# FIX PRICE 12M AND 4Q 2021 OPERATING RESULTS CONFERENCE CALL

**Company:** Fix Price

**Date:** 24 January 2022

**Participants:**

- Dmitry Kirsanov, Chief Executive Officer
- Anton Makhnev, Chief Financial Officer
- Elena Mironova, Head of Investor Relations

**Operator:**

Ladies and gentlemen, thank you for standing by and welcome to Fix Price Q4 full year 2021 operating results conference call. Throughout today's presentation, all participants will be in listen-only mode. After the presentation, there'll be an opportunity to ask questions.

Without further ado, I would now like to pass the line to Elena Mironova. Elena, the floor is yours. Please go ahead.

**Elena Mironova:**

Thank you, Michael. Hello everyone, and thank you for joining us today. With me on the call are Chief Executive Officer Dmitry Kirsanov, and Chief Financial Officer Anton Makhnev. After Dmitry talks us through the trading update for the fourth quarter and full year 2021, we will open the call to questions. Let me caution you that this presentation includes statements that are or may deemed to be forward-looking statements with respect to the financial condition, results, operations, and businesses of Fix Price Group. For the full disclaimer, please refer to page 2 of the results presentation, which you can find in the Results Center section of our website at ir.fix-price.com. Now, let me turn the call over to our CEO. Dmitry, the floor is yours.

**Dmitry Kirsanov:**

Thank you very much, Elena, and good afternoon everyone. I've got to say that I am proud of our team and the results we were able to achieve in Q4 and 12M, and all of this despite the highly uncertain and challenging environment with COVID restrictions, high inflation, currency volatility and global supply chain disruptions for the full year 2021.

Now, our revenue grew 21.3% driven by store rollout acceleration and like-for-like sales growth. Like-for-like sales in our Russian stores unaffected by restrictions grew 9%, while group like-for-like sales grew by 7.2%. The loyal customer base reached 17 million, and this is up 47% YoY.

Before our IFRS financial results disclosure on February 28th, I can say that in Q4, we closed the gap on gross margins versus 2020, and we expect our full year EBITDA margin to be in the 19% area.

In 2021 we opened 737 new stores, above our guidance of 730, including 151 net new stores in Q4. We also kept up our active international expansion. 25% of new openings in Q4 were outside of Russia. While we see some headwinds in Belarus and Kazakhstan, the financial performance of our stores there remain solid and value-accretive for the Group EBITDA.

In Q4 we entered 41 new localities, including Sakhalin, and now Fix Price is present in 79 of Russia's 85 regions that cover 98% of the country's population.

We proactively sourced on-trend products, we redesigned and rotated our assortment within existing and new price points, and we got the full assortment onto the shelfs despite supply chain disruptions. As you will hear when I discuss the underlying drivers, our performance demonstrates the flexibility and resilience of our model, as well as our appeal to customers.

Now, on to the key drivers of the latest results in Q4. The **revenue** grew to RUB 66.5 billion due to new store openings and **like-for-like sales** growth of 3.2%, with 6.9% average ticket growth that fully offset a 3.5% traffic contraction. For Russian stores unaffected by COVID restrictions, like-for-like sales reached 6.5%.

While the ticket growth was supported by successful pass-through of inflationary pressure through the work with assortment and price points, traffic numbers were impacted by new COVID restrictions introduced in Russia at the end of October. As you might recall during our last call on Q3, we discussed such restrictions as a potential headwind for Q4 performance.

During the so-called non-working week at the beginning of November, the absolute majority of our stores remained open, although in one region we had to limit the operations of c.300 Fix Price stores to click and collect and online delivery only. Then, several Russian regions introduced various further restrictions, such as restricting access to shopping malls only to those with QR coded health passports and limiting assets to public places to some categories of customers. At the end of December 500+ of our stores remained under restrictions.

Apart from this direct impact, rising incidents rates and another wave of COVID led to more cautious consumer behaviour across the whole country, which had an additional impact on the traffic. We saw a similar trend in November-December 2020 when like-for-like traffic also entered negative area amid a new COVID wave. But between the waves we saw a promising recovery in both consumer sentiment and traffic. In October 2021, for example, we again saw positive traffic, repeating the trend seen in 2020.

COVID restrictions in Kazakhstan, pressure on the real disposable income and price regulation in Belarus continue to put a drag on our top-line growth. In Q4 the impact of stores in those countries on group like-for-like sales was -2%. Excluding the impact of international geographies and adjusting for the leap year, full year like-for-like sales for Russian stores not impacted by restrictions in November-December grew by 9%.

Now over to our **assortment proposition and sales mix**. Sales are still facing changed customer behaviour. People buy more food, which means that the customers have not fully adjusted to high inflationary pressure on real disposable income. Food products recorded double-digit LFL sales growth in Q4 2021, and accounted for 27% of sales versus 25% in Q4 2020. Among non-food items, seasonal ranges led the growth of LFL sales with a 26% increase in Q4, followed by personal care and household goods, books, stationary and DIY. Sales of discretionary goods are also impacted by supply chain disruptions, leading to delayed delivery of some items and tying up some additional working capital. In addition, warmer weather in November 2021 led to demand for seasonal collections picking up only in December compared to mid-November in 2020.

We have expanded our assortment to roughly 2,000 SKUs compared to 1,800 before, and the performance of higher price points remains promising. The share of the RUB 249 and RUB 299 in sales kept climbing and reached 12%, while the share of price points above RUB 100 grew to 32% compared to 22% for Q4 2020 thanks to launching new products and repricing our rotated assortment to offset the pressure on cost of sales. RUB 59 and RUB 79 price points introduced in November 2021 gained traction and helped us support margins and sales, while maintaining best value proposition. RUB 50 and RUB 77 price points were completely out of the assortment by the beginning of January.

As a result, even despite the higher share of food, our gross margin in Q4 2021 was higher year-on- year. The average ticket was up 7.4% to RUB 320 in Q4, driven primarily by the price per item amid products repricing and rotation, and our relentless focus on offering an excellent, constantly renewed assortment at the best prices.

Improvement of our **loyalty program** terms helped us gain another 1.6 million loyal customers in Q4, and now the total number of loyal customers exceeds 17 million. 53% of total retail sales for Q4 2021 were generated by purchases of loyalty cardholders versus 39% in Q4 2020. Despite such growth of the loyalty customer base, the average ticket for purchases with a loyalty card remains 1.8 times higher than the average ticket for non-loyalty card purchases.

We confirm our guidance of 750 net **new store openings** in 2022. We see no limitations in our store rollout and plan to further expand into existing white space. Besides, we see that the payback period for the new stores remains below nine months.

We have updated our analysis of matured stores performance. Like-for-like sales at stores opened 3-6 years ago remain generally in line with overall like-for-like sales on the Group level.

Like-for-like performance remains highly exposed to external factors, first and foremost, COVID-19, so we do not plan to give some specific financial or operational guidance for 2022.

Now over to the **events after the reporting date**. With trading impacted by COVID restrictions, it is hard to predict how national and local regulations will evolve. With the onset of Omicron in Russia, the government postponed the introduction of mandatory QR codes for the whole country. In Kazakhstan, which is 3.5% of total store numbers, the unrest at the beginning of the year caused some operational disruption. Now things seem to go back to normal, and we see no reasons to change our plans for continued expansion in Kazakhstan.

As for the competitive landscape in our market segment last year, looks like it was challenging for smaller variety value retailers in Russia. Our competitor with 100 stores, Home Market, has recently gone out of business and declared bankruptcy.

Our **ESG initiatives** are underway, and we will share the first data in the coming weeks. We also plan to publish our first Sustainability report in Q2 2022.

We're now building a new owned DC in the Moscow region with a total space of 68,000 square meters. The new DC will become operational in Q1 2023 and will serve the Central and Southern federal districts, boosting our ability to keep store shelves full for years to come.

Today we also announced a **buyback program** of up to RUB 4 billion over the next 6 months, as a means of additional distribution of cash to our shareholders. Given this strength of our balance sheet, we remain confident in the company's prospects and maintain our unwavering commitment to long-term value creation for our shareholders and efficient capital allocation.

Looking back, I can say that 2021 was definitely not an easy year. Over the past 12 months, we have all endured unprecedented challenges and disruption due to COVID-19. As a management team we remained focused and we delivered on what we could. And we believe that our results demonstrate the strengths and flexibility of our business model. With the procurement machine we have built, we can offer an amazing assortment at outstanding value, with an engaging shopping experience that resonates positively with our customers. With our undisputed market leadership, huge white space potential and capital efficiency, we are best positioned to compound best-in-class growth and margins for years to come. With that, I will hand back to Michael.

**Operator:**

Thank you very much for the presentation. We will now be moving to the Q&A part of the call. If you have any questions, please press *2 and wait for your name to be called. If you are connected via the web, you may also ask a voice or a written question. We will take the voice questions first, and after that we'll answer the written questions. We will now give a minute or so for the questions to come in, please stand by.

**Operator:**

Thank you very much. Our first question comes from Mr. Henrik Herbst from Morgan Stanley. Please go ahead, sir. Your line is open.

**Henrik Herbst:**

Yeah, thanks very much. I had a few questions. Firstly, I wonder if you could talk a little bit about... I know there's a lot of stuff going on with the restrictions, but how should we think about the business can trend once these restrictions are eased? And, whether you've seen any change in consumer underlying behaviour, maybe it's difficult to say, versus a year ago.

You were talking about the store rollout plans still being intact. Can you maybe talk a little bit how we should think about like-for-like growth over the next couple of years? I think now you've talked about around 10% previously. Do you still expect that the growth could bounce back to those levels?

And, also, how do you think about margins. I guess you are saying that your Russian stores did 6.5% in Q4, the stores that were unaffected by the restrictions. Is that a run rate we should have in mind? And then, the other question is, if you have any early reactions from consumers on your new price plans? I know you raised low-end price points a bit. Have they been well-received? Thanks very much.

**Dmitry Kirsanov:**

Thank you very much. We hope we were able to write it all down. I'll start answering, and if we don't cover anything, let us know.

As to our development, we do not see anything that can prevent us from further development and expansion of the store network. As to what is happening in the consumer space, and in particular online, for example, we see that the consumers are not going online from Fix Price. With our brick-and-mortar stores, we do not see any significant pressure from the online retailers, not in our variety value retail segment. Moreover, I can tell you confidently that we still believe that despite the fact that we are working in that traditional brick-and-mortar format, we manage to keep the best prices on the street, whoever you compare us to – online retailers or brick-and-mortar operators.

As to the like-for-like projections, we cannot provide guidance or projections, but we are still bullish about the development of the company and the sales in particular.

We see positive trends so far. I believe we have gone through the inflationary peak in 2021 on the one hand, and on the other hand we see that the consumers are less negative about the higher prices. Not just our customers, but the consumers across the Russian market, because it was an unprecedented price rise. I cannot think of anything similar to that in the past five to seven years, but now we've gone through this peak, we believe.

In terms of consumer behaviour, we see that the consumers are going back to coming to offline brick-and-mortar stores. Sometimes they are limited by the COVID related restrictions when the QR codes are required to enter shopping malls, or when shopping malls or the stores are closed because of the COVID related requirements. But, we still see that our customers love coming to our stores, and for them it's not just about buying something. They don't come there only for essentials to meet their daily needs. No, for them it is a hangout place, an entertainment. Over the past years, Fix Price, as you know, is legendary for offering new products every single week throughout the year. The love of our customers, many of whom come to us every single week, it is still there, I believe. Romir did research that proves that, and if needed, my colleagues will further develop on that.

Now over to Anton for the numbers.

**Anton Makhnev:**

Hi Henrik. Let me continue answering your questions. So, with regards to Russian stores unaffected by restrictions, it's what you already pointed out, it's 6.5% for the fourth quarter. But if you look at monthly performance, then in October and December it was in the high single-digit area, while for November when there was a period of a non-working week introduced in early November in Russia, it was in a low single-digit area.

So, nowadays when we look into January performance, it keeps running in a high single-digit area. It's also worth mentioning that even apart from QR codes and similar restrictions, there is an overall sentiment towards COVID which depresses our traffic, and we've seen a similar situation in the fourth quarter 2020 when, as you recall, in Russia there were no formal restrictions, but the number of COVID cases were going up and as a result it was affecting our traffic.

Therefore, in Q4, 2020, our like-for-like traffic was -2%, whilst comparing with the previous quarter, third quarter of 2020, when it was +4%. Therefore, quarter-on-quarter, it was -6%. Therefore there is a certain element of overall COVID sentiment, which we believe depresses our traffic and also depresses the performance of the stores in Russia, where there are no additional incremental formal restrictions.

You also asked about margins. Well, we were always saying that we are balancing between margins and like-for-like, and during our operations we are looking for the balance between the two components. Therefore, while the traffic currently remains somewhat under pressure as I said, because of external factors which are outside of our control, we continue to see positive developments of our margins on the gross margin level. We pointed out in the press release, and Dmitry was saying, that our Q4 2021 gross margin was higher both year-on-year and quarter-on- quarter, and we see continuation of this trend in the 2022 year to date.

**Henrik Herbst:**

Thanks very much.

**Anton Makhnev:**

And, you had one last question, I think, about reaction to the new price points. Here I will pass the floor back to Dmitry.

**Dmitry Kirsanov:**

Henrik, actually you could take it with a pinch of salt, but to be honest, the response exceeded our expectations. We thought that it might create some negativity for our customers because they were genuinely annoyed by the higher prices everywhere, but what we saw in the feedback in November and December, is that the customers were really receptive of the new price points. They accepted our somewhat renewed pricing policy, especially given that we kept RUB 55, RUB 59 and RUB 79, especially when the customer saw that everyone else was selling similar products a lot more expensively, they raised the prices a lot more than by 10%.

So, seeing that price rise in other retailers, consumers were unhappy, let me put it this way. Another important thing was that if you remember, we did a lot of preparation work. We did our homework and before we introduced the new price points of RUB 59 and RUB 79, we did a lot of work with the assortment in those price categories. We basically fully redesigned the whole assortment, most of the assortment. And so for the customers, those new price points, the products at these price points anyway looked very different from what they could buy at RUB 55 and RUB 77.

**Henrik Herbst**:

Got it, thanks so much. I mean, just one last, very quick question is, is it fair to assume from what you're saying, it sounds like Q4 2021 could be tough on like-for-like growth and trends should improve from here, right? Yeah, do I understand that correct?

**Dmitry Kirsanov:**

You know what Henrik? I would say that Q4 was the hardest time for us, because this was when we felt the biggest impact from the COVID-19 related restrictions. And going forward if we do not see any further step up in the COVID related restrictions, I don't think we will ever go back to those lacklustre results of Q4. But, what we see early this year is that all the strategies, all the activities around the assortment, to the new price points as well as working with our target audience and our participants in the loyalty program so far, all of this is paying back in high-end numbers in every single indicator of our activity. So, we are bullish about the future, unless we see any major radical changes around COVID related restrictions or any other forced major events in macro and in non-global politics.

**Henrik Herbst:**

Okay, thanks. Thanks very much.

**Operator:**

Thank you very much for the question. Our next question comes from Ms. Yulia Kazakovtseva from UBS. Please go ahead, madam. Your line is open.

**Yulia Kazakovtseva:**

Yeah. Hi everyone, and thanks a lot for this chance to ask a question. Actually, I have two. You said that in January, your like-for-like was close to 8-9%, as far as I get, high single-digit. Well, could you provide a comment on the growth of the total revenue from the start of the year? And, the share of food is my second question. From the start of this year, do you see the trend continued for higher share of food and new assortment? Or, has the situation somehow stabilised? Thank you so much.

**Dmitry Kirsanov:**

I started speaking with a muted mic. To the share of food, so far it remains the same as in Q4 2021. We do not see major changes there either way, going up or down. The consumer behaviours are primarily about buying essentials, non-discretionary goods including food, and Anton, probably stop me if I give away the numbers that I'm not supposed to say. In January, we also see good like-for-like in non-food. For example, in seasonal goods, and they are positive and double-digit. Definitely, this is something that inspires us and gives us confidence that going forward, the demand for the non-food will recover and even grow.

We also see another thing. As we said before, in Q4 2021, the share of RUB 299 and RUB 249 price points came to 12%, and this was against the backdrop of somewhat keeping back our activity in terms of advertising those higher price points or promoting those goods because of the response of the consumers overall to higher prices. But, as the inflation stabilized and consumer sentiment shifted more towards the positive area, starting from January and

February we are planning to extend the assortment in those higher price points. We are also going to have them more visible in our advertising material, and we hope that we will see a higher share from them in our sales, above 12%. And, they should also drive positively our like-for-like in the average ticket as to their like-for-like of 8% or 9%, or high single-digit. Over to Anton for the comment.

**Anton Makhnev**:

Yeah, so your question was about the revenue growth in the month-to-date, taking into consideration the high single digit like-for-like performance for Russian stores unaffected by formal COVID restrictions. So, unfortunately, I'm not in a position to give you the precise number, and the reason for that is because to calculate revenue for the group, we need to do some certain eliminations of intra-group operations because we are selling goods from our Russian operating company to our foreign subsidiaries, and that's an exercise which we typically conduct at the month's end once the month has finished. And normally companies don't do it intra-month, but if you want to do a back-of-envelope calculation, you can probably calculate it by yourself, extrapolating the trend from the Q4 2021. It's also worth taking into account that the Group's like- for-like for month-to-date is somewhat lower taking into consideration the formal COVID restrictions and the impact of Kazakhstan and Belarus.

**Yulia Kazakovtseva:**

Thank you very much. Thank you.

**Operator:**

Thank you very much. Our next question comes from Mr. Alex Gnusarev from VTB Capital Investment Management. Please go ahead, sir. Your line is open.

Yes. Once again, Alexander Gnusarev, your line is open, the Russian line that you have dialled in. Please go ahead with your question.

We will try again shortly. In the meantime, just a reminder, for any additional questions please press *2 on your keypad. If you dialled in via the telephone, you may also ask a voice or a text question. We will now give a second or so for any additional questions.

Thank you. We have a question from Mr. Aaron Armstrong from Ashmore Group. Please go ahead, sir. Your line is open.

**Aaron Armstrong:**

Hi, thank you for taking the question. First question is, how many stores currently have restricted access for customers, such as requiring a QR code to access the store? And, secondly, you mentioned some like-for-like numbers and how the stores with restricted versus unrestricted access have slightly different like-for-likes. Could you give any more detail on those numbers, please? Particularly, were they in regards to food traffic, or like-for-likes on sales numbers?

**Anton Makhnev:**

Yeah, thank you for your question. So, at the moment we have about 650 stores as of the end of last week. 661 stores, to be precise, as of the end of last week, and the certain QR code type restrictions and the impact is both on like-for-like sales and like-for-like traffic. And, in those stores which are under restrictions, we typically see a negative like-for-like, which obviously puts pressure on the overall like-for-like performance of the group.

**Aaron Armstrong:**

Sorry, I think you gave these numbers earlier, but I didn't catch them. Could you give the Q4 like-for-like impact of the restrictions versus the unrestricted stores, please?

**Anton Makhnev**:

Q4, so... One second.

**Aaron Armstrong:**

Thank you.

**Anton Makhnev:**

Yeah, it's... Hold on. The like-for-like sales of Russian stores unaffected by restrictions was 6.5% in Q4, and overall it was 5.3%. So, it's for Russian stores. 5.3% for Russian stores and 3.2% for overall, the whole Group. Here I'm talking about Q4 2021. It's also worth mentioning that in Q4, restrictions started just in the beginning of November. Therefore, the whole month of October we have not been doing any calculations for affected or unaffected stores, and therefore the impact was 1.2% for the Russian stores.

**Aaron Armstrong:**

Thank you, and in terms of the number of stores that are affected by restrictions, do you think Q1 will be the same as Q4, or higher or lower?

**Anton Makhnev:**

Look, I wish I had a possibility to tell you what will be happening in a month's time with COVID and restrictions, but unfortunately, no one has a crystal ball, and there were about 500 stores affected at the end of December, affected by different QR code restrictions. Right now it's 661, so at least in the month-to-date, the number of stores under restrictions increased a little bit. It's still not a substantial part of our overall store base. We have slightly less than 5,000 stores altogether. Roughly 4,500 of company-operated stores, and call it 4,000 in Russia, and 660 stores is about 13%. So month-to-date it has been increasing but not that significantly.

**Aaron Armstrong:**

Thank you, and one more question if that's okay, please. So, the Russian like-for-like numbers are higher than the like-for-like numbers for the group as a whole for Q4?

**Anton Makhnev:**

Correct.

**Aaron Armstrong:**

So, the international business is dragging slightly. In Q1, would you expect that to normalise? Or, do you think international could still drag on like-for-likes for the group in Q1?

**Anton Makhnev:**

The negative performance of international stores, it started to occur around summer last year when quite significant restrictions were being introduced in Kazakhstan. It started in July, and before that the like-for-like performance of Kazakhstan stores was rather solid. Therefore, we would expect that the impact would be decreasing during the course of Q2, and it should mostly disappear starting from around Q3. In Q3 2022, I mean.

**Aaron Armstrong:**

Thank you, and so Q1, perhaps a similar trend to what we saw in Q4?

**Anton Makhnev:**

That's a fair assumption.

**Aaron Armstrong:**

Thank you.

**Dmitry Kirsanov:**

If I may add something to what Anton said, when we speak about restrictions, what's important to understand is how the restrictions impact us. The stores that Anton spoke about are the stores in the shopping malls, where a shopping mall limits the traffic. That's on the one hand, and the number of such shopping malls, or rather our stores in the shopping malls, increase somewhat. But, on the other hand, the number of those vaccinated is rising and we expect that the QR code holders and the people that are committed to the vaccination boosting or antibodies will increase, and hopefully this pressure around the restrictions can somewhat go down in months to come.

**Operator:**

Thank you very much. We will once again open Alexander Gnusarev's line from VTB Capital Investment Management in case there is a question there. So, Alexander, your line is open.

Okay. Thank you very much. It looks like there is no question indeed, and it also looks like we have no further questions at this point. I will pass the line to Elena Mironova for the concluding remarks.

**Elena Mironova:**

Thanks Michael, and thank you all for joining us today. We will be reporting our full year 2021 IFRS financial results on February 28th, so look forward to speaking to you all then. In the meantime, please feel free to reach out to investor relations team through the contacts on our website with any follow-up questions. Thank you and have a nice day.

**Operator:**

Thank you very much, this concludes our conference call. We'll now be closing all the lines. Thank you.

**Dmitry Kirsanov:**

Thank you everyone and have a great day.