5 million sq. m. as of March 31, 2020. Sales in the convenience format grew by 17.8% driven by selling space growth of 6.7% and LFL sales growth of 8.4% in 1Q 2020. LFL traffic demonstrated solid growth of 4.2% vs. 0.2% in the previous quarter and -3.6% in 1Q 2019. LFL average ticket growth accelerated to 4.0% in 1Q 2020 vs 1.0% in 4Q 2019.

Supermarkets accounted for 14.0% of the Group's net retail sales. During 1Q 2020 Magnit closed 1 supermarket with the total number of supermarkets reaching 472. Selling space of this format increased by 0.7% and stood at 947 thousand sq. m. (1.2 thousand sq. m. net reduction of selling space y-o-y). LFL sales of supermarkets turned positive for the first time during last 5 years and stood at 4.3% driven by solid LFL ticket growth of 6.8% and negative LFL traffic of 2.4%. LFL traffic demonstrated significant improvement vs previous quarter with decline slowing down from -7.1% in 4Q 2019 to –2.4% in 1Q 2020. A combination of 0.7% y-o-y selling space growth and 4.3% LFL sales growth resulted in acceleration of net retail sales growth in the supermarket format to 6.7% in 1Q 2020.

Share of the drogerie format in the total net retail sales increased to 8.6% in the reported quarter. During 1Q 2020 Magnit opened (net) 164 cosmetics stores (compared to 393 in 1Q 2019) and added 36 thousand sq. m. of selling space. Sales growth in the drogerie format in 1Q 2020 accelerated to 27.0% on the back of selling space growth of 18.5% and LFL sales growth of 8.8%. LFL traffic increased to 8.9% from 4.8% in 4Q 2019 again breaking the maximum during last 4 years. LFL average ticket growth recovered from -2.9% in 4Q 2019 to -0.1% in 1Q 2020 on higher average price per article.

Magnit continued its renovation program with 214 convenience stores, 77 drogerie stores and 1 supermarket being redesigned during the first quarter. As a result, the combined share of refurbished and new stores was 71% for convenience and 53% for drogerie format.

1Q 2020 Monthly Operating Results

	January	Change	February	Change	March	Change
Total net retail sales, RUB million	**112,392**	**12.0%**	**116,103**	**19.5%**	**136,289**	**21.0%**
Convenience Stores	87,172	12.6%	88,304	19.4%	104,319	21.2%
Supermarkets	15,383	-0.4%	16,603	10.8%	18,977	9.5%
Drogerie Stores	9,121	23.7%	10,374	27.6%	11,911	29.2%
Other Formats	716	n/a	823	n/a	1,082	n/a
Number of tickets, million	**386**	**12.8%**	**384**	**16.4%**	**425**	**10.6%**
Convenience stores	325	12.3%	322	15.7%	355	9.8%
Supermarkets	29	-1.1%	29	4.0%	32	-3.6%
Drogerie Stores	29	27.1%	31	28.5%	35	25.5%
Other Formats	2.4	n/a	2.7	n/a	3.3	n/a
Average ticket[9], RUB	**291**	**-0.7%**	**302**	**2.7%**	**321**	**9.4%**
Convenience stores	268	0.2%	275	3.2%	294	10.4%
Supermarkets	526	0.8%	569	6.6%	600	13.7%
Drogerie Stores	316	-2.7%	337	-0.7%	341	2.9%
Other Formats	287	-2.0%	299	0.7%	323	13.0%
Number of Stores (EOP)	**20,764**	**n/a**	**20,793**	**n/a**	**20,860**	**n/a**
Convenience stores	14,621	n/a	14,618	n/a	14,594	n/a
Supermarkets	472	n/a	472	n/a	472	n/a
Drogerie Stores	5,671	n/a	5,703	n/a	5,794	n/a
Store Openings (Gross)	**84**	**n/a**	**61**	**n/a**	**176**	**n/a**
Convenience stores	39	n/a	28	n/a	78	n/a
Supermarkets	0	n/a	0	n/a	0	n/a
Drogerie Stores	45	n/a	33	n/a	98	n/a
Store Closures	**45**	**n/a**	**32**	**n/a**	**109**	**n/a**
Convenience stores	40	n/a	31	n/a	102	n/a
Supermarkets	1	n/a	0	n/a	0	n/a
Drogerie Stores	4	n/a	1	n/a	7	n/a
Store Openings (Net)	**39**	**n/a**	**29**	**n/a**	**67**	**n/a**
Convenience stores	-1	n/a	-3	n/a	-24	n/a
Supermarkets	-1	n/a	0	n/a	0	n/a
Drogerie Stores	41	n/a	32	n/a	91	n/a
Total Selling Space (EOP), th. sq. m.	**7,250**	**11.2%**	**7,260**	**9.9%**	**7,277**	**8.3%**
Convenience stores	4,955	10.0%	4,956	8.7%	4,951	6.7%
Supermarkets	947	0.7%	947	0.7%	947	0.7%
Drogerie Stores	1,311	22.8%	1,319	19.9%	1,339	18.5%
Other Formats	37	n/a	38	n/a	39	n/a
Selling Space Added (Net), th. sq. m.	**11.1**	**n/a**	**10.2**	**n/a**	**17.0**	**n/a**
Convenience stores	2.7	n/a	1.3	n/a	-4.4	n/a
Supermarkets	-1.2	n/a	0.0	n/a	0.0	n/a
Drogerie Stores	8.7	n/a	7.5	n/a	20.3	n/a
Other Formats	0.8	n/a	1.4	n/a	1.1	n/a

[9] Excluding VAT

Total net retail sales in each month of the first quarter demonstrated strong double-digit results accelerating from 12.0% in January to 21.0% in March despite slowdown of selling space growth from 11.2% to 8.3% correspondingly. Significant uplift in both total and LFL sales growth observed in January-February was not related to the coronavirus outbreak followed by customer forward buying, but mainly attributed to continuous improvements of customer offer. This resulted in further gain of unique customers as well as hike in frequency of visits despite lower promo intensity – deliberate tactics aimed at retaining consumers. Thus, LFL traffic was the key driver of strong trading in January and February driven by pick-up in stores opened before 2018, while further sales growth acceleration in March was also supported by significant LFL ticket increase related to stockpiling.

Financial results for 1Q 2020

	IAS 17			IFRS 16		
million RUB	1Q 2020	1Q 2019	Change	1Q 2020	1Q 2019	Change
Total revenue	376,038	317,242	18.5%	376,038	317,242	18.5%
Retail	364,784	310,159	17.6%	364,784	310,159	17.6%
Wholesale	11,254	7,083	58.9%	11,254	7,083	58.9%
Gross Profit	85,185	74,333	14.6%	85,185	74,333	14.6%
Gross Margin, %	22.7%	23.4%	-78 bps	22.7%	23.4%	-78 bps
SG&A, % of sales	-20.6%	-22.0%	140 bps	-19.2%	-20.3%	113 bps
EBITDA pre LTI[10]	23,088	19,148	20.6%	40,056	33,997	17.8%
EBITDA Margin pre LTI, %	6.1%	6.0%	10 bps	10.7%	10.7%	-6 bps
EBITDA	22,744	18,730	21.4%	39,712	33,579	18.3%
EBITDA Margin, %	6.0%	5.9%	14 bps	10.6%	10.6%	-2 bps
EBIT	11,461	7,203	59.1%	17,407	12,544	38.8%
EBIT Margin, %	3.0%	2.3%	78 bps	4.6%	4.0%	67 bps
Net finance costs	-3,777	-3,575	5.6%	-11,876	-11,725	1.3%
FX gain / (loss)	-1,830	528	-446.5%	-2,017	528	-482.0%
Profit before tax	5,854	4,155	40.9%	3,514	1,347	160.9%
Taxes	-1,653	-944	75.2%	-1,185	-432	174.2%
Net Income	4,201	3,212	30.8%	2,329	915	154.6%
Net Income Margin, %	1.1%	1.0%	10 bps	0.6%	0.3%	33 bps

Total revenue in 1Q 2020 increased by 18.5% and stood at RUB 376.0 billion. Net retail sales in 1Q 2020 grew by 17.6% y-o-y and amounted to RUB 364.8 billion driven by a combination of 8.3% selling space growth (135 store additions) and 7.8% LFL sales growth. Sales growth is outpacing selling space growth for the first time in many years driven by improving sales densities.

Wholesale revenue in 1Q 2020 increased by 58.9% up to RUB 11.3 billion driven by improvements of wholesale operations including expanded assortment and increased customers base. Share of wholesale segment in the total revenue increased from 2.2% in 1Q 2019 to 3.0% in 1Q 2020.

Gross Profit in 1Q 2020 stood at RUB 85.2 billion with a margin of 22.7% down by 78 bps y-o-y on lower trading margin and loyalty card roll-out partially offset by improved commercial terms, lower shrinkage

[10] Long-Term Incentive Program

and transportation costs, positive impact of product mix, increased share of high-margin drogerie format and first promo margin gains.

Despite higher frequency of supplies from distribution centers on the back of increased demand in March and the Company's focus on shelf availability, transportation costs reduced as a percent of sales y-o-y driven by higher centralization ratio and utilization of trucks.

Shrinkage demonstrated significant improvement in 1Q 2020 y-o-y due to ongoing optimization of supply chain processes, renegotiation of quality standards with suppliers and other management initiatives launched in 2019. Stocking up on dry goods and non-food items in March created additional short-term positive product mix impact on shrinkage and on gross margin in general in 1Q 2020.

Despite all measures taken to reduce shrinkage, on one hand, and abnormally high customer demand in March on the other hand, the Company managed to maintain its stock availability metrics during the reported period at the industry average level of above 90%.

The share of high-margin drogerie format in total net retail sales increased from 8.0% in 1Q 2019 to 8.6% in 1Q 2020 which had a positive impact on the gross margin dynamics.

SG&A costs as a percent of sales reduced by 140 bps y-o-y and stood at 20.6% on lower depreciation, rent, marketing, personnel and utilities costs as well as positive impact of operating leverage.

Personnel costs as a percent of sales improved y-o-y on the back of higher productivity and lower staff turnover despite additional hiring in March to manage an increased demand. Productivity of in-store personnel increased by 8% y-o-y driven by accelerating sales growth and continuous automation of key business processes. Staff turnover decreased across all regions and reached the lowest level in the last five quarters thanks to improved working conditions of in-store personnel including selective increase of compensation. To meet the surge in demand in March 2020 the Company increased its in-store personnel to support operations with most of respective expenses to be reflected in the second quarter.

Rental costs as a percent of sales decreased y-o-y by 29bps driven by higher sales density and improvements of lease terms with landlords despite growing share of leased selling space to 77.3% in 1Q 2020 vs 75.6% a year ago.

Depreciation costs as a percent of sales reduced by more than 60 bps y-o-y in 1Q 2020 as most of the newly opened stores were leased while the number of store refurbishments in the reported quarter decreased by more than twice (292 stores were refurbished in 1Q 2020 vs 700 in 1Q 2019).

Despite higher promo share y-o-y and additional costs related to loyalty program, marketing and advertising expenses as a percent of sales reduced by over 20 bps y-o-y thanks to more efficient tactics and tools of promo campaigns.

Utilities, packaging, raw materials and other operating expenses[11] as a percent of sales delivered some y-o-y improvements in 1Q 2020 driven by cost optimization initiatives launched last year as well as positive impact of operating leverage.

[11] Bank services and taxes other than income tax

Total costs incurred as a result of the Company's response to COVID-19 amounted to approx. RUB 1 billion and included purchasing of individual protective equipment, increased frequency of cleaning and sanitization, additional personnel and supply-chain costs.

As a result, reported EBITDA was RUB 22.7 billion with 6.0% margin having improved by 14 bps y-o-y and 63 bps q-o-q driven by gross margin dynamics and lower SG&A expenses. LTI expenses in the reported period stood at 0.09% of sales – as a result, EBITDA pre-LTI was 6.1%.

Net finance costs in 1Q 2020 increased by 5.6% to RUB 3.8 billion compared to 1Q 2019 (RUB 3.6 billion) due to larger average amount of borrowings offset by lower cost of debt compared to the previous year. As a result of refinancing campaign during the reported quarter weighted average effective cost of debt reduced to 6.8% from 7.6% in 4Q 2019 translating into the reduction of net interest expense as a percent of sales by 12 bps in 1Q 2020.

Due to RUB depreciation foreign exchange losses related to direct import operations in the reported quarter stood at RUB 1.8 billion.

Income tax in 1Q 2020 was RUB 1.7 billion. Effective tax rate increased to 28.2% compared to 22.7% in 1Q 2019 due to higher share of non-deductible expenses.

As a result, net income in 1Q 2020 increased by 30.8% y-o-y and stood at RUB 4.2 billion. Net income margin increased by 10 bps y-o-y to 1.1%.

Capex in 1Q 2020 decreased by 25% y-o-y and stood at RUB 7.2 billion on the back of decelerated redesign (292 stores in 1Q 2020 vs 700 stores in 1Q 2019) and expansion program (321 store openings on gross basis in 1Q 2020 vs 949 in 1Q 2019).

Gross debt increased by RUB 34.7 billion compared to December 31, 2019 and stood at RUB 218.9 billion as of March 31, 2020 due to forward borrowing at cheaper rates for future refinancing activities. This increase is almost fully netted by strong cash position of RUB 27 billion resulted in the net debt of RUB 192.2 billion compared to RUB 182.6 billion as of March 31, 2019. Company's debt is fully RUB denominated matching revenue structure. Net Debt to EBITDA ratio was 2.2x as at 31 March 2020 vs 2.1x as at 31 December 2019.

	31 March 2020	31 December 2019	31 March 2019
Gross Debt, RUB billion	218.9	184.2	198.6
Net Debt, RUB billion	192.2	175.3	182.6
Net Debt/EBITDA	2.2x	2.1x	2.1x

FY 2020 Guidance

Following certain restrictions imposed on a federal and regional levels due to the pandemic the Company made a decision to review its store opening and redesign program across all formats aiming at selective expansion with greater focus on returns. Limited number of stores that are currently in the pipeline as committed or in progress are expected to be opened within next months. Magnit intends to resume openings and redesign when situation stabilizes and restrictions are lifted down. The Company will provide regular updates on a quarterly basis with the revised store opening guidance. Full year capital expenditures projections may be reduced providing further flexibility for potential deleveraging.

Note:

1. This announcement contains inside information disclosed in accordance with the Market Abuse Regulation effective from July 3, 2016.
2. 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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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 March 31, 2020, Magnit operated 38 distribution centres and 20,860 stores (14,594 convenience, 472 supermarkets and 5,794 drogerie stores) in 3,718 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.