

O'KEY GROUP OPERATING RESULTS CALL FOR Q4 AND 12M 2013

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Maksim Kravtsov: Good morning, and good afternoon. Thank you for joining us today for this presentation of O'Key Group, Unaudited Operating Results for the Fourth Quarter and Full Year 2013.

Present on the call today are Patrick Longuet, our Chief Executive Officer; Sebastien Verhaeghe, Director of Executive Functions; and myself, Maksim Kravtsov, Head of Investor Relations.

You can find our result statement and all related materials on our website, by going to www.okeyinvestors.ru, together with the contact details, should you have any further questions.

After the presentation we will have a Q&A session where we will be happy to answer all your questions. I will now proceed by summarizing our key results.

In Q4 2013, like-for-like revenue increased by 8.1%, maintaining a high pace of growth that was set in the second and third quarters of the year. Like-for-like average ticket reached 8.6% growth which is the maximum level for the year. Average ticket growth was particularly strong during October and November period supported by strong activities, and slowed down in December.

At the same time the number of purchases declined in Q4 due to the high-base effect of 2012, where Tenth Anniversary Campaign was in place. A year ago we estimated the impact of this campaign on Q4 2012 traffic to be at +0.5%, and in 2013 we see exactly the reverse impact on our numbers. Despite being negative for the quarter overall, like-for-like traffic was growing in November and December period on a stand-alone basis.

The retail revenue at the same time increased by 18.7% slowing down compared to results of the nine months which corresponds to the slowdown in the square-meter growth rate during Q4.

Our net openings for the quarter amounted to seven stores, with four hypermarkets and three supermarkets, bringing the total number of openings for the full year to 11 stores. Out of eight hypermarkets that we opened during the full year, five are rented and three are owned, and out of the three supermarkets, all stores are rented. As a result, our ownership of the total space remained roughly the same as it was in 2012, at 55%.

Compared to the guidance provided in October, two hypermarkets didn't open before the year end. Those stores are ready for launch and are currently in the process of obtaining necessary permits, upon receipt of those documents where we will open the stores.

As of the 31st December, our development pipeline included 70 projects, 42 hypermarkets and 28 supermarkets, which is double the number of stores that we had in the pipeline at the end of 2012. In Q4 we have expanded the pipeline significantly and signed 17 new contracts for the future openings.

Overall, for the full year, we have added a record number of stores, 46 new stores. Hypermarkets account for 25 of those locations. On the supermarket side we have added 21 projects; 17 of which are in discounter format.

I will now hand over the call to our CEO, Patrick Longuet. Patrick, please go ahead.

Patrick Longuet: Thank you, Maksim. Good morning, and good afternoon, ladies and gentlemen. And thank you for joining us today.

What I would like to say is, I am glad to present these operational results today with very high like-for-likes. For me, this indicator is very important because it shows that the concept of O'Key is well adapted to the demands and expectations of our customers.

I would like to add some details to the general comments. In Q4 we had strong dynamics in non-food where growth exceeded the food component. It's due to the fact that we make a sizable operation in kitchenware, which led to the increasing of the basket in non-food.

Several categories had slower than average progress due to growing prices. For example, in fish category selling prices increased by more than 20%, which eliminated growth in volume of items sold. Another example, in alcohol we had a tax increase as a result prices went up and volumes of alcohol sales decreased during December.

Now to the situation with the alcohol licenses, last year we faced an issue with licenses for new stores. The procedure has changed and as a result obtaining licenses for new stores required more time. At the end of 2012 we had most new stores without licenses. This year we have 4 new locations (out of 8), where we work without licenses. We expect to receive them during the first quarter.

As for profitability, we have announced previously an EBITDA target around 8% for the FY 2013. I confirm that this target is still in place.

Now let's move to the targets of 2014.

We want to increase our selling space around 20% this year.
We target like-for-like revenue growth between 5.5% to 6.5% with inflation running between 5% and 6%.
Total revenue, in my estimates should increase between 15% and 19% for the total year.

Maksim Kravtsov: Operator, please open the floor to the questions.

Operator: Thank you. If any of the participants would like to ask a question you may now press the * followed by the 1 on your telephone. And if you wish to cancel the request please the * followed by the 2. Your questions will be polled in the order they are received, and there will be a short pause whilst participants register for a question.

Thank you. And the first question comes from Maria Kolbina. Please go ahead, ma'am.

Maria Kolbina: Yes. Good afternoon. I have a few questions. The first question is: can you provide sales growth for October, November and December separately?

The second question, can you comment, in December showed some slow down versus November, how much came from warm weather conditions that was mentioned as one of the key drivers, by making it on the December numbers? If you saw the same in O'Key, in your company, how much came from trading down? And also, like, maybe some other comment, if you can provide in that respect?

And my third question is on your guidance for 2014, not on the selling space growth, but rather on the store openings, for hypermarkets and supermarkets separately, and on the real estate ownership that you -- on you're real estate plans that you plan at the beginning of 2014? So that's all from me. Thank you.

Patrick Longuet: For the figures for the last quarter, we had traffic growth during the months of November and December, while in October it was negative. The reason is that in 2012 we make big operation for the 10 years of O'Key, and if we compare October to October due to this operation we have a small decreasing of traffic of 2%, I think. During the two other months, November and December, we increased the number of tickets.

Maria Kolbina: Okay. Thank you very much. But maybe you can provide figures, just figures, itself, on October, November and December sales growth, if you have them. Not only ticket on traffic evaluation, but also like the numbers itself. And also on the pipeline, I understand it's a pipeline, but like will you be guiding? What is -- should we put the same number of

hypermarkets openings for 2014 as it's in 2013? Or there is like an upside risk to 2013 numbers?

So just to get an idea, like what we should incorporate into our models, because the pipeline is 12 hypermarkets, and this year you opened eight, so most likely this will not be a liking in 2014 and full.

Yes; the sales growth for each one just to get an idea how December was performing versus November.

Patrick Longuet: For the quarter, in like-for-like we make 8.1% and for December we make 8% in like-for-like.

Maria Kolvina: Thank you.

Patrick Longuet: It was maybe a little over 8%, maybe 8.2% in October and November, but in December it is exactly 8% for the like-for-like, I think.

As for your comment on the openings of 2014, if you look at the pipeline, we have three stores in the stage of opening permits. This includes two stores that we have planned for December, and then we have one store in fit-out, nine stores in construction, targeted to open this year. Now, as always, as several stores are scheduled for the end of the year, so we are always facing this risk of a little overlap with the following year.

Maria Kolvina: Yeah. Thank you.

Operator: Thank you. And the first question came from Maria, from VTB Capital. The next question comes from Maria Berasneda, from Morgan Stanley. Please go ahead.

Maria Berasneda: Hello. Thank you for taking the questions. My first question is on the current trading, maybe echoing the previous speaker. Just, could you give us a little more color on whether you have seen or are seeing any down trading amongst your customers? And, what are your expectations for the consumer this year? And how does the consumer -- or your trading has been going so far, maybe, in January?

Patrick Longuet: You ask for sales trends in January?

Speaker: Yeah. The sales trends in January--

Patrick Longuet: The sales trends in January we similar to December ones.

Maria Berasneda: Okay. And are we talking about like-for-likes when you're saying you are not far from December.

Patrick Longuet: No. We are talking about the total progress of revenue. So what we see in January is a similar level to what we saw in December.

Maria Berasneda: Which is the -- which is what? What was the number?

Maksim Kravtsov: The retail revenue for the fourth quarter was around 17%, so like Patrick said; the like-for-like was similar between the months with December being a bit weaker. Which means that the revenue in October and November, in total, was above 17%; and December was below 17%. You can expect the number for January, which is going to be several percentage points below 17%.

Maria Berasneda: Okay. All right, and is it -- what is driving this? Is it weaker consumer environment? Is it down trading? What is driving this number?

Maksim Kravtsov: The slowdown that we saw in December was not coming actually from the customers trading down. As we mentioned in the press release one of the positive trends of 2013 was that, actually, the number of items that people took per basket increased, and this was the first time, 2013 was the first time when it occurred for the last three years.

So, this tendency was there for almost full year, with only exception, which is December. In December there was no pick-up in the number of items per basket. Actually the number was decreasing. We cannot call it exactly a trading down tendency, but definitely people were not consuming more. What we see in January is a very similar trend. Now, making long-term conclusions based on the one month of sales is a very dangerous exercise.

So we do see that level of sales in December, and January, so far, are weaker on average than what was sold during 2013, but I would say we are too early in the year to make conclusions whether if this is a sustainable tendency or not.

Patrick Longuet: And the characteristics about this trade, the same way in December we had warm weather, which had influence on the sales of food -- fruits and vegetables, for example, because the open markets operated where they usually don't really operate in December, and also we sold less winter goods, because the weather was just too warm. But in January now it has started to freeze a lot more, so we will see, probably, other tendencies in those categories.

Maria Berasneda: Okay. And can you give us a rough idea of how much of an impact do you think, on December trading, the abnormal weather had? Was it a couple of percentage points in your opinion?

Patrick Longuet: Sorry. But we know that we have a very good performance in like-for-like for the year of 2013. I give the guidelines for 2014, it is between 5.5% to 6.5%, okay, because we make a very, very good year in 2013, in like-for-like. We are very careful for this year, okay, and I tell you, we expect

between 5% to 6% from inflation, and maybe 0.5% to come from traffic. It's the same for January and the first quarter of 2013.

Maria Berasneda: Okay. Thank you. And do you have any update on the Moscow project for us, in terms of how it's progressing?

Patrick Longuet: If we are looking at the pipeline, then you would see that we have now 26 supermarkets which are in the initial stage, which means locations are secured for those stores. These are effectively the locations for this project - smaller discounter stores. The pipeline has expanded quite significantly, while we started 2013 with nine projects in the pipeline for the discounters, we now have 26. You can see that 17 stores have been added.

As well, in 2013 we've started the construction of warehouse in the Moscow region. This construction is underway and is going to be completed this year. We are also progressing in terms of acquiring additional locations for discounter stores. So, this year we have several targets for this project, which are to complete the logistics platform, and complete the construction of the first set of stores. We will probably see the first openings either at the very end of 2014, or at the beginning of 2015.

Maria Berasneda: Okay. Thank you.

Operator: Thank you. And the next question comes from Brady Martin from Citibank. Please go ahead.

Brady Martin: Yes. Good afternoon. Two questions from me. First, can you give us some idea what the CapEx will look like for 2014 based on the numbers that you've given in the new project? And also, just some more color on the dynamics, sales dynamics, particularly in December? Whether you saw anything different, based on different regions? We did see numbers from MVideo that came out Friday showing much worse performance in -- outside of Moscow and St. Pete, Moscow and St. Pete were fine, but really poor traffic in all the other markets. So I wonder if that's something that you noticed in your results, particularly in December. Thanks.

Maksim Kravtsov: First question, in terms of the CapEx targets for this year, we plan to invest in expansion RUB20bln in 2014, and this includes the investment into discounter projects, which is roughly \$200 million. So around RUB6 billion are for discounter project, and around RUB14 billion are the main part of the business, expansion of hypermarkets and supermarkets.

Brady Martin: About differences across regions, and where we saw that was not in Magnit, it was Mvideo, so electronics, so there was clearly -- we saw a clear difference in regional performance. So I'm just asking if you saw any difference in, say, your St. Petersburg business versus regional stores, or if it was the performance, even, across the regions?

Maksim Kravtsov: Brady, given the maturity of our stores, different maturity profiles, and quantity of our stores in different regions, such a comparison is not going to be a very representative, precise or good answer. Of course when you look at Saint-Petersburg where we have significant size of operations, we do have one of the most difficult markets for us across all the cities we are in, but this is a particular market. If we look at the cities like Yekaterinburg, or Moscow, it's going to be a different picture, where we have very good progress and performance, but at the same time, we have very young base of stores. So if we look at Moscow out of, I think, seven hypermarkets that we currently have, only two are mature and five stores are new, or one year into operations, and, of course, they are generating superb results. And given the penetration level of our stores in Moscow, we do expect that Moscow is going to perform very well also in the coming years.

Now, if you look at cities like Krasnodar, it is going to be also a very tough market. So, the answer is very particular for each individual city, but in most cities the answer you'll hear from us will come from a very young base of stores that are producing good results because they are at an early ramp up stage.

Brady Martin: Right. That's fair. Thank you.

Operator: Thank you. The next question comes from Boris. Please go ahead.

Boris Vilidnitsky: Good afternoon, everyone. I wanted to ask about the competitive environment we've seen over the last few days with a couple of your competitors coming to market, for some rumors that one of their goals is to accelerate their store openings, particularly in Russia. I wanted to hear if you guys have seen any increase in the competitive landscape, particularly in the hypermarket front; whether it's in terms of prices for land, leases, or anything of that sort. Thank you.

Patrick Longuet: Today we have one competitor, who makes a lot of expansion, it's Lenta, they published information about the number of openings during last year. For us, the competition is growing, but Russia is a very big country where there is a lot of cities, where we have not yet opened our stores. Today we opened, for example, in Syktyvkar, there competition is scarce. Another example, is Ivanovo where there is probably 300,000 inhabitants, and competition is not very, very high.

Clearly, when you arrive in St. Petersburg the competition is very high, because the number of hypermarkets is over the average number in all the Russia. In St. Petersburg the competition is very high. But today we have not done so bad, sales in SPB grow, and we opened one new store at the end of December, and we will open another one in February there, because we think that there is potential for us even in such a competitive market.

For the price of the land, today we don't see meaningful increase in prices when we want to buy the land. There is no difference, in general we ran the same level of price that one year ago as there is no new competition on the market. I have mentioned Lenta which is developing actively, at the same time Auchan which acquired Real last year will probably slow down expansion and will be preoccupied with integration.

Boris Vilidnitsky: Merci. And in Metro?

Patrick Longuet: Metro is a competitor on the market of "cash and carry". For me cash and carry is working for professionals and small businesses while our business is retail for individual customers. We are a little different. With Metro we don't look for the same land. They don't rush to get into prime location. Sometimes Metro is not on the main road of the city, but behind it, because they don't need this prime position easy reachable by car. Their customers know where Metro store is and they go there directly because they have specific requirements. Convenience of location is lesser concern for them.

We are not in same segment of the market, and we are never in competition for the land with Metro.

Boris Vilidnitsky: Okay. Thank you very much.

Operator: Thank you. This question came from Boris from Barclays. The currently, last question in queue comes from Artur Galimov from the company, Sberbank. Please go ahead.

Artur Galimov: Good afternoon. A couple of questions from my side, first of all, could you just comment -- could you just repeat your comments on non-food sales, as I'm sorry, I missed it. So I understand they had pretty good non-food sales in the fourth quarter, but you could you give us, probably, the share of revenues which non-food sales generated? And how did it deviate from historical, seasonal patterns? And also did it have any positive implications for gross margin last quarter?

Patrick Longuet: The last question including of non-food, it's over the food. Okay. During the last quarter it was different. Food increase more than the non-food item. For the last quarter we have a very good results in sales of non-food but for the level of gross margins is not increasing because we are making a lot of investment in prices to make this operation. For the level of the margin, we keep the same level of margin for in non-food as before.

This operation have no impact on the level of gross margin for the Company for the last quarter. For this reason I told you that the level of EBITDA is expected at 8%.

Maksim Kravtsov: If you remember in 2013 and 2012 the level of sales of non-food was around 24%, so most part of 2013 we've been running around 23% and

closer to the year end it went up to 26%. So, overall for the year we are going to be between 24% and 25%; so when you look at the number in total, they has not materially changed, but of course the performance of particular months was different, and at the end of the year we had higher sales of non-food.

Artur Galimov: Okay. Right. Another question, about your selling space expansion; so do I understand correctly that your 20% expansion target also is 10 supermarkets on top of 13 hypers for this year?

Patrick Longuet: Yes

Artur Galimov: Okay. And the negative deviation of this target from your revenue growth guidance is explained by the schedule of openings we again skew towards the end of the year, and probably weaker performance of the new stores. Is it right?

Maksim Kravtsov: The selling space that we've added this year is around 14%, so this the space that's going to provide most contribution in revenue growth. So when we talk about the growth of revenue between 15% to 19%, most revenue-generating parts are the openings of 2013, namely, eight hypermarkets and three supermarkets.

You're right that openings of 2014, as you can see from the pipeline, are mostly going to be in Q4. Therefore, contribution from those stores to overall revenue growth is going to be fairly minor.

Artur Galimov: Okay. Right--

Maksim Kravtsov: There is no significantly, I would say, negative deviation between space growth and revenue growth if you look at numbers this way. Because when you look at 2013 you have to keep in mind that most of the growth is coming from the 2012 openings, and there we had 24% space growth.

Artur Galimov: Okay. And as for EBITDA margin for this year, do you stick to your 8% guidance for 2014 as well?

Patrick Longuet: For 2013, 8% target, yes.

Artur Galimov: For this year, for 2014.

Patrick Longuet: For 2014, okay, we'll wait, we will give you the figure at next meeting, but we expect to be over 8%, now we need to wait the results to find out what is the actual result for 2013.

Artur Galimov: Okay. Thanks very much.

Operator: Thank you. And the next question comes again from Maria Berasneda from the company, Morgan Stanley. Please go ahead.

Maria Berasneda: Hello. I have a follow-up question. How big is the impact of ruble weakening on your COGS, do you expect to see? And what share of your COGS is in hard currency, on average?

Patrick Longuet: Big part of our turnover is made with the local product, fresh product, and food which comes from Russia. Turnover which comes from imports, from China for non-food, or India, and maybe some food from Italy, or France is very low. So for the moment we cannot see an impact of this value of the rubles in our margin.

Maria Berasneda: Okay. But you have some merchandise for 25% of your sales is non-foods which are largely -- I assume, does not come from Russia, so that's really what the question is asking.

Patrick Longuet: As non-food, there is not a lot of non-food which comes from outside of Russia, where we will see a lot of products which come from Russia, and for the level of margin of non-food is very high if we compare to the food. So the impact of the value of the ruble is very, very small.

Maria Berasneda: Okay. Very good. Thank you. And may I ask one more question? What is your expectation around the cost of labor? Do you expect it to continue to increase given the labor market is remaining tight, in 2014?

Patrick Longuet: For the question of personnel, we are making sure that we increase the salary in our Company in line with the revenue growth. When we index salaries in July we take into consideration the result of the Company and also the labor market inflation. So we will decide on the evolution of salaries in July, but clearly, we want to decrease the cost of the personnel if we compare it to the turnover.
Today we have finished to populate the structure of head office, and I think that in 2014 we will not see personnel expenses of offices growing.

Maria Berasneda: Okay. Thank you.

Operator: Thank you. And next question comes from Uliana Lemvalskaya, from the company, UBS. Please go ahead, ma'am.

Uliana Lemvalskaya: Thank you very much for the presentation, gentlemen. My question was also about import and potential impact of the ruble weakening? So that's -- no more questions at this time.

Maksim Kravtsov: Operator, do we have any questions?

Operator: Sorry. Yes. Only Uliana Lemvalskaya was on the line.

Uliana Lemvalskaya: I have no more questions. Thank you.

Operator: Thank you. There seems to be, indeed, no further questions. Please go ahead with any concluding remarks.

Maksim Kravtsov: Then, that is it for today. Ladies and gentlemen, thank you for dialing in, and for your questions. We look forward to speaking and meeting with you over the coming weeks and months. Goodbye for now.

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