M.Video-Eldorado Group grew EBITDA by 20.3% to RUB 13.3 bn in 1H 2020

24 August 2020, Moscow, Russia. PJSC M.Video (M.Video-Eldorado Group, the Company, or the Group; MOEX: MVID), Russia's largest consumer electronics retailer by revenue and part of SAFMAR Group owned by Mikhail Gutseriev, releases its condensed consolidated unaudited financial information prepared in accordance with International Financial Reporting Standards (IFRS) for the six months ended 30 June 2020.

M.Video-Eldorado Group's key financial highlights for 1H 2020[1]:

- **Net revenue increased by 7.8% year-on-year** to RUB 173,934 million driven by an almost twofold increase in total online sales (TOS).
- **Gross profit increased by 7.0% year-on-year** to RUB 44,651 million, while the gross margin totalled 25.7%.
- **The Group's EBITDA grew by 20.3% year-on-year** and amounted to RUB 13,354 million (RUB 21,983 million under IFRS 16), while EBITDA margin increased by 0.8 percentage points year-on-year to 7.7% (12.6% under IFRS 16).
- **Adjusted net profit of the Group[2] increased by 44.2% year-on-year** to RUB 5,327 million (RUB 3,777 million under IFRS 16).

1H 2020 performance highlights and events:

- As a result of successful scaling of online-business, the Company's total online sales (TOS) increased by 97.5% year-on-year to RUB 116,829 million (VAT incl.) and accounted for 56.1% of the Group's total sales.
- Administrative, general and selling expenses (SG&A), excluding depreciation and amortization, decreased by 1.4 percentage points to 21.2% of half-year revenue due to lower lease expenses and administrative personnel payroll ("IAS 17").
- The total negative effect of additional costs and losses associated with COVID-19 and measures to protect the safety and health of employees and customers in 1H 2020 is estimated at RUB 248 million.
- The Group's net debt as at 30 June 2020 amounted to RUB 42,898 million (down by 23% year-on-year), with net debt / EBITDA (LTM, "IAS 17") at 1.48x (down by 0.83x year-on-year).
- Total capital expenses amounted to RUB 3,111 million (down by 21.5% year-on-year) on the back of lower expansion and reconstruction costs and the postponement of a number of projects. At the same time, capital expenses on IT and projects to support online platforms increased by 17.4% and 4.6% year-on-year respectively, primarily due to the need to support the development of online sales.

M.Video-Eldorado Group's President and Chairman of the Management Board Alexander Tynkovan:

'The Group's strong financial performance in one of the most challenging periods since its inception is a real testament to the professionalism of our team and the efficiency of the ONE RETAIL model bridging the gap between the online and in-store shopping experience via a smartphone. I would like to thank each and every one of our employees for their dedication, resilience and perseverance during these difficult months.

On top of revenue and market share growth in 1H 2020, we also achieved high business efficiency, with the Company's EBITDA margin reaching 7.7% and adjusted net profit standing at RUB 5.3 billion despite all the spring headwinds. We can be considered one of the few Russian online retailers whose strong business model enables us to fuel sales growth while maintaining healthy profitability and driving profits.'

M.Video-Eldorado Group's Chief Financial Officer Ekaterina Sokolova:

'Our rapid transformation into an online business has relied on the strategic projects implemented over the recent years, from improving in-store pick-up services and enhancing the mobile platform for sellers to developing financial

[1] Results for 2019 were restated due to the deconsolidation of Marketplace LLC (goods.ru). As a result of amendments in the shareholder agreement relating to Marketplace LLC in 2017, the Group lost control over the marketplace goods.ru, but obtained joint control over the Marketplace LLC. Accordingly, the Group had to discontinue consolidation of LLC "MARKETPLACE" and recognize the investment in LLC "MARKETPLACE" as an investment in a joint venture using equity method starting from the date when control was lost. As a result, the Group adjusted the comparative information in the consolidated statements for the year ended 31 December 2019. The Group also made respective adjustments to the consolidated statement of profit or loss and other comprehensive income and consolidated statement of cash flows for the half-year ended 30 June 2019.

[2] Hereinafter net profit is adjusted for losses in associates and joint ventures.

analytics and planning capabilities. We succeeded in accelerating these projects despite the limitations caused by the pandemic. By transforming our cost structure with a greater focus on the online segment and adopting a dynamic sales-driven approach to budgeting, we positioned the Group to deliver strong performance, and maintain and strengthen its financial standing while boosting liquidity and reducing leverage.'

In 1H 2020, the Group's revenue increased by 7.8% year-on-year to RUB 173,934 million thanks to:

- a nearly twofold increase in total online sales (TOS), which accelerated in Q2 2020 as non-food retailers struggled with restrictions imposed to tackle the coronavirus outbreak;
- accelerated sales of household appliances and electronics in Q1 2020 driven by FX fluctuations and a surge in major deferred purchases;
- a significant increase in sales of laptops, peripherals and other mobile devices in March and Q2 2020 driven by mass transition to remote working and e-learning.

The Company's gross profit in the reporting period increased by 7.0% year-on-year to RUB 44,651 million, while the gross margin dropped by 0.2 percentage points year-on-year to 25.7% due to changes in the category mix associated with evolving consumer preferences amid restrictions caused by the COVID-19.

EBITDA under "IAS 17" increased by 20.3% year-on-year to RUB 13,354 million, while EBITDA margin increased by 0.8 percentage points year-on-year to 7.7% in 1H 2020. These performance improvements were driven by the efficient management of our selling, general and administrative (SG&A) expenses (excluding depreciation and amortization), which declined, as a percentage of revenue, by 1.6 percentage points to the level 18.9%.

Key drivers behind improvements in OPEX efficiency:

- a decrease in lease expenses, which amounted to RUB 10,210 million under "IAS 17" and dropped, as a percentage of revenue, by 0.9 percentage points to 5.9% thanks to renegotiated lease terms, including lower fixed rates and mostly turnover-based leases;
- personnel expenses in 1H 2020, as a percentage of revenue, decreased by 0.5 percentage poin to 6.3%. The decline was attributable primarily to accelerated implementation of process efficiency improvements with subsequent changes in the organisational structure, and office operations downsizing driven by the online transformation and job vacancies being placed on hold;
- a drop in advertising expenses in Q2 2020 as a result of lower TV and outdoor advertising expenses and a greater focus on online advertising.

Due to the COVID-19 outbreak and related restrictions, regulatory requirements and measures to protect employees, customers and partners, in 1H 2020 the Group also incurred additional costs and losses worth of an estimated RUB 248 million. This negative effect includes additional costs on PPE and disinfection, as well as actual losses under leases and subleases of the premises owned by the Group.

Operating profit under "IAS 17" increased by 20.7% year-on-year to RUB 9,372 million in 1H 2020 driven by stronger revenue and EBITDA. Depreciation and amortization expenses under "IAS 17" increased from RUB 3,335 million in 1H 2019 to RUB 3,982 million in 1H 2020 due to business expansion and investments in further development of the IT platform.

The Group's adjusted net profit under "IAS 17" increased by 44.2% year-on-year to RUB 5,327 million in 1H 2020 compared to RUB 3,695 million in 1H 2019 as a result of revenue growth and the above-mentioned efficiency improvements

As at 30 June 2020, the Group's total debt was up by RUB 6,574 million to RUB 68,225 million, while cash and cash equivalents as at the end of the reporting period increased by RUB 19,670 million year-on-year to RUB 25,327 million. The growth in total debt in the reporting period was caused by measures to strengthen the Group's liquidity. The Group's net debt decreased by RUB 13,096 million year-on-year.

As a result, net debt / EBITDA (LTM, "IAS 17") as at 30 June 2020 was 1.48x, down by 0.83x year-on-year. All the Group's debt is denominated in roubles.

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M.Video-Eldorado Group Key Consolidated Unaudited Financial Highlights for 1H 2020, RUB mn (excl. VAT)

	1H 2020 «IAS 17»	1H 2019 «IAS 17»	Change y-o-y	1H 2020 «IFRS 16»
Revenue	**173,934**	**161,402**	**+7.8%**	**173,934**
Gross profit	**44,651**	**41,747**	**+7.0%**	**44,681**
Gross margin, %	***25.7%***	***25.9%***	***(0.2 pp)***	***25.7%***
SG&A (excl. depreciation and amortization)	(32,808)	(32,999)	(0.6%)	(24,303)
Other operating income less other operating expenses	1,511	2,351	(35.7%)	1,606
Operating profit	**9,372**	**7,764**	**+20.7%**	**10,128**
Net financial income / (expenses)	(2,702)	(2,555)	(5.7%)	(5,521)
Adjusted profit before tax[3]	**6,670**	**5,209**	**+28.0%**	**4,607**
Income tax	(1,343)	(1,514)	(11.3%)	(830)
Adjusted net profit[3]	**5,327**	**3,695**	**+44.2%**	**3,777**
Adjusted net margin, %	***3.1%***	***2.3%***	***+0.8 pp***	***2.2%***
EBITDA	**13,354**	**11,099**	**+20.3%**	**21,983**
EBITDA margin, %	***7.7%***	***6.9%***	***+0.8 pp***	***12.6%***

Key events after the reporting date

In July, the Group repaid RUB 21,554 million of loans ahead of schedule to refinance a part of its debt portfolio and received RUB 15,005 million in tranches secured at a lower interest rate.

Effect of "IFRS 16" on the financial statements of the Group M.Video-Eldorado

The implementation of IFRS 16, which came into effect on 1 January 2019, impacted the Group's EBITDA, operating profit and net profit.

Effect on EBITDA

The Group's EBITDA was significantly higher under the new "IFRS 16" as the bulk of lease expenses previously recognized in selling, general and administrative expenses are now recognized, under "IFRS 16", as the Company's balance sheet debt as well as loan interest expenses in the statement of profit or loss.

In 1H 2020, lease and utility expenses under "IFRS 16" were lower by RUB 7,589 million. The Group's EBITDA under "IFRS 16" is RUB 21,983 million compared to RUB 13,354 million under "IAS 17" over the same period. EBITDA margin under "IFRS 16" amounted to 12.6%, which is 4.9 percentage points higher than the EBITDA margin of 7.7% under "IAS 17".

Effect on net profit

The Group's net profit in 1H 2020 was affected by additional expenses in the amount of RUB 7,874 million arising from depreciation of leased assets under "IFRS 16". The effect of these additional depreciation expenses was fully offset by the removal of long-term lease expenses from operating expenses as mentioned above.

At the same time, financial costs increased by RUB 2,819 million under "IFRS 16" due to additional interest expenses on lease liabilities in 1H 2020. The implementation of "IFRS 16" also resulted in lower income tax expenses due to lower profit before tax.

As a result, the Group's adjusted net profit in 1H 2020 under "IFRS 16" amounted to RUB 3,777 million compared to RUB 5,327 million under "IAS 17". Adjusted net margin under "IFRS 16" was 2.2% compared to 3.1% under "IAS 17" in 2019.

[3] Adjusted for losses in associates and joint ventures

Effect on statement of cash flows

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

About M.Video-Eldorado Group

About M.Video-Eldorado Group (PJSC M.video) is Russia's largest consumer electronic retailer uniting the M.Video and Eldorado brands in the market for home appliances and electronics. The companies' total annual turnover exceeds RUB 430 billion, including VAT (FY 2019). The M.Video-Eldorado Group is the only Russian publicly-traded company in the electronics retail sector. The company's shares are traded on Moscow Exchange (ticker: MVID).

The Group operates Russia's largest online platform for consumer electronics and household appliances commanding a market share of over 30%. As of June 30, 2020, the Group also operates 512 stores under the M.Video brand, 505 stores under the Eldorado brand and 20 m_mobile stores in more than 250 cities across Russia with a total selling space of 1,450 thousand square meters. The Group has 100% online coverage in all cities of operation.

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Appendices

1. Excerpts from the interim condensed consolidated profit or loss statement and other comprehensive income

In millions of Russian Rubles (VAT excl.)	6M 2020	6M 2019	Change y-o-y	6M 2020
	«IAS 17»	«IAS 17»		«IFRS 16»
Revenue	**173,934**	**161,402**	**7.8%**	**173 934**
Gross profit	**44,651**	**41,747**	**7.0%**	**44 681**
Gross margin, %	**25.7%**	**25.9%**	**(0.2pp)**	**25.7%**
Selling, general and administrative expenses (excl. D&A)	(32,808)	(32,999)	(0.6%)	(24 303)
Other operating income, net	1,511	2,351	(35.7%)	1 606
Operating profit	**9,372**	**7,764**	**20.7%**	**10 128**
Net financial income / (expenses)	(2,702)	(2,555)	(5.7%)	(5 521)
Adjusted profit before tax[4]	**6,670**	**5,209**	**28.0%**	**4 607**
Income tax	(1,343)	(1,514)	(11.3%)	(830)
Adjusted net profit[4]	**5,327**	**3,695**	**44.2%**	**3 777**
Adjusted net margin, %	**3.1%**	**2.3%**	**+0.8pp**	**2.2%**
EBITDA	**13,354**	**11,099**	**20.3%**	**21 983**
EBITDA margin, %	**7.7%**	**6.9%**	**+0.8pp**	**12.6%**
Net profit	**4,060**	**2,905**	**39.8%**	**2 510**
Net margin, %	**2.3%**	**1.8%**	**+0.5pp**	**1.4%**

2. Excerpts from the interim condensed consolidated statement of financial position

In millions of Russian Rubles (VAT excl.)	30.06.2020	31.12.2019	30.06.2020
	«IAS 17»	«IAS 17»	«IFRS 16»
Assets			
Non-current assets	**95,400**	**97,457**	**162,502**
Fixed assets	18,331	19,946	18,241
Intangible assets, Goodwill	70,271	69,671	69,638
Right-of-use assets	-	-	67,633
Other non-current assets	6,798	7,840	6,990
Current assets	**187,575**	**191,909**	**186,044**
Inventory	105,579	129,115	105,579
Accounts receivable	35,646	34,247	35,842
Cash and cash equivalents	25,327	4,738	25,327
Other current assets	21,023	23,809	19,296
TOTAL ASSETS	**282,975**	**289,366**	**348,546**
Equity and Liabilities			
Equity	**38,281**	**34,218**	**34,639**
Equity	38,281	34,218	34,639
Liabilities	**244,694**	**255,148**	**313,907**
Trade accounts payable	145,815	176,211	145,819
Current lease liabilities	-	-	14,161
Other current liabilities	59,873	39,214	51,795
Non-current lease liabilities	-	-	63,275
Other non-current liabilities	39,006	39,723	38,857
TOTAL EQUITY AND LIABILITIES	**282,975**	**289,366**	**348,546**

[4] Adjusted for losses in associates and joint ventures

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3. Excerpts from the interim condensed consolidated cash flow statement

In millions of Russian Rubles (VAT excl.)	6M 2020	6M 2019	6M 2020
	«IAS 17»	«IAS 17»	«IFRS 16»
Operating cash flow			
Operating cash flows before movements in WC	**13,584**	**11,136**	**22,308**
Inventory change	23,490	15,877	23,490
Change in trade accounts payable	(30,396)	(33,857)	(30,246)
Interest paid	(2,652)	(2,592)	(4,935)
Income tax paid	(693)	(2,975)	(693)
Other	3,004	(5,711)	852
Net cash flow from operating activities	**6 337**	**(18 122)**	**10 776**
Investing cash flow			
CAPEX – PPE	(1,987)	(2,177)	(1,987)
CAPEX - IA	(1,838)	(1,394)	(1,838)
Investments in associates and joint ventures	(1,680)	(1,414)	(1,680)
Interest received	348	226	348
Other	411	490	411
Net cash flow from investing activities	**(4,746)**	**(4,269)**	**(4,746)**
Financing cash flow			
Net inflow/(outflow) from borrowings	19,000	2,175	19,000
Lease payments	-	-	(4,439)
Net cash flow from financing activities	**19,000**	**2,175**	**14,561**
Net foreign exchanges difference	(2)	3	(2)
Net increase/(decrease) in cash and cash equivalents	**20,591**	**(20,214)**	**20,591**
CASH AND CASH EQUIVALENTS, bop	**4,738**	**25,487**	**4,738**
CASH AND CASH EQUIVALENTS, eop	**25,327**	**5,276**	**25,327**