Collaboration with suppliers

More partners simplify their logistics together with Magnit

In 2023, Magnit expanded the pool of suppliers engaged in enhancing the joint supply chain as part of the end-to-end procurement process. Under the project, Magnit takes over some of the suppliers' logistics tasks: they can have their products delivered to Magnit's nearest warehouse hub and let the Company handle all the processes of distribution to its logistics facilities and then to stores.

First introduced by Magnit in 2022, the simplified delivery model covered more than 360 suppliers as at the end of 2023. Mostly these are businesses that supply cosmetics, household chemicals, canned foods, confectionery, and dry food.

After optimising its supply chain, the Company achieved a more than 2x reduction in the average duration of delivery from 8–10 to just 2–4 days. In turn, suppliers enjoy considerably lower logistics costs as they only need to deliver to the nearest warehouse hub and not several DCs. Most of the partners that use the simplified model have all achieved an average cost reduction of more than 5.5% for certain product categories. Logistics savings open up new opportunities for suppliers to reduce their prices, making products more affordable and attractive to customers.

>360 partners

use a simplified supply chain to work with Magnit

Magnit and partners introduce uniform standard of supplies to DCs

In 2023, Magnit teamed up with suppliers to improve the process and quality of incoming flows at its DCs. After updating its operational requirements for supplies and optimising orders, Magnit reduced the number of mixed pallets entering its DCs by 35%. This helped speed up product acceptance, boost warehouse throughput, and reduce waiting time for unloading. The simplified acceptance process also resulted in fewer issues and complaints about product quantity.

We hear what our partners have to say

In the reporting year, the Company held a series of successful logistics conferences: titled Simply Put, the events brought together suppliers to discuss bottlenecks with the Company and consider improvements. In 2024, we plan to enhance our cooperation, including by launching CPFR pilot project[1].

1 CPFR stands for Collaborative Planning, Forecasting and Replenishment and is a set of collaborative actions by manufacturers, logistics services providers and retailers to plan supplies, quickly respond to changes in demand, and achieve cost savings across the supply chain.

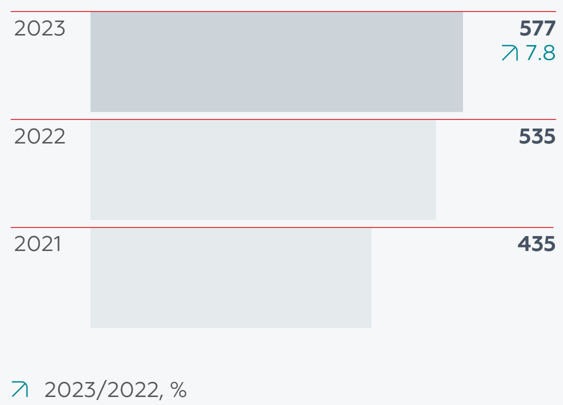
Financial review

Consolidated financial statements of PJSC Magnit and its subsidiaries and independent auditor's report for 2023 are available on the Company's official website in the Reports and Results section at

https://www.magnit.com/en/shareholders-and-investors/results-and-reports/#tabs-reports-type-2

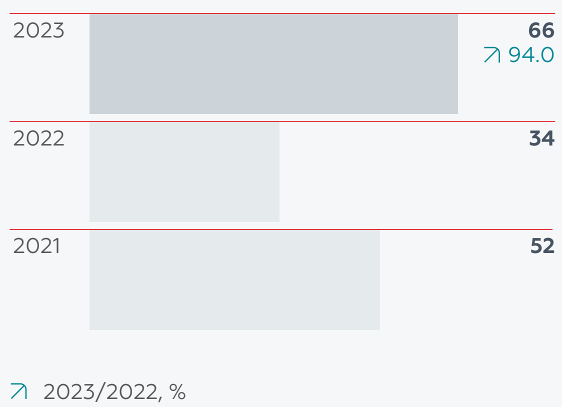
Total revenue, RUB bln

Gross profit, RUB bln



EBITDA, RUB bln

Net income, RUB bln



Net debt, RUB bln

Note: financial metrics are provided in accordance with IAS 17.

FY 2023 key financial results

RUB mln	IAS 17			IFRS 16		
	2023	2022	Change, %	**2023**	2022	Change, %
Total revenue	**2,544,689**	**2,351,996**	**8.2**	**2,544,689**	**2,351,996**	**8.2**
Retail	2,509,308	2,299,712	9.1	2,509,308	2,299,712	9.1
Wholesale	34,800	52,284	(33,4)	34,800	52,284	(33.4)
Other revenue[1]	581	–	–	581	–	–
Gross profit	577,261	535,488	7.8	579,187	537,003	7.9
Gross margin, %	22.7	22.8	(8 bps)	22.8	22,8	(7 bps)
SG&A, % of sales	(20.1)	(21.0)	88 bps	(18.8)	(19.7)	98 bps
Other income and expense, % of sales[2]	1.3	1.0	29 bps	1.3	1.1	25 bps
EBITDA pre-LTI[3]	166,918	161,409	3,4	270,276	258,254	4.7
EBITDA margin pre-LTI, %	6.6	6.9	(30 bps)	10.6	11.0	(36 bps)
EBITDA	166,256	160,509	3.6	269,614	257,354	4.8
EBITDA margin, %	6.5	6.8	(29 bps)	10.6	10.9	(35 bps)
EBIT	97,643	64,776	50.7	135,517	98,017	38.3
EBIT margin, %	3.8	2.8	108 bps	5.3	4.2	116 bps
Net finance costs	(13,817)	(13,947)	(0.9)	(61,030)	(54,819)	11.3
FX gain/(loss)	8,229	(267)	–	8,249	(333)	–
Profit before tax	92,055	50,561	82.1	82,736	42,865	93.0
Net income	66,137	34,086	94.0	58,678	27,933	110.1
Net income margin, %	2.6	1.4	115 bps	2.3	1,2	112 bps

Total revenue in FY 2023 increased by 8.2% YoY to RUB 2,544.7 bln. Net retail sales rose by 9.1% YoY on the back of selling space and LFL sales growth by 6.1% and 5.5% respectively. Net retail sales of Magnit branded stores increased by 10.9% thanks to growth in LFL sales in mature stores and expansion of the selling space. The growth in total revenue was offset by a 33.4% decrease in wholesale sales. Wholesale operations accounted for 1.4% of total sales.

Gross profit was up by 7.8% YoY to RUB 577.3 bln. Gross margin was down by 8 bps YoY to 22.7% as a result of intensified promotional activity and higher shrinkage, partially offset by a favourable format mix. The latter positively impacted gross margin, with the share of wholesale operations decreasing to 1.4% from 2.2% a year ago.

Shrinkage as a percentage of sales increased YoY, mainly due to higher losses of fruit and vegetables resulting from their higher share in sales.

Implications of IFRS 16

IFRS 16 balances the presentation of leased assets with owned assets. With this, rent expenses are replaced with depreciation and interest payments. The lease capitalised is reduced on straight line basis but interest is charged on outstanding lease liabilities, thus interest is higher in the earlier years and decreases over time. As a result, the impact on net income is highly dependent on average lease maturity – the higher the maturity, the lower the interest charges.

1 Other revenue mostly comes from marketplace commissions.
2 Including lease and sublease income.
3 Long-Term Incentive Programme.

Selling, General and Administrative Expenses (SG&A)[4]

RUB mln	IAS 17			IFRS 16		
	2023	2022	Change 2023/2022, %	**2023**	2022	Change 2023/2022, %
Staff costs	224,302	199,620	12.4	224,302	199,620	12.4
• as a % of sales	8.8	8.5	33 bps	8.8	8.5	33 bps
Rent	107,784	99,209	8.6	7,114	5,468	30.1
• as a % of sales	4.2	4.2	2 bps	0.3	0.2	5 bps
Depreciation, amortisation & impairment	68,613	95,732	(28.3)	134,098	159,337	(15.8)
• as a % of sales	2.7	4.1	(137 bps)	5.3	6.8	(150 bps)
Utilities & communication services	53,395	42,174	26.6	53,377	42,174	26.6
• as a % of sales	2.1	1.8	31 bps	2.1	1.8	30 bps
Advertising	14,600	11,819	23.5	14,600	11,819	23.5
• as a % of sales	0.6	0.5	7 bps	0.6	0.5	7 bps
Other expenses	12,343	16,143	(23.5)	12,344	16,143	(23.5)
• as a % of sales	0.5	0,7	(20 bps)	0.5	0.7	(20 bps)
Bank services	13,868	12,126	14.4	13,868	12,126	14.4
• as a % of sales	0.5	0.5	3 bps	0.5	0.5	3 bps
Repair & maintenance	10,763	9,603	12.1	10,728	9,549	12.3
• as a % of sales	0.4	0.4	1 bps	0.4	0.4	2 bps
Taxes, other than income tax	3,465	3,167	9.4	3,465	3,167	9.4
• as a % of sales	0,1	0.1	0 bps	0.1	0.1	0 bps
Materials	3,350	4,739	(29.3)	3,350	4,739	(29.3)
• as a % of sales	0.1	0.2	(7 bps)	0.1	0.2	(7 bps)
Total SG&A	512,481	494,332	3.7	477,245	464,142	2.8
• as a % of sales	20.1	21.0	(88 bps)	18.8	19.7	(98 bps)
Total SG&A (excl. D&A)	443,868	398,599	11.4	343,147	304,805	12.6
• as a % of sales	17.4	16.9	50 bps	13.5	13.0	53 bps

SG&A expenses decreased by 88 bps YoY and accounted for 20.1% of sales due to a reduction in D&A expenses YoY.

Excluding D&A expenses, SG&A expenses as a percentage of sales increased by 50 bps YoY to 17.4%, driven by higher staff, utilities, and advertising expenses partially offset by a decrease in other expenses.

Staff costs as a percentage of sales increased by 33 bps YoY, mainly due to selective indexation of store personnel wages and higher outstaffing tariffs.

Utilities expenses as a percentage of sales increased by 31 bps YoY, driven by an increase in electricity tariffs and cleaning charges.

Despite the increase in the share of leased space to 82.8% as at the end of 2023 compared to 81.8% as at the end of 2022, rental costs as a percentage of sales remained almost unchanged YoY thanks to the growth in sales density.

4 Minor variations in calculation of totals, subtotals, and/or percentage change are due to rounding of decimals.

Advertising expenses as a percentage of sales increased by 7 bps YoY due to an increase in marketing activities, including digital marketing and loyalty programmes.

Other expenses as a percentage of sales dropped by 20 bps YoY on the back of lower expenses on provisions for accounts receivable and a decrease in IT service expenses.

Repair and maintenance, materials, bank and tax expenses remained broadly flat as a percentage of sales YoY.

Other income and expenses as a percentage of sales increased by 29 bps YoY due to a higher share of advertising income and provisions made in 2022 for write-off of intangible assets related to software not in use.

As a result, EBITDA increased by 3.6% to RUB 166.3 bln. EBITDA margin was down by 29 bps YoY to 6.5%, reflecting changes in gross margin and SG&A expenses, partially offset by an increase in other income and expense.

D&A expenses as a percentage of sales decreased by 137 bps YoY due to the high base effect of the previous year related to provisioning for impairment of a number of assets.

As a result, operating profit in 2023 stood at RUB 97.6 bln with a 3.8% EBIT margin.

Despite the increase in the Company's cost of debt, net finance costs remained flat YoY at RUB 13.8 bln due to a decrease in total borrowings and income from bank deposits partially offsetting interest expenses.

Weighted-average cost of debt grew by 89 bps YoY to 9.1%, but still remains significantly below the current key rate of the Bank of Russia. 98.6% of the Company's debt profile is represented by long-term borrowings and bonds with an average maturity of 14 months.

In 2023, the Company recorded an FX gain of RUB 8.2 bln, driven by exchange rate fluctuations related to direct import operations.

As a result, net income in 2023 increased by 94.0% YoY to RUB 66.1 bln. Net income margin was up by 115 bps YoY to 2.6%.

Balance Sheet and Cash Flows

Financial Position Highlights (IFRS 16)

RUB mln	31 December 2023	31 December 2022
Inventories	233,693	219,436
Trade and other receivables	12,844	20,197
Cash and cash equivalents	221,286	314,912
Long-term loans and borrowings	280,940	273,271
Trade and other payables	300,292	273,972
Short-term loans and borrowings	121,195	147,022

Trade and other payables as at 31 December 2023 increased by RUB 26.3 bln YoY to RUB 300.3 bln, driven by higher sales. Accounts receivables as at 31 December 2023 decreased by RUB 7.4 bln YoY and amounted to RUB 12.8 bln.

Negative working capital was achieved for both the standalone Magnit and DIXY businesses.

Inventories as at 31 December 2023 were up by RUB 14.3 bln (+6.5%) YoY and reached RUB 233.7 bln on the back of total sales expanding by 8.2%. Inventory turnover dropped to 42 days due to a reduction in low-turnover goods and assortment harmonisation.

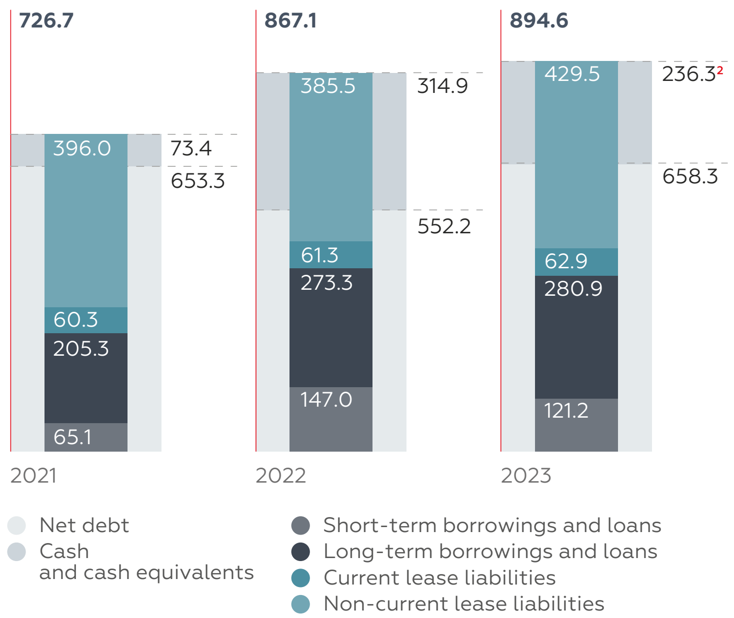
Debt Composition and Leverage[1]

RUB bln	31 December 2023[2]	30 June 2023	31 December 2022
IAS 17			
Total debt	402.4	416.3	420.3
• Long-term debt	281.0	282.2	273.3
• Short-term debt	121.4	134.1	147.0
Net debt	166.1	116.8	105.4
Net debt / EBITDA	1.0x	0.7x	0.7x
IFRS 16			
Net debt	658.3	575.7	552.2
Net debt / EBITDA	2.4x	2.2x	2.1x

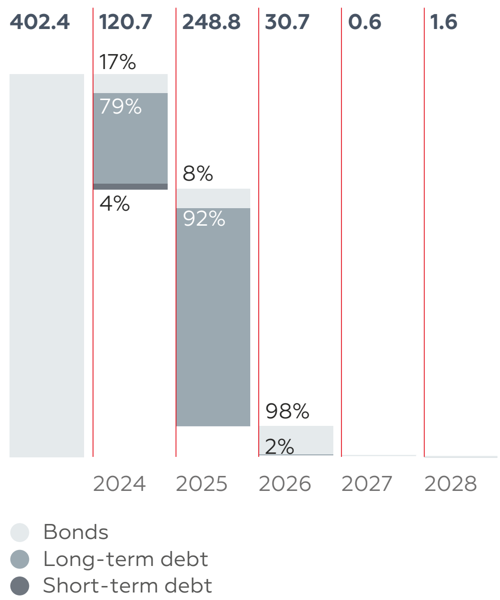
Total debt as at 31 December 2023 decreased by RUB 17.9 bln or 4.3% YoY and amounted to RUB 402.4 bln. Cash balance[2] as at 31 December 2023 decreased to RUB 236.3 bln compared to RUB 314.9 bln as at 31 December 2022. As a result, net debt grew by 57.6% YoY and totalled RUB 166.1 bln as at 31 December 2023.

The Company's debt is fully RUB denominated, matching its revenue structure. Net Debt / EBITDA slightly increased during the reporting year and stood at 1.0x as at 31 December 2023.

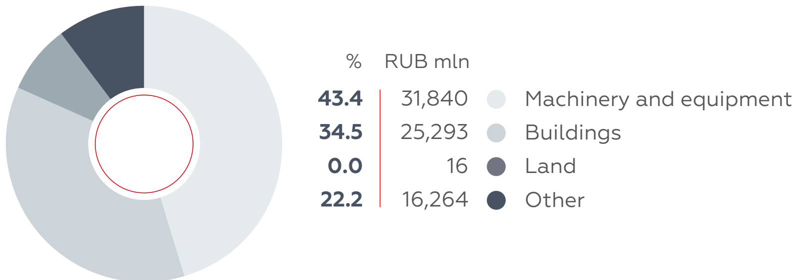
Debt[3], RUB bln



Maturity, RUB bln



Capital expenditure split



Capital expenditures[4] for the full year 2023 increased by 50.5% to RUB 73.4 bln. The increase was driven by acceleration of expansion and redesign programmes (1,982 stores opened (gross) and 1,078 stores redesigned in 2023 compared to 1,736 and 525 stores in 2022 respectively) as well as truck fleet renewal.

1 Minor variations in calculation of totals, subtotals, and/or percentage change are due to rounding of decimals.
2 Calculation included deposits recognised as financial assets. Money in these deposits is highly liquid and can be withdrawn at any point in time ith no loss in value (no withdrawal penalty).

3 IFRS 16.
4 Excluding business acquisitions.