

Fix Price

CONFERENCE CALL TO DISCUSS FIX PRICE FINANCIAL AND OPERATIONAL RESULTS FOR THE FIRST QUARTER OF 2021.

Company: Fix Price

Date: 15.04.2021

Speakers:

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

Participants asking questions:

- Henrik Herbst, Morgan Stanley
- Elena Jouronova, J.P. Morgan
- Marat Ibragimov, Gazprombank
- Paul Steegers, Bank of America

Operator

Ladies and gentlemen, thank you for standing by and welcome to Fix Price Q1 2021 Operating Results Conference call. Throughout today's presentation, all participants will be in a listen-only mode. After the presentation, there will be an opportunity to ask 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 Ltd. These forward-looking statements can be identified by the fact that they do not only relate to historical or current events. Forward-looking statements often use such words as "plans", "targets", "aims", "believes", "expects", "anticipates", "intends", "estimates", "will", "may", "continues", "should" and similar expressions. By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances, a number of which are beyond Fix Price Group Ltd's control. As a result, Fix Price Group Ltd's actual future results may differ materially from the plans, goals and expectations set out in these forward-looking statements. Fix Price Group Ltd assumes no responsibility to update any of the forward-looking statements contained in this presentation. The information and opinions stated on this call are provided as at the date of this call and are subject to change without notice. It should be particularly noted that some of the financial information relating to Fix Price Group Ltd and its subsidiaries provided on this call has not been audited and in some cases is based on management information and estimates. Neither Fix Price Group Ltd nor any of its agents, employees or advisors intend or have any duty or obligation to supplement, amend, update or revise any of the statements provided on this call.

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

Elena Mironova, Investor Relations

Thank you, Michael. Ladies and gentlemen, welcome to today's Fix Price first quarter 2021 operating results conference call. With me today is our Chief Executive Officer, Dmitry Kirsanov, and our Chief Financial Officer, Anton Makhnev. Our results release issued today can be found on our website at ir.fix-price.com in the Press Releases section. Now it is my pleasure to turn the call over to Dmitry Kirsanov to give an update on Fix Price's first quarter performance and current trends. Dmitry Nikolaevich, the floor is yours.

Dmitry Kirsanov, Chief Executive Officer

Hello. Thank you, Elena. I'm pleased to welcome you to Fix Price's first conference call as a public company to discuss our Q1 2021 operational results. We began a new chapter in our history a little more than a month ago when Fix Price successfully completed the largest IPO in the history of Russian retail. We are pleased to welcome all our new shareholders and all members of the investment community. To the customers Fix Price embodies the value retail market, and we're

proud of the results we have achieved in the 14 years since the company was founded. Our accomplishments are backed by a business model that enables the company to deliver sustainable results across the business cycles and combines strong growth with attractive shareholder returns.

First, a few words about our key highlights for the quarter. Our company achieved excellent results in the first quarter of 2021. Our performance is in line with our expectations and creates a solid foundation for further growth under the strategy we disclosed at our IPO. The key achievement in the reporting period was the continuation of double-digit like-for-like sales growth for the 17th consecutive quarter. We're also on track with the geographical expansion of the Fix Price network both in our key market of Russia and also abroad. In the first quarter we opened stores in 47 new cities and towns. In terms of the development of our price matrix in the first quarter we introduced two new price points, of 249 and 299 rubles, which enabled us to expand our product offer to customers. This also gives us additional flexibility in the current macroeconomic context given ongoing ruble volatility and logistical challenges. I will return to this topic a little bit later.

I'm happy to note the launch of our loyalty program in Belarus. Tens of thousands of Fix Price customers signed up in just the first few weeks. The launch of the loyalty program will be an additional driver of like-for-like growth in Belarus and will support the robust expansion of the program across the entire network.

Now, I would like to take a more detailed look at some key indicators for the first quarter of 2021. Total revenue of 52 billion rubles was up 29% year-on-year driven by a 31% increase in retail revenue and a 16% increase in wholesale revenue from our franchising business. Strong growth of retail revenue was driven by the buyout of franchise stores last year. Adjusted for the effect of the leap year in 2020, total revenue growth exceeded 30% year-on-year. To remind you, in February 2020, we had 29 days. The main drivers of retail revenue growth were new store openings, which increased the total retail space managed by Fix Price by 21.3%, as well as like-for-like sales which grew 11.9%. As planned, we have celebrated the pace of expansion of our retail chain, net openings in the first quarter totaled 187 stores from 166 a year ago. Most of the openings took place in our primary market of Russia where 143 new stores were open, in Kazakhstan we added 21 stores, and in Belarus – 12 stores. Thanks to the buyout of franchisee partners last year and the greater focus on developing the network of the company-operated

stores the share of franchise stores decreased from 12% in the first quarter of 2020 to 10% in the current reporting period.

Now, moving on to like-for-like metrics. Like-for-like sales grew 11.9% in the first quarter of 2021. It was driven first of all by 15.2% increase in the like-for-like average ticket, which in its turn offset a 2.9% decrease in like-for-like traffic. Adjusted to account for the leap year in 2020 like-for-like sales would have grown by 13.4%. We are pleased with the continued strong growth on like-for-like sales in the first quarter, which exceeded all our expectations. The categories that deliver the strongest results included clothing, stationery, holiday goods, and toys. The share of food that decreased during the lockdown when the demand shifted towards non-food items is now approaching normalization which provides additional support to traffic. In terms of a month-by-month breakdown of the results it is worth noting that in the wake of excellent performance in January when like-for-like sales increased by 17% there was a degree of pressure on some metrics in February due to abnormally cold weather and continued COVID-related restrictions as well as the leap year effect. It is also worth noting the high baseline effects on March 2021 when consumers were stocking up on major necessities and protective equipment shortly before the lockdown in Russia, despite this, we saw positive results in terms of like-for-like traffic already in March 2021. The average ticket throughout the network also increased from 240 rubles in the first quarter 2020 to 282 rubles in the reporting period thanks to our ongoing work to improve the customer experience, the addition of new wow-effect products to enhance the treasure hunt experience that our customers love so much, and the introduction of new price points.

A few more words about the development of the loyalty program, which is an important factor supporting like-for-like growth. More than 1 million people joined the program in the first quarter, the total number of loyalty card holders is now over 12.5 million. The share of loyalty program purchases in total retail sales rose to 41% from 32% last year. The average ticket using the loyalty card is 403 rubles, which is 1.7x more than the average ticket for purchases made without the bonus card.

Moving on to trends in 2021. In terms of trends in April we should keep in mind the abnormal situation from last year when we saw a surge in sales in March followed by a collapse at the beginning of the lockdown in April 2020. This is confirmed by the fact that we are now seeing in April a reversal of the March trend, like-for-like sales growth in the first two weeks of April, exceeded 40%. Among dominant macroeconomic factors we would note the weakening of the ruble, the rise in raw materials prices and the dislocation of the logistics markets. At the same

time, a robust business model and flexible price point structure are helping us to adapt to changing market conditions and most importantly, to offer our customers unique products at the lowest prices.

I would like here to touch briefly on the topic of logistics. The situation in the logistics market is far from normal after the sharp jump in prices for imports from China in the autumn and winter 2020. In April, transport costs decreased slightly as compared with March but the crisis in the Suez Canal created an additional deficit. The Russian market for non-food products is highly fragmented, and we expect the current situation to affect many smaller players - retailers, distributors, and importers the most. Thanks to our streamlined procurement process and centralized logistics system Fix Price has not experienced any supply interruptions during these months. All the volumes were imported, just as planned. Our strong position in this area enables us to take an optimistic view of further plans to increase the market share in terms of non-food items.

Before we move to our Q&A session, I would also like to touch on the development of our digital services. In April, we launched a pilot project with SberMarket food and goods delivery service in Moscow, which allows us to deliver Fix Price purchases to our customers within 1 hour. We see this as an excellent opportunity to improve our level of service at a time of high demand for this option from consumers. Summing up the results of the reporting period, I would note that our key growth path is raising the organic expansion of our network with the successful offline stores and improving our like-for-like performance based on our advanced operating and IT infrastructure. This enables us to maintain our position as the clear leader in the variety value retail market, and to remain the fastest growing publicly traded retailer in the world focusing on delivering attractive returns to our shareholders.

That's basically it. Thanks for your attention. I would like now to hand back over to the operator.

Operator

Thank you very much for the presentation will now be moving to the Q&A session. [Operator Instructions]. Thank you. Our first question comes from Mr. Henrik Herbst from Morgan Stanley.

Henrik Herbst, Morgan Stanley

Hi, thanks very much. I have two questions, please. Firstly, I was wondering if you could talk a little bit about the additions of new price points. Anything you can give, I know it is pretty early, but anything in terms of traction of new price points. And also, how do you think about the rollout of further price points beyond this? I think rolling out two price points this year is probably a little bit faster rate of additions than we've seen in previous years. And then secondly, your basket growth has been very strong. I was wondering if you can talk a little bit about what is driving that. And whether it's more items per basket or a higher price mix. And if it's more items, if you can give some color on whether it's additional items or if you are seeing the skew of the basket towards any particular category. Thanks so much.

Dmitry Kirsanov, Chief Executive Officer

Let me start answering your twofold question, first of all the first part. On new price points, our position in terms of the previous months has not changed. I mean, it hasn't changed since last month, the two new price points (249 and 299 rubles) were introduced not according to our plan; we hadn't planned to do so, but seeing the current situation in the markets - the displaced logistics - and foreseeing the challenges that our peers and the overall food retail space would face, we saw an opportunity to introduce these two price points to expand our customer value proposition. Indeed, this is now too early to talk of any results or performance that we have achieved having introduced the new price points. I can only give examples of some items and categories where new price points materialized and share some experiences. First, according to our customers, in home decor items we were able to start selling feather pillows at 299 rubles, and the average market price is 500 rubles and above. And there is some indeed accelerated feedback from our customers: wow, I can't believe that I can buy a feather pillow at below 300 rubles. So, most of the sentiment of the feedback is positive towards the new price points and just so to the new SKUs in these categories.

Talking about the like-for-like ticket growth, here, we see an increasing number of items per ticket and also the average price per item on the ticket. This is driven by the right use of the tools that we have mentioned: this is addressing the assortment mix within our categories, this is handling our price points, this is striking the right balance between low- and high-priced SKUs. This is basically it, I think.

Operator

Thank you very much. Our next question comes from our Russian line from Elena Jouronova from J.P.Morgan.

Elena Jouronova, J.P. Morgan

Hi. Thanks a lot. I have a few questions. Let's start with the logistics markets, with the challenging situation there. A month ago, you shared the guidance during your IPO, you did take into account the situation, it didn't come as a surprise for you, so you factored that in. Is that right?

Dmitry Kirsanov, Chief Executive Officer

Yes, indeed, this is right.

Elena Jouronova, J.P. Morgan

So, this situation will not lead to any deterioration in your margins. Is that right?

Anton Makhnev, Chief Financial Officer

Hi Elena. Let me answer your question. So, with regards to the overall margins and performance, we're sticking to our IPO guidance which we gave during the roadshow, so no change in that regard.

Elena Jouronova, J.P. Morgan

Thank you. Then I have another question on the change in your assortment mix; in Q1 2021 this has got back to normal, so to speak, I mean the FMCG share increased. So, shall we expect any deterioration in your gross margin on a year-over-year basis as compared to Q1 last year? I understand that you're not going to share quarterly breakdown, but likely we'll see a downtrend in gross margin in the first half of this year. Is that the right understanding?

Anton Makhnev, Chief Financial Officer

Thanks, Elena. It's a great question. So, with regards to our gross margin in general, I would like to reiterate what we have been saying all the time and during our roadshow as well - gross

margins are not the right KPI for our company, and it's not something that we are aiming to achieve at all times. So, there might be some minor insignificant fluctuations in our gross margins during the year. It's totally normal because we are aiming to maximize our absolutely EBITDA and absolute net income, and it may be achieved through either higher like-for-like or higher margins or a combination of those two.

Elena Jouronova, J.P. Morgan

Thanks, got it. And then my last question. Could you please disclose your franchising revenue from the stores that you bought late last year, or at least shed some color as to its impact on your Q1 growth? I mean, not selling space growth but rather revenue growth. Are these newly acquired stores more productive in terms of revenue generation? Thank you.

Anton Makhnev, Chief Financial Officer

Unfortunately, it's not something we have in front of us at the moment to disclose these numbers. But in general, it's worth noting that in Q1 last year, we bought out around 20 or something franchise stores, and during the course of the whole 2020, it was about 100. So, the number of such stores is highly immaterial with respect to our overall store count. Therefore, any addition in terms of their sales, because we also discussed previously that our sales densities for our stores, company-operated stores, based outside of Russia are higher comparing with our company-operated stores based in Russia. But as the number of stores we bought out is fairly insignificant, the overall impact on our revenue increase - I would call it the minimum.

Elena Jouronova, J.P. Morgan

Thank you very much, and congratulations on your great performance.

Operator

Thank you. We have a question from Marat Ibragimov from Gazprombank.

Marat Ibragimov, Gazprombank

Thank you very much, thank you for your presentation. A very simple question. Given the fact that in the second quarter 2020 last year the like-for-like sales growth decelerated quite significantly versus the first quarter, given the low basis, shall we expect acceleration of like-for-like sales in the second quarter this year? What do you think?

Dmitry Kirsanov, Chief Executive Officer

I think the answer will be just as simple. We're also looking forward to that. To remind you, in the lockdown of April, May and subsequent months in 2020, our retail chain kept operating without any restrictions or closures, so in April, I think, the like-for-like effect will be the highest in terms of like-for-like sales and like-for-like average ticket because in the first two-three weeks of April we saw the strongest lockdown restrictions last year, so, we saw the highest outflow of customers. In the upcoming months everything will be within our guidance that we announced going forward for 2021.

Marat Ibragimov, Gazprombank

Could you please remind or reveal this guidance, I mean like-for-like and top line growth, what's your expectation for this year?

Dmitry Kirsanov, Chief Executive Officer

Over to Anton to tackle this one.

Anton Makhnev, Chief Financial Officer

Our guidance with regard to like-for-like is around 10% for 2021. Then with regards to the top line growth, it's not something that we were giving guidance on. However, we were giving guidance on our net store openings for company-operated stores and our franchise stores in total. And that's about 700 stores this year on a net basis.

Marat Ibragimov, Gazprombank

Thank you very much. Also, have you provided guidance on EBITDA margin, on gross margin for this year? Thank you.

Anton Makhnev, Chief Financial Officer

On gross margin, we are not giving any guidance for exactly the reasons which I explained to Elena, answering her question. And with regards to our EBITDA margin, we gave the guidance that we expected it to be comparable with our historical levels.

Marat Ibragimov, Gazprombank

Around 19% on IFRS 16, right?

Anton Makhnev, Chief Financial Officer

We were not giving any numbers.

Marat Ibragimov, Gazprombank

And a question on consumers behavior. Given the ruble weakening, have you seen any changes in behavior? Have they shifted their focus on lower price items, for example, or vice versa, or they are reducing basket size, something like that?

Dmitry Kirsanov, Chief Executive Officer

Based on what we are reporting, our customers have not reduced either average ticket or the basket. Indeed, real disposable income has softened, and so we see rather some changes in the consumption mix, to a larger extent this is related to sales within categories. Just in a nutshell, we saw a brisk demand for household chemicals in 2020, now that demand got back to normal. Now, we see, before the Russian Easter and the summer season, we see a higher demand for Easter-related goods, holiday goods for Easter and gardening goods that are needed for our customers in the upcoming summer season. Talking about sales within price points, it doesn't matter which price point we're talking about, 50 rubles or 249 rubles, the price of Fix Price anyway remains the best one in the overall retail space in Russia. So, globally, we can't see any changes in customer patterns, demand for Fix Price goods is equally strong.

Marat Ibragimov, Gazprombank

And final question on imported items. Since ruble got weaker recently, how do you manage your retail shelf prices? Do you move this item to another price category? Or what? How do you cope with that? Thank you.

Dmitry Kirsanov, Chief Executive Officer

We have a great variety of tools and instruments to mitigate the risks related to greater cost of goods sold. This is assortment management, and our assortment is very quickly rotating, which helps us deliver new goods and new SKUs on the next shipment, which will meet the requirements of our customers and fit in the right price category on the other hand to meet our margin needs. So, every incoming shipment is basically about the creation of new goods, new SKUs, which helps us manage cost of goods sold. Certainly, we use such instruments as moving SKUs between price points, but we try to deploy this less frequently. And also, we always mark to market so to speak, we check out the market, we keep a close eye on it. What is important for us is to keep offering the best price within the retail space in Russia. Also talking about imported items, we actively use hedging instruments, forward contracts that make us safe, help us mitigate foreign currency purchase expenses.

Anton Makhnev, Chief Financial Officer

And I would like to add to what Dmitry just said is that what we are doing now is not any different from what we have been successfully doing over the last 14 years. Because Russia generally is a country with a rather volatile FX. So, what we are doing now is not new at all.

Marat Ibragimov, Gazprombank

Thank you very much. That's it from my side.

Operator

Thank you very much. Our final question comes from Paul Steegers from Bank of America.

Paul Steegers, Bank of America

Thank you. I hope you can hear me. I have two questions. The first is on working capital, probably the one for Anton. I know it's only one corner, but can you just maybe give any color on cash generation, inventory, creditors, debtors - as I presume it's also on track, and you know, as you highlighted on the IPO and as we've seen historically, you're sort of working capital neutral. Any changes to that view, also for the year and what you're seeing so far? And the second question is on the tax rate, and the withholding tax on dividends. Prior to the IPO you were thinking about changing the incorporation and moving to a normal structure that could then remove that withholding tax on the dividends. I'm just wondering if you can give us an update on that process and a timeline potentially for that happening. Thank you.

Anton Makhnev, Chief Financial Officer

Sure. Absolutely. With regards to your first question on net working capital, there is some inter-year seasonality in working capital performance. So, what we are seeing in Q1, and typically there is an expansion in working capital, which is then reversing later during the year. It's totally normal, and it's in line with the historical performance of our net working capital we have seen in the previous years. So, this year is not any different from that perspective. That was your first question.

With regards to your second question on the withholding tax, as we were saying earlier this year, we are currently doing some work with our tax advisors, and we are planning to ask the Russian Ministry of Finance for some clarifications on some quite contradictory messages they gave in their last few communications. And once this situation is cleared, then we will be able to move forward with a potentially new corporate structure. In terms of the timeline, it's something that I expect will be happening during the course of this year.

Paul Steegers, Bank of America

Thank you very much.

Operator

Thank you very much. I'm seeing no further questions. I will pass the line back to the management team for their concluding remarks.

Elena Mironova, Investor Relations

Thank you once again for joining us today. And as a reminder, we will be reporting our first half financial results in August and we look forward to speaking to you all then. In the meantime, please feel free to reach out to our Investor Relations Team through the contacts on the website with any follow-up questions you may have. Thank you and have a nice day.