

Chief executive officer's statement



"Our goal is to become the Store of Choice for all Russian families"

Olga Naumova,
CEO

Shaping the foundation

When the management team started working together mid-year 2018, we straightaway began with mapping out the future for Magnit. Our new strategy, announced in September, is rooted in the principles of customer centricity that are coupled with a multi-format service offering under a single unified brand.

As customer centricity became our core focus, it was apparent that a substantial overhaul in Magnit's customer value proposition was essential, including an upgrade of the look and the feel of our stores, expanding our assortments and improving our service levels. The CVP for each of the company's formats was analyzed, with due consideration to regional differences, and new designs are being rolled out or piloted in the first half of 2019.

One brand – multiple formats. This is the fundamental basis for our service model. We want to fulfill multiple shopping missions while simultaneously offering our customers the synergies of a single brand, be it through cross format promo campaigns, a unified loyalty program or a strong cross format private label assortment based on our high-quality own production. We launched our new Magnit cross-format branding in March 2019.

Most the various building blocks of our new concept were already available to us in-house or were in the process of development when the new management took over. We were, however, missing the much-needed specialized distribution platform for our fast growing Magnit Cosmetics and Magnit Pharmacy formats. To close this gap, in November we finalized the acquisition of SIA, a major Russian pharma distributor. To-date, we have migrated more than half of Magnit Cosmetics business and all of our growing Pharmacy business onto this new platform.

2018 Performance

Considering our starting point and the launch of our overreaching transformation program, the 2018 performance results were reasonable. Despite the challenging macro environment of 2018, with slow macro growth and stagnating consumer purchasing power, we were able to post a top line 8.2% growth for the full year, an EBITDA margin of 7.3% and first indications of LFL growth in the fourth quarter of the year. These financial results give us a solid base for our transformation program in 2019 and allowed us to pay dividends for 2018 as well as to launch a significant share buy back program, which was successfully concluded in March this year.

In 2018 we opened 2,396 new stores, mostly in our core convenience store format, increasing our total sales area by 11.6%. We also refurbished 1,352 stores during the year.

Transformation

In Q4 2018 we launched a major 12 month organizational transformation program, with 12 new multi-format regional management units formed to allow for decentralization of front office functions and placing decisions closer to the customer, while centralizing the back office functions to achieve efficiencies of scale. Although the transformation to the client-centric organization and introduction of the new CVP and product mix mean substantial change for our almost 300,000 employees, they have showed great flexibility and enthusiasm towards the new Magnit. I would like to express a sincere big 'thank you' to them all from myself and the whole management team.

Looking forward

As noted earlier, many of our initiatives have now progressed to pilot or roll out phases and we expect to start seeing improvements in performance this year, which will allow us to deliver on our financial promises for 2019 and beyond, and to provide firm grounding to continue our smart growth and deliver value to our shareholders.

With close to 20,000 stores, almost 300,000 employees, the second largest logistics fleet, and one of the largest food production businesses in Russia, we are also fully aware of our role in society and the responsibility it entails. We look forward to working closely with all our stakeholders while ensuring that as a business we act socially responsibly.