

Press Release  
27 August 2019

## **O`KEY GROUP ANNOUNCES UNAUDITED FINANCIAL RESULTS FOR 1H 2019**

O`KEY Group S.A. (LSE: OKEY, the 'Group'), one of the leading Russian food retailers, announces its financial results for 1H 2019 based on the condensed consolidated interim financial statements reviewed by their auditors.

All materials published by the Group are available on its website, [okeygroup.lu](http://okeygroup.lu).

**All results are presented under IFRS 16 standard unless stated otherwise.**

### **1H 2019 financial highlights**

- Organic Group total revenue, excluding the effect of the supermarket business sale, increased by 3.4% YoY. Total Group revenue increased by 2.2% YoY, from RUB 78,179 mln to RUB 79,883 mln.
- Organic revenue generated by O`KEY, excluding the effect of the supermarket business sale, increased by 0.4% YoY. Revenue generated by O`KEY decreased by 0.9% YoY to RUB 71,272 mln. The decrease was primarily caused by the supermarket business sale (December 2017 – April 2018).
- Revenue generated by DA! grew by 36.8% YoY to RUB 8,611 mln, supported by steady growth in traffic and the average ticket.
- The Group gross margin decreased by 6 bps to 23.6% versus 1H 2018, while gross profit increased by 1.9% YoY to RUB 18,836 mln.
- The Group EBITDA grew by 3.9% YoY to RUB 6,341 mln compared with RUB 6,105 mln in 1H 2018, while the EBITDA margin increased by 13 bps YoY to 7.9%.
- O`KEY's EBITDA decreased by 0.4% YoY to RUB 6,509 mln, while O`KEY's EBITDA margin increased slightly to 9.1% due to a slight decrease in operating expenses as a percentage of revenue.
- EBITDA generated by DA! improved from negative RUB 432 mln (–6.9% of sales) in 1H 2018 to negative RUB 169 mln (–2.0% of sales) in 1H 2019, driven by new store openings and higher LFL sales.
- Net profit for the Group amounted to RUB 632 mln in 1H 2019 compared to negative RUB 897 mln in 1H 2018.
- Net debt position improved to RUB 29.7 bln at the end of 1H 2019 from RUB 32.0 bln at the end of 1H 2018.

### **Key events in 1H 2019:**

- 4 new discounters were opened.
- O`KEY successfully issued 3-year bonds in the amount of RUB 5,000 mln at 9.35% per annum.

- In a continuing effort to optimize the Group's property portfolio, the Group sold 2 land plots to a third party in June.

### Guidance 2019

- We are revising our organic hypermarkets' top line growth guidance slightly upward and now expect it to grow to a low single digit for the whole year
- We expect double-digit LFL growth for DA! and plan to open 20 discounters in 2019.

### Group operating results

Segment	1H 2019			1H 2018		
	Net retail revenue	Traffic	Average ticket	Net retail revenue	Traffic	Average ticket
<b>Group</b>	<b>2.2%</b>	<b>0.8%</b>	<b>1.4%</b>	<b>(8.7%)</b>	<b>(12.4%)</b>	<b>4.2%</b>
LFL Group	0.6%	(0.8%)	1.4%	(2.3%)	(1.5%)	(0.8%)
<b>O`KEY</b>	<b>(0.9%)</b>	<b>(4.4%)</b>	<b>3.7%</b>	<b>(11.3%)</b>	<b>(17.6%)</b>	<b>7.6%</b>
LFL O`KEY	(1.0%)	(3.2%)	2.3%	(3.4%)	(3.6%)	0.2%
<b>Discounters</b>	<b>37.0%</b>	<b>28.6%</b>	<b>6.5%</b>	<b>35.4%</b>	<b>32.7%</b>	<b>2.2%</b>
LFL Discounters	18.7%	11.8%	6.2%	15.8%	14.3%	1.3%

For more details, please refer to O`KEY's [Q2 2019 Operating Results Update](#).

### Revenue

In 1H 2019, total Group revenue increased by 2.2% YoY to RUB 79,883 mln. The revenue increase was primarily triggered by the continuing DA! expansion and higher shelf inflation. At the same time, organic Group total revenue, excluding the effect of the supermarket business sale, increased by 3.4% YoY, on the back of continuing double-digit growth of discounters.

### IFRS 16 implementation

The Group has applied IFRS 16 since 1 January 2019. Upon adopting IFRS 16, the Group recognised its lease liabilities in relation to leases which had previously been classified as 'operating leases' under IAS 17. The associated right-of-use assets for leases were measured at their carrying amounts as if the standard had been applied since the commencement date at a discount, using the Group's incremental borrowing rate at the date of initial application.

Upon implementing the standard, the Group's management began to assess Company performance based on the figures presented in accordance with IFRS 16.

## Group profit and losses

RUB mln	1H 2019	1H 2018	Δ YoY 2019 / 18	1H 2018 (IAS 17)	Δ YoY 2019 / 18
<b>Total Group revenue</b>	<b>79,883</b>	<b>78,179</b>	<b>2.2%</b>	<b>78,179</b>	<b>2.2%</b>
O`KEY	71,272	71,884	-0.9%	71,884	-0.9%
DA!	8,611	6,296	36.8%	6,296	36.8%
<b>Organic Group revenue</b>	<b>79,883</b>	<b>77,278</b>	<b>3.4%</b>	<b>77,278</b>	<b>3.4%</b>
O`KEY	71,272	70,982	0.4%	70,982	0.4%
DA!	8,611	6,296	36.8%	6,296	36.8%
<b>Gross profit</b>	<b>18,836</b>	<b>18,480</b>	<b>1.9%</b>	<b>18,227</b>	<b>3.3%</b>
<i>Gross profit margin</i>	23.6%	23.6%	-6 bps	23.3%	27 bps
<b>Group EBITDA</b>	<b>6,341</b>	<b>6,105</b>	<b>3.9%</b>	<b>3,470</b>	<b>82.7%</b>
<i>Group EBITDA margin</i>	7.9%	7.8%	13 bps	4.4%	350 bps
<b>EBITDA O`KEY</b>	<b>6,509</b>	<b>6,537</b>	<b>-0.4%</b>	<b>4,370</b>	<b>48.9%</b>
EBITDA margin O`KEY	9.1%	9.1%	4 bps	6.1%	305 bps
<b>EBITDA DA!</b>	<b>(169)</b>	<b>(432)</b>	<b>-61.0%</b>	<b>(900)</b>	<b>-81.2%</b>
EBITDA margin DA!	-2.0%	-6.9%	490 bps	-14.3%	1,233 bps
<b>Net profit (loss)</b>	<b>632</b>	<b>(897)</b>	<b>&lt;-100%</b>	<b>(541)</b>	<b>&lt;-100%</b>
Net profit (loss) margin	0.8%	(1.1%)	194 bps	(0.7%)	148 bps

## Cost of goods sold and gross profit

The table below provides a breakdown of the cost of goods sold in 1H 2019 and 1H 2018:

RUB mln	1H 2019	% of revenue	1H 2018	% of revenue	Δ YoY, bps	1H 2018 (IAS 17)	% of revenue	Δ YoY, bps
<b>Total revenue</b>	<b>79,883</b>	<b>100.0%</b>	<b>78,179</b>	<b>100.0%</b>		<b>78,179</b>	<b>100.0%</b>	
<b>Cost of goods sold</b>	<b>(61,047)</b>	<b>76.4%</b>	<b>(59,699)</b>	<b>76.4%</b>	<b>6</b>	<b>(59,952)</b>	<b>76.7%</b>	<b>(27)</b>
Cost of trading stock (less supplier bonuses)	(57,228)	71.6%	(56,020)	71.7%	(2)	(56,020)	71.7%	(2)
Inventory shrinkage	(1,477)	1.8%	(1,377)	1.8%	9	(1,377)	1.8%	9
Logistics costs	(2,032)	2.5%	(1,991)	2.5%	(0)	(2,244)	2.9%	(33)
Labelling and packaging costs	(310)	0.4%	(311)	0.4%	(1)	(311)	0.4%	(1)
<b>Gross profit</b>	<b>18,836</b>	<b>23.6%</b>	<b>18,480</b>	<b>23.6%</b>	<b>(6)</b>	<b>18,227</b>	<b>23.3%</b>	<b>27</b>

The Group's gross profit margin remained almost flat YoY on a comparable basis while increasing in absolute terms by RUB 356 mln, driven by better sales.

Shrinkage costs increased by 7.2% YoY, mainly due to cancelling supplier returns of products with a shelf-life of less than 30 days.

## General, selling, and administrative costs

The table below provides the general, selling, and administrative expenses breakdown for 1H 2019 and 1H 2018:

RUB mln	1H 2019	% of revenue	1H 2018	% of revenue	Δ YoY, bps	1H 2018 (IAS 17)	% of revenue	Δ YoY, bps
Personnel costs	(7,377)	9.2%	(7,198)	9.2%	3	(7,198)	9.2%	3
Depreciation and amortisation	(3,721)	4.7%	(3,744)	4.8%	(13)	(2,133)	2.7%	193
Communications and utilities	(1,873)	2.3%	(1,771)	2.3%	8	(1,771)	2.3%	8
Advertising and marketing services	(1,069)	1.3%	(1,081)	1.4%	(4)	(1,081)	1.4%	(4)
Repairs and maintenance costs	(668)	0.8%	(583)	0.7%	9	(583)	0.7%	9
Insurance and bank commissions	(450)	0.6%	(410)	0.5%	4	(410)	0.5%	4
Taxes other than on income	(381)	0.5%	(401)	0.5%	(4)	(401)	0.5%	(4)
Security expenses	(355)	0.4%	(375)	0.5%	(4)	(375)	0.5%	(4)
Legal and professional expenses	(293)	0.4%	(279)	0.4%	1	(279)	0.4%	1
Expenses relating to variable lease payments and operating lease expenses	(185)	0.2%	(288)	0.4%	(14)	(2,668)	3.4%	(318)
Materials and supplies	(149)	0.2%	(132)	0.2%	2	(132)	0.2%	2
Other costs	(11)	0.0%	(16)	0.0%	(1)	(16)	0.0%	(1)
<b>Total</b>	<b>(16,532)</b>	<b>20.7%</b>	<b>(16,277)</b>	<b>20.8%</b>	<b>(13)</b>	<b>(17,048)</b>	<b>21.8%</b>	<b>(111)</b>

In 1H 2019, personnel costs as a percentage of revenue increased by 3 bps to 9.2% or by RUB 179 mln YoY. This increase was largely attributable to necessary wage increases at hypermarkets business in the second half of 2018 and to lesser extent to new openings of discounters, partly offset by the sale of the supermarket business.

Communications, utilities, repairs, and maintenance expenses increased as a percentage of revenue by 17 bps YoY to 3.2%. The increase was primarily caused by indexing utility tariffs in the second half of 2018 and planned equipment repairs in 1H 2019. The Group continues to work towards optimising related costs and efficiency improvements.

Advertising and marketing expenses as a percentage of revenue almost stayed flat YoY, at 1.3%.

## Other operating income and expenses

In June 2019, the Group signed an agreement with a third party for the sale of two land plots in Moscow. According to the agreement, the total proceeds are RUB 1,553 mln.

Additionally, the Group recognized impairment losses on several stores in the amount of RUB 237 mln, while in the year prior, no impairment was charged to P&L in 1H 2018.

## Foreign exchange gain / (loss)

Foreign exchange gain was due to a substantial difference in exchange rates at both the end and the beginning of the reporting period, arising from intragroup USD-denominated loans.

## Net finance costs

Finance costs on loans and borrowings decreased as a percentage of revenue by 0.2% YoY, driven by a decline in the weighted average interest rate from 9.1% in 1H 2018 to 8.9% in 1H 2019. At the same time, total finance costs increased by 66% YoY as a result of additional interest costs on lease liabilities in the amount of RUB 1,189 mln under the new IFRS 16 standard.

## Cash flow and working capital

RUB mln	1H 2019 (IFRS 16)	1H 2018 (IAS 17)
Net cash from / (used in) operating activities	334	(5,319)
Net cash from investing activities	294	5,375
Net cash used in financing activities	(5,302)	(6,437)
Net decrease in cash and cash equivalents	(4,674)	(6,380)
Effect of exchange rate on cash and cash equivalents	(22)	(35)

Net cash used in operating activities during the reporting period improved from negative RUB 5,319 mln in 1H 2018 to RUB 334 mln in 1H 2019, amongst others, due to implementation of IFRS 16. Repayment of principal amount of lease liabilities and interest paid on them in the amount of RUB 3,191 mln were presented in cash flows from financing activities, while in 2018 under IAS 17 all lease payments were presented in cash flows from operating activities.

Net cash from investing activities amounted to RUB 294 mln in 1H 2019. This was primarily a result of the RUB 1,553 mln proceeds received from the sale of two land plots, which largely offset the Group's 1H 2019 capital expenditures (CAPEX) of RUB 1,259 mln (excluding VAT). During the reporting period, the Group invested RUB 526 mln (excluding VAT) into the development of its hypermarket business and RUB 733 mln (excluding VAT) into the development of its discounter business.

Net cash used in financing activities in 1H 2019 amounted to RUB 5,302 mln. Over the reporting period, the Group attracted RUB 5,250 mln in financing and made repayments totalling RUB 5,894 mln. As at 30 June 2019, the Group had RUB 13,450 mln of undrawn, committed borrowing facilities available in Russian roubles

on a fixed and floating basis, in respect of which all conditions have been met. Proceeds from these facilities may be used to finance operating and investing activities as necessary.

### Financial liabilities

By 30 June 2019, net debt had decreased by 7.2% YoY to RUB 29,668 mln.

With its major creditors, the Group negotiated a new covenant calculated as total interest-bearing liabilities (net debt and lease liabilities) divided by the EBITDA based on IFRS 16. The Group complies well with all bank covenants as of 30/06/2019.

RUB mln	As of 30 June 2019 (IFRS16)	As of 30 June 2018 (IAS17)
<b>EBITDA LTM</b>	<b>14,369</b>	<b>9,155</b>
<b>Total debt</b>	<b>33,684</b>	<b>33,303</b>
Short-term debt	1,709	8,097
Long-term debt	31,975	25,206
<b>Cash &amp; cash equivalents</b>	<b>4,016</b>	<b>1,334</b>
<b>Net Debt</b>	<b>29,668</b>	<b>31,969</b>
<b>Total Lease Liabilities</b>	<b>26,662</b>	-
Short-term lease liabilities	3,734	-
Long-term lease liabilities	22,928	-
<b>Total Interest-Bearing Liabilities (Net of cash &amp; cash equivalents)</b>	<b>56,330</b>	<b>31,969</b>
<b>Total Interest-Bearing Liabilities (Net of cash &amp; cash equivalents) / EBITDA</b>	<b>3.9x</b>	<b>3.5x</b>

### Interim report

The interim report, including the full set of reviewed IFRS interim financial statements, can be found at <https://okeygroup.lu/press-center/press-releases>.

O'KEY Group S.A. (LSE: OKEY) is pleased to invite the investment community to join O'KEY conference call on **1H 2019 IFRS financial results**.

**Date:** Tuesday, August 27<sup>th</sup>, 2019

### Time:

- 5.00 p.m. (Moscow)
- 3.00 p.m. (London)
- 10.00 a.m. (New York)

## Participants:

- Armin Burger, CEO
- Konstantin Arabidis, CFO
- Anton Farlenkov, Corporate Development Director

The conference call details are provided below. Please dial in 5-10 minutes prior to the start time using the number / Confirmation Code below:

<b>Russia:</b>	Local lines	<b>+7 495 646 9190</b>
	Toll free	<b>8 10 8002 8675011</b>
<b>UK:</b>	Local lines	<b>+44 330 336 9411</b>
	Toll free	<b>0800 279 7204</b>
<b>Europe:</b>	Local lines	<b>+49 69 2222 2018</b>
	Toll free	<b>0800 101 1732</b>
<b>USA:</b>	Local lines	<b>+1 929 477 0448</b>
	Toll free	<b>888 254 3590</b>
<b>Confirmation Code:</b>	<b>5150721</b>	

Replay of the call will be available at the event's section of the Investor Calendar at the Group's website: <https://okeygroup.lu/investors/investor-calendar/>.

All related materials will be published on the "Investor" section of the Company's website at <https://okeygroup.lu/>.

## OVERVIEW

O`KEY Group S.A. (LSE: OKEY, Fitch – 'B+', RAEX – 'ruA-') is one of the largest retail chains in Russia. The Group operates under two main formats: hypermarkets, under the 'O`KEY' brand and discounters, under the 'DA!' brand.

As at August 27, 2019, the Group operates 164 stores across Russia. The Group opened its first hypermarket in St. Petersburg in 2002 and has since demonstrated continuous growth. O`KEY is the first among Russian food retailers to launch and actively develop e-commerce operations in St. Petersburg and Moscow, offering a full range of hypermarket products for home delivery. The Group operates four distribution centres across the Russian Federation.

For the full year 2018, revenue totalled RUB 161,303,411 thousand, EBITDA reached RUB 8,644,008 thousand, and the net loss for the period amounted to RUB 599,755 thousand.

The O`KEY shareholder structure is as follows: NISEMAX Co Ltd – 44,79%, GSU Ltd – 29,52%, free float – 25,69%.

## **DISCLAIMER**

These materials contain statements about future events and expectations that are forward-looking statements. These statements typically contain words such as 'expects' and 'anticipates' and words of similar import. Any statement in these materials that is not a statement of historical fact is a forward-looking statement that involves known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements.

None of the future projections, expectations, estimates or prospects in this announcement should be taken as forecasts or promises nor should they be taken as implying any indication, assurance or guarantee that the assumptions on which such future projections, expectations, estimates or prospects have been prepared are correct or exhaustive or, in the case of the assumptions, fully stated in this announcement. We assume no obligations to update the forward-looking statements contained herein to reflect actual results, changes in assumptions or changes in factors affecting these statements.

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