



O'KEY Group

FY 2018 financial results
conference call edited transcript

1 April 2019

O`KEY Group speakers

Armin Burger, CEO

Konstantin Arabidis, CFO

Anton Farlenkov, Corporate Development Director

Veronika Kryachko, Head of Investor Relations

Participants asking questions

Speaker 1

Marat Ibragimov – Gazprombank

Egor Makeev – Raiffeisen Bank

Speaker 4

Speaker 5

Presentation

Veronika Kryachko

Good day Ladies and Gentlemen, my name is Veronika Kryachko and on behalf of O`KEY GROUP I would like to welcome you to our conference call on 2018 financial results. I would like to introduce the O`KEY team that is presenting today: Armin Burger, Chief Executive Officer, Konstantin Arabidis, Chief Financial Officer, Anton Farlenkov, Corporate Development Director. We will start our call with updates from our Chief Executive Officer, Armin Burger, on 2018 financial performance.

Armin Burger

Good afternoon Ladies and Gentlemen. In 2018 underlying group revenue excluding the effects of the supermarket business sales decreased by 1.1% year on year. The total group revenue decreased by 8.4% year on year to RUB 161,303 mln. The revenue decline was mainly triggered by the supermarket business sale of 32 stores initiated in December 2017 and finished in April 2018. The closure of several stores along with temporary halt of operations in other stores also put pressure on our results during the year. Weakening consumer sentiment resulting from less disposable income of 0.2% year on year amid rising inflation, stagnant pensions and intensifying market competition continued to put pressure on the Group's operations during the year. In addition, adaptation to new working schedules influenced service levels and freshness during the summer period which also put pressure on the top line. The steady performance on the operational front during the year resulted in the gross profit margin increase by 20 bps year on year. The achieved result came for the most part from a successful negotiations campaign with the suppliers, enabling us to secure more favorable purchasing conditions. In 2018 we remained dedicated to increasing overall efficiency of the business processes. Through business process optimization, both at store and head office level, we managed to decrease the personal cost by 15 bps year over year with the clear intention not to compromise the quality of the in store shopping experience. As a result, the group EBITDA margin in 2018 increased by 6 bps year on year to 5.4%. In 2018 we move both O`KEY and DA headquarters in close proximity to each other in new offices to encourage cooperation and active dialogue between both companies in procurement and other areas whilst keeping the identity of each brand intact. We are

constantly searching for potential synergies within our businesses, including joint procurement and imports to drive economies of scale and pass on the benefits to our customers.

In 2019 we expect the net retail revenue generated by our hypermarket business to grow by low single digits year on year while profitability will stay at the level of 2018. Our discounter business is expected to deliver double digits like for like growth in 2019, driven by growing popularity of the business model amongst customers. In line with strategic development goals, we plan to continue expanding DA in Moscow and the Moscow region and create long term value for our customers with up to 20 to 25 new store openings planned for 2019. We are fully on track with our strategic plans for 2019 and we are ready to implement further initiatives aligned with our business priorities. We will continue to improve our assortment management, logistics operations and process optimization to continue providing the performance our customers and stakeholders can expect from us. Thank you.

Questions and Answers

1. Speaker 1

Good afternoon. I actually have a couple of questions, so my first question is what is the comfortable debt level for the company in middle to long term. And my second question is, well, is the leverage taken into account when deciding on the amount of dividends?

Konstantin Arabidis

Hi, it is Konstantin Arabidis. Regarding your first question about comfortable debt level we usually state in our guidance that a comfortable debt level for us is below 3.0 as of the year end, so around 3.0 as of the year end and we actually accomplish this ratio each year. Regarding second question about dividend, yes definitely everything is considered when deciding about paying dividends, however it is a question more entitled for Board of directors.

Speaker 1

Okay, thank you.

2. Marat Ibragimov – Gazprombank

On DA business. Maybe I missed a point, can you please give us some guidance on EBITDA margin or when do you expect to reach breakeven on EBITDA in discounters?

Armin Burger

Yes, Armin Burger. You remember the last time we had our call I said we will be breakeven towards the end of the year 2019 and I still can confirm this. We are online, we have very nice double digit growth in the moment, a little bit more than expected even. Therefore, we are very confident to achieve this.

Marat Ibragimov

Can you specify, or can you provide some additional colour on how does the segment develop in terms of traffic, in terms of revenue, is it ahead of your schedule since our last meeting? Do you see some positive development in terms of traffic or average basket since the beginning of this year? Thank you.

Armin Burger

The segment develops very positively. You know, it shows now that the strategy to have private labels pays off. Increase in private labels is much less than in brands and you remember we had quite high inflation scenario at the back end of 2018. Each one resulted in customers looking for a better and cheaper choice and we have a lot of customers, additional customers now. Our baskets increased, not only due to higher pricing, which we also have, but also due to more items and overall we developed much better than we expected and we are very happy with the current results.

Marat Ibragimov

Okay, thank you very much. That's all from my side.

3. Egor Makeev – Raiffeisen Bank

Hello, it is Egor Makeev here. So, I just wanted to ask you if you could provide any update on how your online businesses is doing and your plans regarding online and omnichannel, please.

Armin Burger

Yes, again Armin Burger. We are currently very happy with the online business, but in online we do expect this. That means it's in view of our expectations, above the expectations, strong double digit growth. We do see growth throughout the year and in the next coming of the years and we currently definitely want to stay in the business and probably also put additional stores within the network to serve more customers.

Egor Makeev

Okay, thank you, and do you disclose the percentage of revenue you get from online?

Armin Burger

It is around 1.7% from our quarterly results.

Egor Makeev

Okay, thank you and is it profitable on EBITDA level?

Armin Burger

We are not profitable yet, but we are close to profitability and as I said, with some more growth we will be quite happy with the overall results.

Egor Makeev

Okay, thank you. That's all from my side.

Armin Burger

Thanks.

4. Speaker 4

Armin hello, thank you for your kind presentation. I just want to have a quick question on the market trends that you see in the first quarter of 2019, maybe you can give some updates? Thank you.

Armin Burger

Without VAT increase and price heavy inflation tendencies in the last quarter 2018, we currently have a very calm market, a stable market and we do expect something similar throughout the year. We expect any big influence in inflational tendencies or something like this.

Speaker 4

Thank you very much. On the competition side, what competition environment do you see now?

Armin Burger

Good, on some of the developments in the market we don't want to comment, as you can understand that, but at the moment we do feel quite comfortable in the current market environment. Our competition is reconsidering certain steps they took before and therefore we do think that we have the right approach towards the market and the right strategies.

Speaker 4

Thank you very much that's good to hear.

5. Speaker 5

Okay, I would like to ask a question, could I? Okay, do you plan to sell your hypermarkets chain in coming quarter, or do you plan to decrease your selling space? Thank you.

Armin Burger

Okay, there are two questions. Obviously on question number one, we don't want to comment. There's from our side clear policy not to react on this kind of market rumors. Decreased selling space, in certain bigger stores we look at options to decrease certain areas. The ideal size for us is between six and eight thousand square meters' selling space and this is what we want to align everywhere.

Speaker 5

Thank you.

6. Marat Ibragimov – Gazprombank

Yes, thank you very much. I just calculated that you have managed to reduce your labor cost as percentage of sales in the full year. I didn't have that figure for the second half of the year, but I guess the reduction on this cost is even more profound. So, can you please comment how did you manage to do that, because obviously you have more staff especially in discounters and apparently there was some wage inflation last year? Thank you.

Armin Burger

We are talking firstly about discount, more stores and more turnover means a decrease of proportional labor costs from the head office, you know the synergies of sales we have here. This is one of the reasons why we believe with some more stores that will be opened towards the end of the year, we can decrease our cost base. On the other hand, in the hypermarket business, we tried to be more efficient, to look for efficiencies and we do this on store level and especially also on the head office level. We are trying to introduce IT solutions, to decrease the labor cost and have less head count as well, which is necessary in my opinion.

Marat Ibragimov

Okay, thank you very much. That's it.

Veronika Kryachko

Ladies and Gentlemen, this is Veronika Kryachko and thank you very much for your time today. If you have any questions, please feel free to contact us any time. With this, we would like to close the call and wish you all a very pleasant evening. Good bye.

Armin Burger

Thank you very much, in the name of the management team and thank for your participation. Have a good evening. Bye bye.
