euroopt | FINANCIAL RESULTS

EUROTORG ANNOUNCES IFRS AUDITED FINANCIAL RESULTS FOR FY 2019

7 May 2020

Eurotorg (the "Company"), the largest food retailer in Belarus, today announces its audited consolidated financial results under International Financial Reporting Standards (IFRS) for the full year ended 31 December 2019 (FY 2019).

FY 2019 financial highlights[1]

- Revenue[2] increased by 10.3% year-on-year ("y-o-y") and reached BYN 4.9 bn (revenue in USD terms increased by 7.4% y-o-y and amounted to USD 2.4 bn[3]). Net retail sales[4] increased by 9.8% y-o-y and reached BYN 4.5 bn (net retail sales in USD terms increased by 6.9% y-o-y and amounted to USD 2.2 bn), mainly driven by new store openings (108 net stores added in 2019).
- The gross margin decreased by 2.0 pp y-o-y to 24.6% as a result of active development of the new discounter format Hit!, as well as a number of measures taken by the Company to strengthen its price leadership positioning, including active investments in shelf prices.
- SG&A expenses (excluding D&A) as a share of revenue increased by 0.5 pp to 18.4%, driven by higher rental costs on the back of accelerated expansion of the core retail business in leased premises, higher employee costs and the consolidation of e-commerce.
- EBITDA decreased by 22.8% y-o-y to BYN 306 mn (USD 146 mn). The EBITDA margin decreased by 2.7 pp to 6.2% under pressure from the lower gross margin and higher SG&A.
- The net profit margin decreased by 1.0 pp to 0.5%, mainly due to the lower operating margin.
- Net trade working capital as a percentage of revenue slightly decreased by 0.7 pp to -4.9%, reflecting a shortening of the payment cycle with suppliers.
- Capital expenditures decreased by 0.2 pp to 1.9% of revenue, in line with the Company's capex-light growth strategy.
- The Company continued to operate with moderate leverage, with a net debt/EBITDA ratio of 3.0x as of 31 December 2019, and delivered positive free cash flow of BYN 364 mn.

FY 2019 operating highlights

- The Company continued its expansion programme in 2019 with 108 net new store openings, of which 104 were convenience stores. The total number of stores as of the end of 2019 was 870, vs 762 as of the end of 2018.
- The Company remains committed to its capex-light growth strategy: 91% of newly added selling space was leased. The average selling space of grocery stores opened in 2019 was 171 sqm.
- Eurotorg took important steps to optimise its real estate portfolio in line with its asset-light growth strategy. In 2019 the Company sold one of its owned shopping centres in Minsk, including hypermarket space, and opened one new hypermarket in leased premises in Baranovichi.

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1. In this section we discuss results under IAS 17. Some items in the Company's financial statements have been reclassified, and comparative information in the release reflects these reclassifications.

2. Revenue represents consolidated IFRS revenue, which includes proceeds from the retail business, wholesale, lease and subsidiaries (StatusBank and others), and other revenue, net of VAT.

3. Average exchange rate for 2019: 2.0914 BYN per 1 USD; 2018: 2.0366 BYN per 1 USD. Exchange rate as of 31 December 2019: 2.1036 BYN per 1 USD; as of 31 December 2018: 2.1598 BYN per 1 USD. This press release uses these exchange rates for conversions from BYN to USD.

4. Total net retail sales of Eurotorg companies included in the IFRS perimeter. This number differs from net retail sales reported in the 4Q 2019 and FY 2019 operating results press release, which represent sales of grocery stores and e-commerce services, net of VAT. In 2019 net retail sales of these grocery stores and e-commerce services represented 97.7% of the Company's IFRS net retail sales.

- Eurotorg launched the Hit! banner of grocery discounters to continue diversification of the Company's customer proposition. The new discounters have more significant price distinction from competitors and simplified service. As of the end of 2019 the Company operated 204 stores under the Hit! banner in 91 localities; of these, 85 were new stores and 119 were rebranded as Hit! from previously operating under the Euroopt banner stores.
- At the end 2019 management launched a store-network optimisation process including the closure of 44 grocery stores. Almost all of the closed stores were located in rural areas and had not met efficiency targets. Customers in all localities affected still have access to modern grocery retail via Eurotorg's online offering.
- At the end of 2019, management decided to close the Company's pilot drogerie business, Magia, and fully focus on growing the core grocery retail business and online services. The Company expects this step to improve operational efficiency and profitability. As of the end of 2019, the contribution of the drogerie business to net retail sales was insignificant at less than 1.3%.
- On a combined basis, in 2019 the Company's two online grocery services (E-dostavka.by and Gipermall.by) generated 3.6 mn orders, while online sales increased by 9.0% y-o-y to BYN 205.1 mn (USD 98.1 mn). Online grocery retail accounted for 4.6% of total net retail sales[5] in 2019.

Eurotorg CEO Andrei Zubkou said:

"2019 was another year of business growth as we continued to do what we do best – growing our grocery retail operations. We focused on implementing our asset-light growth strategy in convenience-format stores, maintaining price leadership and developing our online services. As a result, Eurotorg not only strengthened its market leadership in Belarusian grocery retail, but also significantly grew revenue.

"We consider it important to take a long-term view of the business, which is why we continue to invest in strengthening our market leadership. Our focus on price leadership means that we give up some margin; however, we consider this approach strategically correct, since in the long-term unconditional leadership and high customer loyalty bring a disproportionately greater positive result.

"In 4Q 2019, we took a number of important strategic initiatives to improve the operational efficiency of the business. We shuttered our pilot Magia drogerie retail chain, which had delivered results below our expectations. We also launched a process to optimise our grocery retail chain, which led to the closure of a number of underperforming stores. These steps will allow us to focus on our core business and to streamline our operations.

"We continue to see enormous potential in online sales, which as of the end of the year accounted for about 5% of net retail sales. We are continuing to develop this channel further, and expect substantial growth of online in 2020.

"2019 also marked an important financial milestone for the Company. We reduced our net debt by a further USD 57.4 million and significantly optimised our debt portfolio, including a successful debut on the Russian capital markets with a RUB 10 billion bond issue, as well as a syndicated loan totalling RUB 3.5 billion.

"We are confident that our financial stability and operational efficiency will help us to reliably survive the challenges associated with the coronavirus pandemic. As always, our priority is the safety of our employees, customers and suppliers, as well as operational continuity to provide the country's population with groceries and other related goods".

Key operating results of grocery stores and e-commerce[6]

	2019	2018	Change
Total number of stores, end of period ("e-o-p")	**870**	**762**	**14.2%**
Total store openings, net, during the period	108	262	-58.8%

5. Includes net retail sales of grocery stores and e-commerce services.

6. In this and other tables, and in the text of this press release, immaterial deviations in the calculation of % changes, subtotals and totals are due to rounding.

	2019	2018	Change
Total selling space, ths sqm, e-o-p	**334.6**	**320.1**	**4.5%**
Selling space added, net, ths sqm, during the period	14.4	41.7	-65.3%
Sales per 1 sqm per month, net, BYN	**1,073**	**1,101**	**-2.6%**
Sales per 1 sqm per month, net, USD	513	541	-5.1%
Average traffic per 1 sqm per day, tickets	3.17	3.14	1.0%
LFL sales growth	**-4.3%**	**2.8%**	**-7.1 pp**
LFL traffic growth	-4.6%	-2.6%	-2.0 pp
LFL average ticket growth	0.3%	5.6%	-5.3 pp
Online orders, mn	**3.60**	**3.62**	**-0.6%**

- In 2019 the Company continued its expansion, with 108 net new stores opened compared to 262 in 2018.
- LFL sales decreased by -4.3% in 2019, but have been improving for the last three quarters. Negative LFL traffic of -4.6% was partly compensated by moderate growth of 0.3% in the LFL average ticket. LFL traffic was affected by cannibalisation on the back of Eurotorg's accelerated expansion and a high comparison base for 2018 due to the high level of marketing activity in the year-ago period.
- Sales density decreased by 2.6% y-o-y in BYN terms but remains strong at BYN 1,073 per sqm per month (USD 513 per sqm per month).

Key P&L results

	IFRS 16		IAS 17		
BYN '000	2019	Impact on FY 2019	2019	2018	Change
Revenue, net	**4,917,570**	**-**	**4,917,570**	**4,458,343**	**10.3%**
of which net retail sales	*4,521,826*	*-*	*4,521,826*	*4,119,271*	*9.8%*
Gross profit	**1,210,209**	**-**	**1,210,209**	**1,187,871**	**1.9%**
Gross margin	*24.6%*	*-*	*24.6%*	*26.6%*	*-2.0 pp*
EBITDA	**434,547**	**128,780**	**305,767**	**396,131**	**-22.8%**
EBITDA margin	*8.8%*	*2.6 pp*	*6.2%*	*8.9%*	*-2.7 pp*
Operating profit (EBIT)	**245,113**	**40,112**	**205,001**	**312,352**	**-34.4%**
Operating margin	*5.0%*	*0.8 pp*	*4.2%*	*7.0%*	*-2.8 pp*
Net profit	**42,760**	**19,102**	**23,658**	**65,835**	**-64.1%**
Net profit margin	*0.9%*	*0.4 pp*	*0.5%*	*1.5%*	*-1.0 pp*

Revenue and gross margin highlights

- Revenue increased by 10.3% y-o-y in 2019 in BYN terms, driven by accelerated net retail sales, which contributed 9.0% to revenue growth. Other revenue contributed 1.3% to revenue growth mainly due to increased wholesale sales.
- Net retail sales increased by 9.8% y-o-y in BYN terms (6.9% in USD) in 2019, driven by openings of new grocery stores and active development of the e-commerce business.
- The gross margin decreased by 2.0 pp y-o-y to 24.6% as a result of active development of the new discounter format Hit! as well as a number of measures taken by the Company to strengthen its price leadership positioning, including active investments in shelf prices.

Selling, general and administrative (SG&A) expenses (excl. D&A) highlights

	IFRS 16		IAS 17		
BYN '000	FY 2019	Impact on FY 2019	FY 2019	FY 2018	Change
SG&A (excl. D&A)[7]	**(774,853)**	**128,780**	**(903,633)**	**(797,340)**	**13.3%**
% revenue	***15.8%***	***-2.6 pp***	***18.4%***	***17.9%***	***0.5 pp***
Personnel costs	(494,204)	-	(494,204)	(415,711)	18.9%
% revenue	*10.0%*	-	*10.0%*	*9.3%*	*0.7 pp*
Rent	(5,602)	128,780	(134,382)	(116,425)	15.4%
% revenue	*0.1%*	*-2.6 pp*	*2.7%*	*2.6%*	*0.1 pp*
Utility costs	(95,924)	-	(95,924)	(92,794)	3.4%
% revenue	*2.0%*	-	*2.0%*	*2.1%*	*-0.1 pp*
Marketing and advertising	(39,068)	-	(39,068)	(49,718)	-21.4%
% revenue	*0.8%*	-	*0.8%*	*1.1%*	*-0.3 pp*
Professional services	(41,070)	-	(41,070)	(32,017)	1.3x
% revenue	*0.8%*	-	*0.8%*	*0.7%*	*0.1 pp*
Other expenses	(98,985)	-	(98,985)	(90,675)	9.2%
% revenue	*2.0%*	-	*2.0%*	*2.0%*	*0.0 pp*

- SG&A expenses (excluding D&A) as a percentage of revenue increased by 0.5 pp to 18.4% in 2019, compared to 17.9% in 2018. This was primarily due to higher employee and rent expenses.
- Personnel costs as a percentage of revenue increased by 0.7 pp, primarily due to the following factors:
  - overall growth in nominal average wages in Belarus (by 12.3% y-o-y in 2019);
  - a 2.6% decrease in sales densities (to BYN 1,073 per sqm per month);
  - consolidation of e-commerce business, which has higher personnel costs in its operating model.

  The Company's management is developing and implementing new initiatives to optimise personnel costs. The Company also launched a store-network optimisation process, which could have a positive impact on staff efficiency. However, these measures will have a delayed effect, that will only be possible to evaluate over time.
- Rental costs increased by 0.1 pp, due to the Company's openings in leased premises (91% of all newly added selling space in 2019 were leased) and consequent growth of rented selling space as a share of the total from 59.6% as of the end of 2018 to 63.1% as of the end of 2019.

  Under the IFRS 16 standard, rental costs of BYN 128,780 ths (or 2.6 pp of revenue) were excluded and capitalised as financial lease liabilities.
- Utility costs as a percentage of revenue decreased by 0.1 pp to 2.0% of revenue in 2019 due to a warmer autumn and winter period.
- Other expenses remained at the same level and accounted for 2.0% of revenue.
- In 2019 the Company reduced marketing and advertising expenses by 0.3 pp in revenue, while maintaining nationwide reach and large audience engagement by continuing the "Udacha v pridachu" lottery.

7. Including change in allowance for impairment of financial assets.

Operating profit and net profit highlights

BYN '000	IFRS 16 FY 2019	IFRS 16 Impact on FY 2019	IAS 17 FY 2019	IAS 17 FY 2018	IAS 17 Change
Gross profit	**1,210,209**	**-**	**1,210,209**	**1,187,871**	**1.9%**
Gross margin	*24.6%*	*-*	*24.6%*	*26.6%*	*-2.0 pp*
SG&A (excl. D&A)[7]	(774,853)	128,780	(903,633)	(797,340)	13.3%
% revenue	*15.8%*	*-2.6 pp*	*18.4%*	*17.9%*	*0.5 pp*
D&A	(182,501)	(88,668)	(93,833)	(77,182)	21.6%
% revenue	*3.7%*	*1.8 pp*	*1.9%*	*1.7%*	*0.2 pp*
Other income and expenses	(7,742)	-	(7,742)	(997)	7.8x
% revenue	*0.2%*	*-*	*0.2%*	*0.0%*	*0.2 pp*
Operating profit (EBIT)	**245,113**	**40,112**	**205,001**	**312,352**	**-34.4%**
Operating margin	*5.0%*	*0.8 pp*	*4.2%*	*7.0%*	*-2.8 pp*
Net finance costs, incl.:	(147,837)	(16,817)	(131,020)	(214,361)	-38.9%
% revenue	*3.0%*	*0.3 pp*	*2.7%*	*4.8%*	*-2.1 pp*
Net interest expenses and financial lease costs	(163,546)	(37,192)	(126,354)	(130,412)	-3.1%
% revenue	*3.3%*	*0.7 pp*	*2.6%*	*2.9%*	*-0.3 pp*
FX losses / profit	10,853	20,375	(9,522)	(71,040)	-86.6%
% revenue	*0.2%*	*n.a.*	*0.2%*	*1.6%*	*-1.4 pp*
Other net finance costs	4,856	-	4,856	(12,909)	n.a.
% revenue	*0.1%*	*-*	*0.1%*	*0.3%*	*n.a.*
Profit before tax	**97,276**	**23,295**	**73,981**	**97,991**	**-24.5%**
% revenue	*2.0%*	*0.5 pp*	*1.5%*	*2.2%*	*-0.7 pp*
Income tax expenses[8]	(54,516)	(4,193)	(50,323)	(32,156)	56.5%
Net profit	**42,760**	**19,102**	**23,658**	**65,835**	**-64.1%**
Net profit margin	*0.9%*	*0.4 pp*	*0.5%*	*1.5%*	*-1.0 pp*

- The operating margin decreased by 2.8 pp to 4.2% in 2019 on the back of lower gross margin and a y-o-y increase in the share of SG&A (excluding D&A).
- D&A slightly increased to 1.9% of revenue, due to growth in the share of in-store equipment in the Company's assets.

  Under IFRS 16, the Company recognised additional D&A on rented assets of BYN 88,668 ths (or 1.8 pp of revenue).
- Net finance costs as a percentage of revenue decreased by 2.1 pp to 2.7% in 2019 due to lower FX losses on the back of the stable BYN exchange rate as well as positive change in the fair value of derivatives (currency swap).

  Under IFRS 16 the Company accrued an additional FX gain of BYN 20,375 ths, as most operating lease contracts are denominated primarily in EUR and USD, while the BYN exchange rate was stable during the period.
- Net interest expenses and financial lease costs decreased by 3.1% to BYN 126.4 mn in 2019 due to lower interest rates on new financing, and also due to a decrease in the total debt. Net interest expenses decreased as a share of revenue by 0.3 pp to 2.6% on the back of revenue growth.

  Interest expenses under IFRS 16 increased by BYN 37,192 ths (or 0.7 pp of revenue), related to interest expenses on accrued operating lease liabilities.
- The net profit margin decreased by 1.0 pp following the lower operating margin, partly compensated by decrease in net finance costs.

8. Income tax expenses (IAS 17) are calculated using the rate of 18% for the IFRS 16 impact on FY 2019.

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EBITDA highlights

	IFRS 16		IAS 17		
BYN '000	FY 2019	Impact on FY 2019	FY 2019	FY 2018	Change
Operating profit (EBIT)	**245,113**	**40,112**	**205,001**	**312,352**	**-34.4%**
Operating margin	*5.0%*	*0.8 pp*	*4.2%*	*7.0%*	*-2.8 pp*
D&A	(182,501)	(88,668)	(93,833)	(77,182)	21.6%
% revenue	*3.7%*	*1.8 pp*	*1.9%*	*1.7%*	*0.2 pp*
D&A (included in CoGS)[9]	(6,933)	-	(6,933)	(6,597)	5.1%
% revenue	*0.1%*	-	*0.1%*	*0.1%*	*0.0 pp*
EBITDA	**434,547**	**128,780**	**305,767**	**396,131**	**-22.8%**
EBITDA margin	*8.8%*	*2.6 pp*	*6.2%*	*8.9%*	*-2.7 pp*

- The EBITDA margin decreased by 2.7 pp to 6.2% in 2019 under pressure from the lower gross margin and increased SG&A. The EBITDA margin also decreased due to the consolidation of the e-commerce business and its development during the period.

Leverage

	IFRS 16		IAS 17			
BYN '000	As of 31 Dec 2019	*%*	As of 31 Dec 2019	*%*	As of 31 Dec 2018	*%*
Net debt	**1,279,849**		**924,832**		**1,073,597**	
Total debt	**1,574,371**	*100.0%*	**1,219,354**	*100.0%*	**1,249,945**	*100.0%*
Short-term debt	107,200	*6.8%*	8,477	*0.7%*	23,178	*1.9%*
Long-term debt	1,467,171	*93.2%*	1,210,877	*99.3%*	1,226,767	*98.1%*
Cash and cash equivalents	**294,522**		**294,522**		**176,348**	
EBITDA	434,547		305,767		396,131	
Net debt / EBITDA	***2.95x***		***3.02x***		***2.71x***	
Interest and financial lease expenses	(165,141)		(127,949)		(131,295)	
EBITDA / Interest expenses	***2.6x***		***2.4x***		***3.0x***	

- In 2019 the Company's net debt decreased by 13.9% to BYN 924.8 mn (in USD terms net debt decreased by 11.6% to USD 439.6 mn) mainly due to an increase in cash on the Company's accounts (+67% y-o-y).
- Despite lower EBITDA the Company maintained a moderate level of net debt/EBITDA ratio of 3.0x.
- The share of short-term debt remains low (0.7% of total debt) due to Company's focus on constantly optimising the loan portfolio, including increasing debt maturity.
- The share of secured debt in the Company's debt portfolio significantly decreased and amounted to 12.6% due to new unsecured financing.
- The Company maintains a high liquidity reserve, with undrawn credit lines in different currencies at the end of 2019 amounting to USD 120 mn equivalent.
- The EBITDA/interest expenses coverage ratio decreased to 2.4x in 2019 on the back of lower EBITDA.

  Under IFRS 16, total debt increased by BYN 355,017 ths due to capitalized operating lease liabilities.

Cash flow highlights

	IFRS 16		IAS 17		
BYN '000	FY 2019	Impact on FY 2019	FY 2019	FY 2018	Change
Net cash from operating activities before change in working capital	**441,386**	**128,780**	**312,606**	**381,856**	**-18.1%**

9. The D&A of Eurotorg's transport and food processing companies is included in CoGS in the P&L. Total D&A reflected in the Company's Cash Flow Statement is used to calculate EBITDA.

BYN '000	IFRS 16 FY 2019	IFRS 16 Impact on FY 2019	IAS 17 FY 2019	IAS 17 FY 2018	IAS 17 Change
Change in working capital, incl.:	67,560	7,300	60,260	85,682	-29.7%
change in trade working capital[10]	(7,709)	-	(7,709)	115,377	n.a.
Income tax paid	(14,848)	-	(14,848)	(17,362)	-14.5%
Net cash from operating activities	**494,098**	**136,080**	**358,018**	**450,176**	**-20.5%**
Net cash used in investing activities	1,579	-	1,579	(71,458)	n.a.
Net cash used in financial activities	(377,002)	(136,080)	(240,922)	(379,396)	-36.5%
Net increase/decrease in cash and cash equivalents	**118,675**	**-**	**118,675**	**(678)**	**n.a.**
Cash and cash equivalents as at the beginning of the period	176,348	-	176,348	174,019	1.3%
Effect of translation to presentation currency	(501)	-	(501)	3,007	n.a.
Cash and cash equivalents as at the end of the period	**294,522**	**-**	**294,522**	**176,348**	**67.0%**

- Net trade working capital as a percentage of revenue slightly decreased by 0.7 pp to -4.9%, reflecting shortening of the payment cycle with suppliers.
- An inflow in cash from investing activities was generated due to the sale of a large shopping centre in Minsk (8 Denisovskaya Str.). The Company decided to sell the real estate as managing large shopping centres is a non-core business with weaker returns on invested capital. The sale allows Eurotorg to streamline its business operations, focus on core activities, and improve returns on capital.
- The outflow of cash used in financial activities decreased y-o-y due to lower deleveraging activity.

Capex highlights

BYN '000	FY 2019	FY 2018	Change
Capex[11]	**(93,721)**	**(92,294)**	**1.5%**
Capex of revenue	1.9%	2.1%	-0.2 pp

- In 2019 capex remained low, at 1.9% of revenue, as the Company continued to implement its low-cost expansion strategy focusing on the development of smaller-format stores in leased premises.

Free Cash Flow (FCF) highlights

BYN '000	IFRS 16 FY 2019	IFRS 16 Impact on FY 2019	IAS 17 FY 2019	IAS 17 FY 2018	IAS 17 Change
Net cash from operating activities	**494,098**	**136,080**	**358,018**	**450,176**	**-20.5%**
Repayment under right-of-use agreements	(136,080)	(136,080)	-	-	-
Capex	(93,721)	-	(93,721)	(92,294)	1.5%
Proceeds from sale of property and equipment	105,846	-	105,846	18,322	5.8x
Free cash flow	**370,143**	**-**	**370,143**	**376,204**	**-1.6%**
Sale / purchase of bonds by Statusbank[12]	5,530	-	5,530	25,330	-78.2%
Adj. free cash flow	**364,613**	**-**	**364,613**	**350,874**	**3.9%**
Cash conversion (Adj. free cash flow / EBITDA)	83.9%	-35.3 pp	119.2%	88.6%	30.6 pp

- In 2019 adjusted free cash flow remained strong and accounted for 119.2% of EBITDA, with y-o-y growth of 3.9%.

10. Net trade working capital is calculated as inventories + trade receivables - trade payables.

11. Capex is calculated as acquisition of PP&E (maintenance costs included) plus acquisition of intangible assets.

12. The Company adjusts free cash flow for sale / purchase of bonds related to operating activities of Statusbank, which is not associated with the Company's core retail business.

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About Eurotorg

Eurotorg is the largest grocery retail chain in Belarus, with a market share of 19% in food retail sales (2019). The Company's business was established in 1993 in Minsk. As of 31 March 2020, Eurotorg operated 872 stores in different formats (hypermarkets, supermarkets and convenience stores) in the grocery segment.

The Company's strategy, based on offering a focused assortment of high turnover products at market-leading prices, delivers a value proposition that is well-tuned to the needs of Belarusian consumers. Every day about 1 mn customers make purchases at Eurotorg stores across 322 localities in Belarus.

Eurotorg's store-based retail operations are complemented by the largest online grocery business in the CIS, with more than 3.6 mn orders delivered in 2019.

In 2019, the Company reported revenue of BYN 4.9 bn under IFRS (USD 2.4 bn based on the average National Bank of Belarus exchange rate for 2019). In 2019, net retail sales of the grocery stores and e-commerce services accounted for BYN 4.4 bn (USD 2.1 bn), of 90.0% of total revenue under IFRS.

A brief video about Eurotorg's business can be viewed here