FIX PRICE 9M AND 3Q 2021 OPERATING AND FINANCIAL RESULTS CONFERENCE CALL

Company: Fix Price

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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 Q3 and 9M 2021 Operating and Financial Results Conference call. Throughout today's presentation, all participants will be in listen-only mode. After the presentation, there will 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.

Elena Mironova:

Thank you, Michael. Good day everyone and thank you for joining us. With me on today's call are Dmitry Kirsanov, Chief Executive Officer, and Anton Makhnev, Chief Financial Officer. Dmitry will talk us through a review of the business, including our third quarter and 9 months 2021 performance, then Anton will discuss our financial performance in more detail. After closing remarks from Dmitry, we will take your questions. Let me caution you that this presentation includes statements that are, or may be 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 earnings presentation published on our website at ir.fix-price.com in the Results centre section. Now let me turn the call over to Dmitry, our CEO.

Dmitry Kirsanov:

Hi everyone, and thank you, Elena. We are pleased to announce another strong set of IFRS financial results for Q3 and 9M of 2021. We posted an improvement in LFL sales against the toughest quarterly comparison base of Q3 2020 and saw an acceleration of 26% compared to the same quarter pre-COVID. We are adapting to changes in cost of goods sold, and we were able to narrow the gap versus the previous year at both the Gross and EBITDA margin levels, supported by strict cost control. Our EBITDA margin is 19%, almost at par with Q3 2020, and this remains one of the highest levels among peers. We added 168 net new stores and 53 new localities, with 25% of our net new openings in international geographies. That's in line with our updated guidance of 730 net openings for 2021. We continue to grow our loyalty program, and our loyal customers base now exceeds 15 million people.

Dmitry Kirsanov:

Despite the challenging environment for the whole industry, including supply chain disruption, inflation, and additional uncertainties due to new COVID-19 restrictions in Russia, we continue to successfully adapt, support our customers, and create value for all our stakeholders. Now, let me share more details on the challenges we are facing currently, and tell you how they affect our business, and our steps to best manage and mitigate their impact.

Dmitry Kirsanov:

Well, first of all, it’s the brand new COVID-19 related restrictions, starting from tomorrow, in both Moscow and some other regions amid raising COVID-19 cases and insufficient vaccination. Non-food stores, restaurants, museums, fitness centres, beauty salons, and other service businesses will be closed at least till November the 8th. Fix Price is a retailer selling essentials, including food, so we expect that the vast majority of our stores will remain operating in the normal way. And, at the onset of the new round of the COVID-related restrictions, it's hard to assess its overall impact on our business. During the COVID-19 lockdown of 2020 HoReCa, speciality retailers, and other services were closed for almost two months in April and June, and so people's mobility was restricted. We remained open, but saw a sharp drop in sales in the first weeks of April followed by a decent rebound in May and June when people restarted offline shopping. We were fast to adapt, deliver and stock protective equipment and enjoyed strong demand for discretionary non-food assortment as people were looking for affordable ways to have fun.

Dmitry Kirsanov:

We can't fully extrapolate last year's trends on the current situation. The restrictions won't be new to people this time, and the duration and strictness of the measures introduced are still unclear, so it would be premature to talk about potential implications for traffic and sales. What we can say for sure is that we will do our best to protect our customers and employees, and prevent the spread of the disease. We take all the safety measures in our stores; ensure social distancing and use of face masks, maintain enhanced disinfection protocols, open all cash lines, stock additional essential assortment that may be in demand amid the onset of the new round of restrictions. We arrange daily medical checks, provide COVID-19 insurance and promote vaccination among our employees. As one of the largest retailers in Russia serving dozens of millions of shoppers every month, we feel additional responsibility for the health and wellbeing of our customers. To provide an additional incentive to those who are undecided about the vaccination yet, we allocate an additional 10 million bonus points within our loyalty program as part of our ESG initiatives. Each cardholder vaccinated by the end of the year will receive additional 1,000 bonus points equal to 1,000 rubles.

Dmitry Kirsanov:

Another persistent challenge is global supply chain disruptions. Freight costs are at unprecedented levels, almost six times higher than a year ago, and are still rising as a result of limited capacity, backlogs, and shipping delays. On top of that, high coal prices and low inventories have triggered a power crisis in China, dampening production and economic growth so that some producers may have challenges with fulfilling their commitments. We think that the supply chain dislocations may start to impact local Russian producers as well, though to a much lesser extent. These producers are also raising their prices, and they expect a temporary shortage of some equipment and supplements.

Dmitry Kirsanov:

Thanks to our multiple price points architecture and deep involvement in product design and production, we gradually absorb increased COGS, and rotate and adjust our assortment while carefully monitoring prices on the street and maintaining our price advantage versus other retailers. We make our orders in advance to avoid possible shipping delays. We are also planning to launch two new price points, 59 and 79 rubles in November, while the existing price points of 50 and 77 rubles will be out, which will give us additional flexibility in expanding assortment, managing increased COGs risks, and supporting the gross margin.

Dmitry Kirsanov:

Overall, we remain focused on the things we can control, and we believe that we are well-positioned to navigate the current inflationary environment, logistics challenges, and uncertainty arising from potential COVID implications. We focus on our operating priorities and strategic initiatives to meet the evolving needs of our customers, and further position Fix Price for long-term sustainable growth and creation of stakeholder value.

Dmitry Kirsanov:

Now, if I may cover our results in Q3, our revenue was up 18% to 59 billion rubles, driven by a 19% increase in retail revenue, and 12% growth in wholesale revenue. Again, it's a very tough quarter in comparison with the previous year. We posted a 4.4% like for like sales growth on the back of 0.3% LFL traffic growth, and 4.1% LFL average ticket expansion supported by the assortment matrix evolution and strong performance of our new higher price points. The share of new 249 and 299 price points in sales came to almost 8% for Q3 2021, due to new products introduced and continued repricing of existing rotated assortment.

Dmitry Kirsanov:

In Q3 2020 LFL sales growth came at 20.6% with a peak of 23.3% in July 2020. This was driven by a rise in non-food sales when shoppers, after stock piling in Q2, continued to use Fix Price as a one-stop destination. Therefore, the hardest month this year was July when tough comps coupled with abnormally hot weather and the restart of international travel. Warm temperatures affected traffic and sales of some non-foods; for context – this year sales of clothing, where socks have always been our summer best seller, were under pressure. Despite all the supply chain challenges, we were able to stock great back to school assortment in full. We developed new collections of fancy writing materials, notebooks, pencil cases, schoolbags, at the best prices on the street. This drove double-digit sales of seasonal items and stationary, and supported a growing share of non-food discretionary assortment.

Dmitry Kirsanov:

Food also recorded double digit like-for-like sales growth, reflecting continued strong demand for essentials amid high inflation. The share of food in sales was 28%, slightly down from 1H 2021 level. We maintain the best price propositions, and we are the last ones on the market to increase the prices. The customer demand remained subdued amid elevated prices across the board. However, we were pleased to note the first signs of recovery in August supported by the back to school season, and temporary effect of the government's stimulus. We see that people are starting to adapt to new pricing levels. In our marketing campaigns we are shifting the focus to seasonal items at highest price points, whilst continuing to actively promote food and nondiscretionary items. Compared to pre-COVID Q3 2019, LFL sales grew by 25.8%, accelerating from 23.8% in Q2, and we believe it's a good sign marking a recovering of consumer sentiment. Our joint survey with Romir market research agency showed that despite increased availability of online shopping, four out of five Russian consumers, 80%, say that the pandemic has not significantly changed their shopping habits. 49% of Russians said they shop in the same way they did before the pandemic, while another 31% said that they have only partially changed the way they shop. It seems like shopping largely remains an enjoyable process for Russian consumers, and with real incomes stagnating, going to the shops is an affordable way to spend free time and have fun – to go for a “treasure hunt”, as we call it at Fix Price.

Dmitry Kirsanov:

As part of our marketing initiatives, we introduced extra perks and special prices on selected assortment for members of our loyalty program. We already have more than 15 million people there. We are pleased to know that the share of active members remains about 50%, while the average ticket for purchases with a loyalty card is 1.8 times higher than the tickets of non-holders.

Dmitry Kirsanov:

On the downside, we face new headwinds in our international geographies, which are having a more visible impact on the Group's results as we actively roll out company-operated stores in Belarus and Kazakhstan. In Kazakhstan, sales were impacted by government restrictions due to COVID. Only people with QR codes confirming their immune status could visit the shopping malls, where the majority of Fix Price stores are located. In Belarus, sales were affected by abnormally high inflation amid pressure on real disposable income, while Fix Price had to temporarily reduce assortment matrix due to state regulation of prices. LFL sales growth for company-operated stores in Russia stood at 5.4%. Even despite these unfavourable circumstances, store economics at the EBITDA level in Belarus and Kazakhstan remains superior to an average store in Russia, which is why we are maintaining a healthy pace of new openings in these countries.

Dmitry Kirsanov:

On store roll-outs, we opened 168 net new stores, and we maintained an aggressive negotiation policy with landlords. We continue to opt for closing even profitable stores to open new ones nearby at better lease terms. While this puts a temporary pressure on sales densities, we believe that it should be value accretive to us in the medium term. And to sum up, I believe we performed extremely well in navigating the persistent macro challenges and uncertainties.

Dmitry Kirsanov:

Now I will briefly touch upon the performance after the reporting date. In October, we saw continued recovery of non-food seasonal sales. For example, the Halloween collection is currently delivering double digit LFL growth. Demand for food remains strong, while some categories are still lagging, given the strong base of 16% LFL sales in Q4 of the last year.

Dmitry Kirsanov:

As for another strategic priority, we continue our big project in ESG. We are now at the stage of audit of the current state of ESG practices at Fix Price. We remain committed to integrating ESG into our business, and expect to provide the market with the first set of numbers at the end of the financial year, and we believe that we will be able to provide our first sustainability report next year. Now I will hand over to Anton who will cover the financial results. Thank you.

Anton Makhnev:

Thank you, Dmitry. Good day to everyone. Let me talk you through some important financials. As Dmitry covered sales and the key highlights of the quarter, I will start with gross profit, which increased by 17% y-o-y to 18 billion rubles for Q3 2021. The gross margin was 31.8%, down 36 bps from 2020, reflecting higher production cost, which were to a large extent mitigated by the Group's ability to adjust to external macro challenges. Let me remind you that in Q2 2021, the gap versus the previous year was 79 bps, while in Q1 2021 the gap versus the previous period was materially higher, at 217 bps. Introduction of new assortment at higher price points, product reengineering, and fast assortment rotation helped us gradually pass on higher cost of sales to consumers, whilst higher non-food sales of seasonal assortment further supported our gross margin in Q3 2021. I should also note here that Q3 is the first quarter when increased freight costs have fully filtered through our financials. We order in advance, and the average payment period for import contracts is 120 days. So in Q3, we were selling products that were being purchased in or about Q1 2021.

Anton Makhnev:

Now moving on to costs, SG&A excluding D&A were broadly in line with the previous year at 13.3% of revenue. That was supported by strict cost control at all levels. Overall, we saw improved overall efficiency in staff costs, rent and advertising cost, which were offset by growth of bank charges, security services, repair and maintenance, as well as other expenses.

Anton Makhnev:

Staff costs as a percentage of revenue decreased by 13 bps to 9.2%, as growth of average wages in line with the market was fully compensated by operating leverage, thanks to continued improved efficiency of HQ personnel. Labour market is under pressure at the moment in Russia, due to limitation of international travel and stronger demand from other players, including online delivery. We tend to keep up with the market on wages, while ensuring appropriate levels of staff productivity and turnover.

Anton Makhnev:

Now moving on to rental expenses. Rental expenses, in accordance with IAS 17, slightly improved by 5 bps y-o-y to 5% of revenue. As a percentage of retail revenue, IAS 17-based rental expenses improved by 9 bps, reflecting continued efforts to expand favourable lease terms in the post-COVID environment. Rental expenses under IFRS 16, the new accounts standard, improved by 11 bps y-o-y to 0.7 % of revenue. We remain very active in negotiations with landlords so that in absolute terms, the rental expenses increased by just 1.5% to just more than 400 million rubles, due to a reduction in the average lease rate on variable leases. That happened because the new lease contracts bear a lower rate compared to the existing portfolio. A change in the structuring of variable lease contracts also contributed to the performance. All contracts with floating rate include a fixed minimum payment component, which is being capitalised under IFRS 16 accounting standards. This fixed component increased compared to the previous year, when it was at the minimal level amid the COVID-19 environment, resulting in growth of D&A and also a decrease in rental expenses, under IFRS 16. Due to this shift, depreciation and amortisation expenses increased by 25% in the reporting period, compared to Q3 last year.

Anton Makhnev:

Bank charges increased by 6 bps to 1.1% of revenue, driven by a continued increase in the share of non-cash payments, with higher commissions on bank card transactions compared to cash transactions. There is a general trend for customers to switch to bank cards from cash, though we are continually looking into options to cut our expenses on non-cash transactions.

Anton Makhnev:

Utilities as a share of revenue remain stable y-o-y at 0.3%, despite growth of tariffs and the abnormally hot summer of 2021. That was mitigated by partial passing of utilities costs to landlords under the newly signed contracts.

Anton Makhnev:

Costs for security services went up by 8 bps to 0.7% of revenue, while advertising costs as a percentage of revenue decreased by 3 bps to 0.3%. Other expenses increased by 17 bps to 0.5% of revenue due to expenses related to the company's public status, as well as renewed business trips, which were partially offset by income received from depositary bank in connection with the IPO being accrued on a linear basis during the life of the depository facility.

Anton Makhnev:

Talking about the EBITDA; under IFRS 16 accounting standards, it was up by 17% to 11 billion rubles for Q3 2021. The EBITDA margin was slightly down by 12 bps y-o-y , and stood at strong 19% with strict SG&A control successfully mitigating pressure on gross margin compared to the pre-COVID level. Compared to pre-COVID Q3 2019, the EBITDA margin remained flat.

Anton Makhnev:

Net finance costs in Q3 increased by 22%, predominantly due to an increase in loans and borrowings y-o-y. In Q3 2021, we recorded an FX loss of 14 million rubles, and that was compared with 1.1 billion rubles loss in Q3 2020. The loss in the comparable period was attributable primarily to revaluation of FX-denominated accounts payables. The Group's total income tax expense was down by 12.5% to 2.4 billion rubles in Q3 of this year. The effective tax rate was 32% in the reporting period, versus 49% in Q3 2020. This abnormally high effective tax rate in Q3 2020 was attributable to withholding tax accrued on intra-group dividends. As a result of all that, profit for the reporting period increased by 84% year on year to 5.1 billion rubles. The net profit margin stood at 8.8%, compared with 5.7% for Q3 2020.

Anton Makhnev:

Now turning to balance sheet and cash flows, which remain strong and provide flexibility for investing in growth while delivering significant returns to the shareholders. On loans, borrowings and lease liabilities; our loans, borrowings and lease liabilities amounted to 31.5 billion rubles, up by 5.8 billion rubles from the start of the year on the back of raising additional financial debt for dividend financing amid seasonality in cash generation. That didn't affect our leverage, though. IAS 17-based adjusted Net Debt to EBITDA ratio remained low at a conservative 0.5x, well below the threshold of 1.0x set out in the guidance.

Anton Makhnev:

Net trade working capital stood at 4.6 billion rubles compared with 2.7 billion rubles as of the end of September 2020. The increase in net trade working capital was driven by continued disruptions in global supply chain as the company brought forward import purchases to ensure stores remained stocked with a full assortment. Capex for the reporting period amounted to 1.4 billion rubles, and that compares with 1.1 billion rubles for the same period of 2020. The y-o-y increase was driven by high investments in the distribution centre network and IT, which to some extent was offset by a smaller increase in company-operated stores, as openings of company-operated stores in the previous period in Q3 2020 were elevated by franchisees' buy-outs.

Anton Makhnev:

Now talking about the outlook, we continue to note the number of both tailwinds and headwinds. Among the tailwinds, to name a few, there are seasonally higher growth and returns amid run up to the New Year period in Q4. Then, we are continually developing our new price point architecture, and our assortment and marketing initiatives are starting to bear fruit. We see double-digit LFL sales for Halloween items, as Dmitry mentioned, that proved our strength in sourcing amazing seasonal assortment despite disruptions in the global supply chain. However, the macro factors that Dmitry also flagged earlier, such as continued dislocation with freight, COGS inflation and specifically the new COVID restrictions in Russia add increased uncertainty for Q4 and full year performance in terms of growth and profitability. I should also mention that temporary difficulties and limitations in our international geographies that emerged in summer put pressure on LFL sales of the Group, and in Q3 their impact on Group LFL was negative 1%.

Anton Makhnev:

On other lines of our guidance, we remain conservative on our financial policy and expect the net debt to EBITDA ratio to remain below 1.0x. Our guidance of 730 new store openings this year also remains unchanged. New store economics remains very strong, with an average payback period of about nine months for Russian company operated stores, which makes us comfortable with expansion into our white space potential while maintaining our target levels of profitability. Stores in international geographies still perform better at the EBITDA level, even despite the current temporary pressure on their sales. Average Capex per store has increased by a modest percentage in the low teens area amid inflation of prices for construction materials, and currently stands at approximately 4.5 million rubles.

Anton Makhnev:

Talking about Capex, I would also remind you that we have marginally increased our guidance on distribution centres capex to 15-16 billion rubles in the next five years, and we also accelerated to some extent new distribution centres construction this year amid raw materials price inflation. Nonetheless, Capex as a percentage of revenue should continue to improve in the medium term amid further efficiencies of scale and operating leverage. With that, I will hand over back to Dmitry for closing remarks.

Dmitry Kirsanov:

Thanks, Anton. In conclusion I would like to reiterate that I'm proud of the team efforts and strong results that we continue to demonstrate. We work in one of the most attractive and fastest growing sectors in retail, and we are the only meaningful player of this format in Russia. With our EDLP model, efficient store economics, strict cost discipline, and entrepreneurial team spirit, we successfully navigate the current challenges to become an even stronger company continuing to deliver best in class performance in terms of growth and profitability, and create meaningful long-term stakeholder value. Thank you. Now back to Michael.

Operator:

Thank you very much for the presentation, Dmitry. I will now be moving to the Q&A part of the call. If you have any questions, please press *2 on your keypad and wait for your name to be called. If you are dialled in by the web, you may also ask a voice or a text question. We will now give a moment or so for the questions to come in. Thank you, 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. I guess you're talking of uncertainties for Q4 and end of the year, but if we take a step back and look going into 2022 - 2023, clearly in 2021 there has been a lot of stuff going on that's hard to see beginning of the year, but can you give us an update how you think about that, looking forward 2022- 2023, how we should think about LFL, or as I think previously you talked about double digits. Do you still think that's doable? The pressures of the headwinds we've seen in 2021- are they temporary, or are we sort of just re-basing at the, perhaps, lower level? And then you were also talking about the marketing initiatives bearing fruits. Do you have any data points or anything you can share on that, please? And then I guess more technical question, it seems like your store closures are going up quite a lot in Q3, of your retail stores. Can you explain is that due to negotiation of lease contracts? Thanks.

Anton Makhnev:

Hi Henrik, thanks a lot for your question. Let me maybe start in reverse order with closures. The number of closures that we had in Q3 is generally comparable with what we closed in Q3 last year. It is actually less than in 9M 2020 when we look at 9M 2021. That basically happens because we keep a very aggressive position in our negotiations with landlords and sometimes we find that it's better for us to close even a profitable store. And I can tell you that the vast majority of stores that we are closing, they are quite good stores, because we believe that in the medium term after we open a store in some nearby location in the neighbourhood, traffic will essentially move to that store, and we will be able to operate with comparable sales densities, but ultimately better store economics because of better lease terms. So for that reason, we closed the vast majority of stores last year, and the closures that we are undertaking this year, it's also because we are continuing to optimise our operational cash rental expense. You could clearly see that in our financials as we continue to improve our rental expenses both under the old standard and the new standard y-o-y as percentage of revenue.

Anton Makhnev:

Now moving to your first question about the outlook in terms of LFL, margins for 2022 - 2023, let me start and then Dmitry will continue with that as well as with the marketing initiatives that we are implementing. Fundamentally, as we've been saying, we don't see why things should be different in 2022 - 2023 from what they've been in the past before COVID. Clearly, the current year is quite turbulent, to say the least, and clearly, we have a number of quite significant uncertainties going forward which could play both one way or another, and no one has a crystal ball to figure out how it will ultimately develop, but we first of all see signs of consumers reverting back to discretionary purchases. It does take time, and we already have gone quite a long way together with our consumers in their adjustment to the new price levels.

Anton Makhnev:

In Q3 this year, I mentioned that the elevated freight cost has fully filtered through our financials through our inventories into cost of goods sold. Despite that, you could see that our profitability in terms of both the growth margin and the EBITDA margin remain very strong considering the circumstances, right? Okay, it's flat versus 2019, it's a little bit down, but considering the circumstances, I would say that the numbers are very strong, which gives me hope and expectation... Hope, better to say that, as we continue to adjust our model, and provided that there are no additional black swans in terms of FX, raw materials inflation, and etc, etc, including freight, that the margins should recover going forward.

Dmitry Kirsanov:

On top of what Anton said, supporting his hopes, I can say that our market experts and category managers are monitoring the market very closely, and are following all the changes in terms of prices in the market for comparables that we study daily through our tools. Let me remind you that we have a big loyal customer base. Daily we probe the consumer market and consumer behaviours, and what we see is that right now the consumer behaviours are stabilising. It's still too early to say that trends are normalising, but people are buying more non-food among other things. Gradually people get adapted to the new price level, and going back a bit, probably the biggest price increase in all the price categories happened in 1H 2021. The trend is still there, but probably has decelerated somewhat.

Dmitry Kirsanov:

We have undertaken a lot of steps to rotate the assortment as well as the price points. As you remember, anticipating the price increase, we introduced the new higher price points 249 and 299 rubles. It was about mitigating the risks of higher cost, but it also enabled us to expand the non-food assortment with more attractive goods, and to further improve our CVP. In 2H 2021, we are reshuffling the lower price points, we're introducing the new price points, 59 and 79 rubles. Our main task there is to minimise the impact of higher costs in this price niche. On the other hand, it does not only support the assortment of products that are getting more expensive in all the price categories and can be squeezed out of our matrix, but lets us add more exciting products in this lower price segment. We are introducing these new price points 59 and 79 in the next four days on the 1st of November, and the first results will be seen by the end of the year. We hope that this will underpin both the profitability and the sales.

Dmitry Kirsanov:

At the same time, we have also introduced an important marketing initiative. We have extended the offering to our loyal customers. We have launched the program that we call The Special Price, when our loyal customers can buy some products at a special lower price. This program is still being tested, and we do see the positive feedback from our customers, and we see the higher traffic. We support and increase the traffic against the challenging comparison base of last year. We also see a higher number of loyal customers. And understandably in the longer term, this will result in supporting the LFL growth that we were guiding towards, as well as the total sales.

Dmitry Kirsanov:

And as to the key initiatives, probably it's worthwhile reminding that we support the initiative of the Russian government. We support vaccination, not just for our employees but also for our loyal customers who are still sitting on the fence. Every customer who will get vaccinated in the next few months or during the lockdown, will get 1,000 bonuses, which is equivalent to 1,000 rubles. It's not a big thing, but hopefully it will drive our sales and demand in our stores. Probably it is more about ESG rather than profit-making initiative.

Henrik Herbst:

Thank you very much.

Operator:

Thank you.

Dmitry Kirsanov:

Have I answered your question?

Henrik Herbst:

Yeah. Yeah, thanks.

Operator:

Thank you very much. We will now be moving to the Russian callers' questions. The next question is from Mr. Alexander Gnusarev VTB Capital. Please go ahead, sir, your line is open.

Alexander Gnusarev:

Dear colleagues, good afternoon. We have a few questions. So what are the trends in LFL for Q4, and the overall revenue, how does it compare to Q3 of 2021?

Anton Makhnev:

So if you don't mind, I will be answering your question in English. So far in October to date, we are seeing continuation of the trends, which Dmitry was mentioning when we talked about the performance in Q3. On a two-year stacked basis, our LFL is generally in line with Q3, which is quite promising. Having said that, we also obviously appreciate that there is a big uncertainty ahead of us, as Russia this week in going into a number of restrictions on non-food retail and some other sectors. As Fix Price is a retailer which sells essential products including food, we expect that the vast majority of our stores will remain open, however it's yet to be seen how the situation will actually develop in Q4 and the end of the year.

Dmitry Kirsanov:

Thank you very much. If I could add something here, despite everything going on now, we do whatever is within our power: we are putting every single effort in working with assortment, controlling the operating costs, and increasing the sales efficiency. We have discussed that a lot, and I believe we have covered those initiatives either in the press, or during the calls throughout this past quarter.

Alexander Gnusarev:

I get it, thank you very much. And yet another question. Is it right to expect that 249 and 299 price points are increasing their share in sales, and what is their share in October?

Dmitry Kirsanov:

Their share increased in September, it was close to 8%, but we believe it is growing. We do not have yet the numbers for October, and we are working on this, and we are gradually expanding the assortment there. We see the changes in consumer behaviour, and we see that the customers are perceiving those new prices well. We are actively expanding them with items where the price of 249 or 299 rubles is much, much lower than what you can find elsewhere. Whether it is modern, organised retail, or outdoor markets, or mom-and-pop stores, so the share of those price points will increase. In September it was 8%+. It's too early yet to speak about the results of October. We'll be ready with the numbers early November. Thank you.

Operator:

Thank you very much. We will have the next question coming from the Russian line from Alexey Philippov from JP Morgan. Please go ahead, your line is open.

Alexey Philippov:

Thank you very much. Could you elaborate on a comment on the transportation costs, by how much will they go up in 2021, and when will you start booking those higher costs on the books? In Q3 you already had some effect, but if we look at Q4, and comparing it against the previous one, should we expect higher transportation costs, or what we already saw in Q3 is the max level, and it will be on the same level for the next few quarters? Thank you.

Dmitry Kirsanov:

We can split this question into two. I will start, and Anton will add more colour. No one can say the guidance for the costs and by how much the transportation costs might go up. At best it would be the guessing. We believe that the costs may stay where they are now - for us they increased five to six-fold. That's on the one hand.

On the other hand, I can tell you that over the period when it started to affect our sales, we have undertaken a lot of efforts to mitigate and minimise this affect. We have done quite a significant rotation within the price points. We added more expensive price points, we also did a lot of rotation in the lower ones. We kept the assortment there. We managed to sustain the costs at the level of the 1H. And, this year we had to reshuffle our assortment a lot. We are very much involved in creating and designing the product. Most of our SKUs are tailored for us and could be considered as private label, even branded goods come out in special packaging or sizes. That helped us minimise the impact on our COGS. All of our initiatives and efforts will hopefully mitigate the impact of all the increasing costs, including transportation.

Anton Makhnev:

Now talking about numbers. First of all, I would like to remind you that imported goods account for approximately a quarter of our cost of goods sold, but the remaining three quarters had been sourced in Russia. Now talking about the impact of high freight costs on our COGS, and when you will see the full reflection. As you may recall, last year before the freight costs started to increase, it cost us approximately 2,000 to 3,000 US dollars to deliver container from China to Russia. In the beginning of this year - and that was the reason why we quite proactively introduced two price points, 249 and 299 - the freight costs were at the level of approximately 10,000 US dollars, so they increased by four times. Since then, they continued to slowly grow, and currently they're at the level of approximately 15,000 - 16,000 US dollars per container to deliver it from China to Russia. So as the freight costs have already been at 10,000 US dollars level in Q1 this year, you could say that to a large extent, this has been filtered through, and this has been pretty much reflected in our financials in Q3. There will be some additional effect as far as we're talking just about the freight in our COGs in Q4, but then you should also remember all that Dmitry just mentioned about the initiatives that we have implemented in the meantime that would allow us to offset that impact.

Dmitry Kirsanov:

To follow up, there is a key message that for us it's not a new challenge. This is something we faced in 2015 and 2016 when the share of import in sales was almost 70%. Over this time, it has gone down to below 30%. As we see that transportation costs are high, and the FX rates are changing, we are still trying to shift more to the geographies where the ultimate costs are lower, though this shift is ongoing at a slower pace. Right now, we found producers in Russia for some of the products that it made sense to import from China even at the beginning of 2021. Now we're producing them with our partners in Russia, including the categories that we believed were impossible to source in Russia like home decoration, seasonal goods, stationary and New Year decorations. Now we are sourcing all of those in Russia. Thank you.

Alexey Philippov:

Thank you very much for the detailed answer. If I can ask another question. How do you view the openings in 2022? I understand you're not ready to come up with a very clear target, but conceptually, do you expect to accelerate new store openings?

Dmitry Kirsanov:

We are not ready to change the plans that we spoke about at the IPO. In 2022 we expect to stick to our plan and open 750 stores net in all the territories of our presence. We do not know how the environment might change, or what will happen to the macro in November and December, but right now we do not see any significant constraints for opening 750 stores next year. Thank you.

Alexey Philippov:

Thank you very much, and another clarifying question. You said in October the LFL sales were on the level of Q3. It was 4% or 5%, is that right?

Dmitry Kirsanov:

Anton could clarify that, please.

Anton Makhnev:

No, what I meant to say is that two-year stacked LFL in October is generally in line with the trends that we've been seeing during Q3, which means that the recovery trends that Dmitry was talking about are slowly materialising. The initiatives that we are implementing are bearing fruits. But because we have lots of uncertainties ahead of us, it's probably a bit premature to give some precise numbers.

Alexey Philippov:

Thank you very much. Thanks for the answers.

Operator:

Thank you very much. Just a very quick reminder for any additional questions, please press *2. In the meantime, we will take a question from private investor Mr. Or Mrs. Ustinov. Please go ahead, your line is open. Thank you very much. We are just waiting one more time for other questions or two. Looks like we have no further questions. I'll pass the line back to the investor relations and management team for the concluding remarks.

Elena Mironova:

Thanks, Michael. Thank you all for joining. We will be reporting our full year operating and financial results in the first quarter of the next year. Look forward to speaking to you all then. In the meantime, please feel free to reach out to the investor relations team through the contacts on the website with any follow-up questions. Thanks again, and have a nice day.

Operator:

Thank you. This concludes today's call, I will be closing all the lines. Thank you.

Dmitry Kirsanov:

Have a great day, everyone. Thank you.