M.VideoEldorado

M.Video-Eldorado Group Delivers Net Income of RUB 2.9 bn, EBITDA Margin Improved to 6.2% in H1 2019

August 26, 2019, Moscow, Russia. PJSC M.video (M.Video-Eldorado Group, the Company, or the Group), Russia's largest consumer electronics retailer by revenue (MOEX: MVID), releases today its interim condensed consolidated unaudited financial information prepared in accordance with the International Financial Reporting Standards (IFRS) for the first half of the year ended 30 June 2019.

H1 2019 Group's Key Financial Highlights (under "IAS 17")[1]:

- The Group's Net Revenue grew by 7.9% year-on-year to RUB 161.5 billion in H1 2019
- The Company's Gross Profit increased by 8.4% year-on-year and amounted to RUB 41.7 billion, while the Gross Margin improved by 0.1 pp year-on-year to 25.8% in H1 2019
- The Group's EBITDA grew by 10.6% year-on-year and amounted to RUB 10.0 billion (RUB 19.7 billion under "IFRS 16"), while EBITDA Margin increased by 0.2 pp year-on-year to 6.2% (12.2% under "IFRS 16") in H1 2019
- Net income before finance costs and adjustments increased by 7.9% year-on-year to RUB 5.5 billion (RUB 7.5 billion under "IFRS 16") in H1 2019
- The Company's Net Income stood flat year-on-year at RUB 2.9 billion (RUB 1.4 billion under "IFRS 16") in H1 2019

"In the first half of 2019, M.Video-Eldorado Group demonstrated a steady growth of key operational and financial metrics, which indicates the timely and effective accession of Eldorado and the successful integration of the two companies. We completed the legal and technical merger of Eldorado in February 2019. Both M.Video and Eldorado, even taking into account the slowdown of the market and their own high base, continue to show solid growth rates and have further development potential due to the unique business model that combines the best in online and offline retail. At the same time, the overall back office, combined IT-systems, logistics, procurement allow M.Video-Eldorado Group to optimize costs and obtain additional synergies, while maintaining one of the world's highest in its market EBITDA margin of 6.2%. The dynamics and size of the Group's profit ensure further development of the business in the interests of its shareholders and allow to comfortably manage the debt portfolio", - commented M.Video-Eldorado Group President Alexander Tynkovan.

"The developed online platform enhanced by additional advantages of our stores, such as delivery within 30 minutes, the ability to test any equipment before buying, fast exchange, allow the Group to grow faster than the market and increase its market share. Already now, our clients use both the Internet-store, shops, and the mobile application for purchases. Thus, in the first half of 2019, 66% of M.Video sales were online-driven coming through our online-based sales and in-store real-time dealing (RTD) digital platform. As part of ONE RETAIL concept, we will continue to further integrate all points of contact with customers – website, mobile app, loyalty program, contact center and mobile RTD to create a completely seamless customer journey. ONE RETAIL allows us to offer the best service to customers and increase sales through individual offers and business processes built on Data Analytics," – noted Enrique Fernandez, Chief Executive Officer of M.Video-Eldorado Group.

The Group's Net Revenue grew by 7.9% year-on-year to RUB 161.5 billion in H1 2019, driven by traffic and average ticket growth and supported by double-digit internet sales growth for both brands.

The Company's Gross Profit increased by 8.4% year-on-year and amounted to RUB 41.7 billion, while the Gross Margin improved by 0.1 pp year-on-year to 25.8% in H1 2019, due to efficient procurement, promos and assortment management.

The Group's EBITDA (under "IAS 17") grew by 10.6% year-on-year and amounted to RUB 10.0 billion, while EBITDA Margin increased by 0.2 pp year-on-year to 6.2% in H1 2019. The improvement was led mainly by personnel costs efficiency offset partially by an increase in lease expenses. Personnel costs stood almost flat year-on-year and amounted to RUB 11.1 billion in H1 2019, and, as a percentage of revenue, declined by 0.56 pp year-on-year to 6.9% in H1 2019 from 7.5% in H1 2018. The saving were attributable to synergy effect and labor productivity growth.

[1] The Group's interim condensed financial statements include Eldorado financial results from the beginning of the earliest comparable period, i.e. from the beginning of 2018. The statements are prepared according to "IAS 17" accounting standards for comparison purposes.

Leases expenses (under "IAS 17") grew to RUB 9.1 billion in H1 2019 from RUB 7.7 billion in H1 2018, and, as a percentage of revenue, increased by 0.46 pp year-on-year to 5.6% in H1 2019. The increase was due mainly to extensive expansion program in the latter part of 2018, offset partially by rent rates renegotiation.

Operating profit (under "IAS 17") increased by 4.5% year-on-year to RUB 6.5 billion in H1 2019, due to EBITDA growth, offset partially by higher D&A expenses. D&A expenses (under "IAS 17") grew to RUB 3.5 billion in H1 2019 from RUB 2.8 billion in H1 2018, and, as a percentage of revenue, increased by 0.3 pp year-on-year to 2.2% in H1 2019. The increase was attributable to larger expansion program, as well as M&As of 2018.

Net income before finance costs and adjustments (under "IAS 17") increased by 7.9% year-on-year to RUB 5.5 billion in H1 2019 compared to RUB 5.1 billion in H1 2018, as a result of operating efficiencies, as discussed above.

Finance cost (under "IAS 17") increased by 2.5 times year-on-year to RUB 2.5 billion from in H1 2019 from RUB 1.0 billion in H1 2018, due mainly to long-term debt interest expense related to Eldorado acquisition in April 2018.

Net income (under "IAS 17") stood almost flat year-on-year at RUB 2.9 billion in H1 2019, impacted by higher finance cost in H1 2019 compared to H1 2018.

In H1 2018, Group's Net income was adjusted for one-off non-cash write-offs of assets and additional depreciation related to Eldorado's acquired assets fair price revaluation.

H1 2019 M.Video-Eldorado Group Key Financial Highlights[1]:

Russian Rubles (VAT excl.), mln	1H 2019 "IAS 17"	1H 2018 "IAS 17"	Change YoY	1H 2019 "IFRS 16"
Net Sales (VAT incl.)	**193,625**	**175,308**	***+10.4%***	**193,625**
Revenue	**161,475**	**149,600**	**+7.9%**	**161,475**
Gross profit	**41,650**	**38,420**	**+8.4%**	**41,650**
Gross margin, %	***25.8%***	***25.7%***	***+0.1pp***	***25.8%***
Selling, general and administrative expenses	37,434	34,302	+9.1%	36,082
Other operating income, net	2,312	2,128	+8.6%	2,369
Operating profit	**6,528**	**6,246**	**+4.5%**	**7,937**
Net income before finance costs and adjustments	**5,462**	**5,062**	**+7.9%**	**7,470**
Finance income / (cost), net	(2,531)	(994)	(154.6%)	(6,105)
Adj. Net Income[2]	**2,931**	**2,867**	**+2.2%**	**1,365**
Adj. Net Margin, %	***1.8%***	***1.9%***	***-0.1pp***	***0.8%***
EBITDA	**10,008**	**9,049**	**+10.6%**	**19,740**
EBITDA Margin, %	***6.2%***	***6.0%***	***+0.2pp***	***12.2%***

[1] The Group's interim condensed financial statements include Eldorado financial results from the beginning of the earliest comparable period, i.e. from the beginning of 2018. The statements for H1 2019 are prepared according to "IAS 17" accounting standards for comparison purposes and are unaudited.

[2] The Group's net income for H1 2018 includes one-off non-cash adjustments for depreciation related to Eldorado's acquired assets fair price revaluation, capitalized expenses write-offs, and software write-offs.

Effect of “IFRS 16” on M.Video-Eldorado Group’s financial statements

Implementation of IFRS 16 standard effective from January 1, 2019 had an impact on the Group’s EBITDA, operating profit and net profit.

Effect on EBITDA and operating profit

The Group’s EBITDA is significantly higher under the new IFRS 16 standard, as the main part of lease expenses previously recognized in the income statement have been excluded.

Operating expenses before D&A have been decreased under IFRS 16 by RUB 9,675 million, mainly due to lease and maintenance expenses excluded from the income statement. Also, other operating income of RUB 57 million has been added to the income statement under IFRS 16 in H1 2019.

Thus, the Group’s EBITDA under IFRS 16 increased substantially to RUB 19,740 million compared to RUB 10,008 million under IAS 17 standard in H1 2019. EBITDA margin under IFRS 16 accounted to 12.2% or 6.0 pp up, compared to EBITDA margin of 6.2% under IAS 17 in H1 2019.

At the same time, additional depreciation of RUB 8,323 million related to leased assets have been added to operating expenses below EBITDA and affecting Group’s Operating Profit in H1 2019.

As a result, the Group’s Operating Profit under IFRS 16 was RUB 7,937 million vs RUB 6,528 million under IAS 17 in H1 2019.

Effect on net profit

Financial costs increased by RUB 3,574 million under IFRS 16 standard due to additional interest expense on lease liabilities in H1 2019.

The new IFRS 16 standard also resulted in lower income tax expense due to lower profit before tax in H1 2019.

Group’s Net Income and Net Margin have been impacted by additional depreciation and interest expenses under IFRS 16 standard. The Group’s Net Income was lower by RUB 1,566 million and Net Margin by 1pp under the new standard.

Effect on cash flow statement

The implementation of the new standard does not affect the net cash change in the cash flow statement. However, IFRS 16 standard impacts cash flow statement presentation, as principal payments on leases will be classified as financing activities, prepayments – as investing activities, and interest payments – as interest paid in operating activities.

Note for editors:

M.Video-Eldorado Group (PJSC “M.video”) consolidates consumer electronic retail brands M.Video and Eldorado, and Goods marketplace. The Group’s combined annual sales are over 420 billion rubles with VAT. M.Video-Eldorado Group is the first and only public consumer electronic retailer in Russia. The Company’s shares are traded on the Moscow Stock Exchange (ticker: MVID).

As of 30 June 2019, the Group operated 490 M.Video, 478 Eldorado, and 9 m_mobile stores in more than 200 cities of the Russian Federation. The Group’s selling space was 1,421 ths sqm, and total space was 1,900 ths sqm as of 30 June 2019.

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