X5 Retail Group N.V.
Q2 and H1 2019 financial results
Conference call held on 15 August 2019
Edited transcript

Speakers:
- Igor Shekhterman, CEO
- Svetlana Demyashkevich, CFO
- Natalia Zagvozdina, Head of Corporate Finance and IR

Participants asking questions:
- Nikolay Kovalev, VTB Capital
- Maria Kolbina, VTB Capital
- Yulia Gerasimova, Goldman Sachs

Natalia Zagvozdina:

Good morning, ladies and gentlemen. On behalf of X5, let me welcome you today to our call which is dedicated to our Q2 and H1 2019 financials. Please refer to our website, the Investor Relations section for the results. We disclosed apress release as well as the financial statements this morning via the usual means of communication. We present the results according to IFRS 16, as well as IAS 17 accounting standards.

We would like to remind you that some of the information announced during this call may contain projections and forward-looking statements regarding future events or future financial performance of X5. Please refer to page 9 of our press release for a full disclaimer.

Without further delay, let me pass the floor to X5 CEO Igor Shekhterman.

Igor Shekhterman:

Good morning and good afternoon ladies and gentlemen. Thank you for joining our call today.

I would like to begin by highlighting some of the Company's main achievements in the first half of this year, and the key initiatives we are focusing on at the moment. I will also say a few words about our future plans. After that our CFO Svetlana Demyashkevich will discuss the external environment and provide more details about our financial results. Following our presentations, we will be happy to answer your questions.X5' s year-to-date top-line growth stood at 16.5%, our like-for-like sales rose by 5%, with traffic being positive. We are satisfied with how the year started for the Company.

Let's start with our key achievements.

About a year ago, we had to make significant improvements in the Company because our proximity format had been showing disappointing results. Around the same time, we approved the new mid-term strategy which concentrated on boosting the efficiency of our business with a focus on returns. I am pleased with the operational and financial performance we were able to achieve over the last year by executing on our strategy and I am proud of our team as this is the result of their team work.

We continue the digital transformation of our company. 80% of our work in this area is aimed at improving the efficiency of the existing business, while the remaining 20% goes towards building the platform for a client omni-channel journey.

We sustained growth in LFL sales at the group level. Our LFL traffic growth accelerated at the highest pace since Q1 2017, which in our view reflects the growing trend towards more frequent grocery shopping, as well as X5's leading position in the proximity and supermarket segments.

The Company's gross profit margin in Q2 2019 increased due to lower levels of shrinkage and improved logistics efficiency. The commercial margin remained flat y-o-y, helped by balanced promotions. We have improved labour productivity in our stores and significantly reduced turnover of our personnel.

Our adjusted EBITDA margin increased to 8.4% in Q2 2019, the highest level since Q2 2017.

In Q2 2019, we opened pilot Pyaterochka and Perekrestok stores that will test elements of the formats' new concepts. The new concepts should be finalised by the end of the year.

The Company continued to develop its loyalty card programmes. In total, X5's three retail formats had almost 40 million active loyalty card users as of 30 June 2019.

In line with our strategy of balanced growth, the Company opened 22% less stores in the first half of 2019 than a year ago. This had a positive effect on our ROIC, which is one of our key priorities.

In July, we paid dividends for 2018 in the amount of 25 billion roubles, which was 87% of X5 Retail Group's 2018 net profit.

Now, I would like to discuss some of the key achievements across X5 formats.

Starting with the Pyaterochka proximity format.

I am pleased with the results the current Pyaterochka team has been able to achieve over the past year, as our numbers clearly show.

We are continuing to optimise the organisational structure of Pyaterochka to make it more sustainable. Over the past year the number of direct reports for the proximity format CEO's reduced from 21 to 13. The three new Executive Directors now supervise the format's operations, while the CEO of Pyaterochka focuses more on the Company's strategic development. Of the three new Executive Directors, two were internal promotions in accordance with our strategy to develop internal talent.

Staff turnover decreased by more than 10 percentage points in H1 2019 as a result of improved working conditions for in-store personnel, optimisation of business processes and changes in the compensation and motivation schemes for our employees. This has reflected positively on the level of service in our stores, which is of high importance given increasing competition, especially in Moscow.

Decreasing shrinkage levels is one of the core indicators of operational efficiency and a key priority for management. We still see a positive trend in shrinkage, which declined by 1 percentage point of revenue since the current Pyaterochka team took the lead. However, shrinkage remains above the target level and we will continue to reduce it at a steady pace. We aim to invest the savings from this process into our customers by offering better prices, as well as more competitive salaries to our employees.

We continued working on the new Pyaterochka CVP. The main objective is to gain our guests' trust through convenience, freshness and quality, customer care and of course, low prices. We are currently piloting a new Pyaterochka concept store with an improved CVP. We look forward to presenting it to you at our Capital Markets Day on October 23 in London.

Now I will talk about achievements at Perekrestok supermarkets.

Perekrestok continues to demonstrate outstanding performance, with the highest LFL growth among X5 Retail Group's formats – its LFL traffic growth surpassed that of the other X5 chains for the 11th quarter in a row, while also leaving competitors far behind.

The chain launched a series of pilot stores under new concepts, opening the first supermarket under the new basic concept, as well as large-format supermarkets in the capital and in other regions.

The basic concept was developed to address the latest trends in customer preferences. Perekrestok is implementing the so-called "emotional" design at its stores. Half of the new supermarket's selling space is devoted to the fresh assortment and ready-to-eat foods. Our large-format supermarket has a bigger selling space and a wider offering of ready-to-eat fruit and vegetables, meat products, fresh fish and butcher products, as well as children's goods. These supermarkets are equipped with self-checkouts, as well as dedicated zones for customers to pick up their click-and-collect orders made online.

Ready-to-eat is one of the key categories for X5, especially for our supermarkets, and we are expanding our offering accordingly. In May, we launched the smart kitchen in the Moscow region. It has a design capacity of 120 tonnes of ready-made products per day. In September, it will start supplying some Pyaterochka stores in Moscow. Today, the share of ready-to-eat products in our Moscow stores is 4% and we plan to bring it to 8.5% by 2021. We intend to build another smart kitchen in St Petersburg. Construction is set to begin in October 2019 and scheduled for completion in 2021.

We are also happy with the development of our regional supermarket model. In Q2 2019, LFL sales and the EBITDA margin of stores using the regional model improved y-o-y.

We are piloting the Lean Store project at Perekrestok. The project focuses on implementing new storage technologies, including the use of rolling cages, as well as a simplified process of accepting products from DCs. In pilot stores, product acceptance efficiency improved by 25-30%.

We continue to actively develop the Perekrestok Online business, which is a separate business unit within Perekrestok. It has its own strategy, its own P&L, logistics and infrastructure. Its aim is to gain leadership in the online food retail space by 2020 and achieve positive EBITDA by 2021. Perekrestok Online has successfully leveraged partnerships with other market players to expand its product range to include pet products, farmers' produce, healthcare goods and meal kits. By late 2019, we plan to achieve 8,000 orders per day, more than tripling year-on-year revenue. The average spendincluding VAT reached 3500 rubles in August.

Finally, a few words about Karusel.

The hypermarket segment has been under pressure in recent years. In Q2 2019, LFL sales growth was positive thanks to LFL ticket improvements, while sales density was stable.

In offline retail, we plan to focus on X5's two largest formats – proximity stores and supermarkets where the Company has market leading positions. We are currently discussing the future of our Karusel stores network. Some Karusel stores could be closed, some transferred to our supermarket division to become large-supermarkets, while others could be re-formatted to completely new concept stores in partnership with other companies.

I'd like to add that we value our loyal Karusel customers, so we will begin offering our Perekrestok Online service to them, as we see customers increasingly stocking up online rather than at hypermarkets.

Now, let me update you on digital transformation, which is our strategic priority. Innovation and omnichannel development are integral parts of this.

As I've mentioned earlier, our company is undertaking a digital transformation. We are doing it to improve the quality of our decision-making, gain greater speed and reduce errors in routine operational processes with a view to increasing the Company's profit and value.

We are working on changing our IT architecture and our approach to IT project management in order to ensure we can complete them faster and more efficiently. In addition, we are changing our corporate culture to encourage continuous innovation.

We have expanded the geography of our startup scouting to include Israel, the CIS and Baltic regions, Europe and China.

The second lab store at a Perekrestok supermarket is under construction and should be opened by the end of October.

Key projects that we piloted at X5 stores include:

- a self-service check-out fully developed in-house in cooperation with RosTech
- electronic price tags
- video monitoring of product availability on shelves
- customer loyalty terminals providing personalised offers
- remote fruit & vegetable quality control at stores

- Virtual Reality training for in-store personnel working at fresh product counters
- a new technological solution aimed at reducing electricity costs
- smart scales that can automatically identify products and detect their weight.

In addition, in a number of Perekrestok and Pyaterochka stores, we are testing solutions based on computer vision technologies, which in the future should help us improve in-store operational efficiency.

I want to highlight the progress we have achieved so far with Big Data. We have advanced to a new stage. From pilots we have moved to implementing big data solutions in our business and understanding the benefits they bring to us.

A new pricing system based on big data technologies is already operating in the Moscow region in more than 1,700 stores. For these pilot stores, we see increases in both revenue and gross margins. We feel confident that the new pricing system will deliver very positive results when rolled out across the entire store network.

Our next big task is to leverage big data tools for our consumer demand forecasting, as well as management of assortment and promo campaigns.

The Supervisory Board in June approved establishment of 5 Post as a separate business unit within X5. In this project, we are making our infrastructure and the last-mile delivery service to our proximity stores available to all domestic and cross-border e-commerce players. We are currently partnering with a number of companies including Ozon, Lamoda, Ali-Express and Unitrade. There are currently over 2,700 lockers available in X5 stores. By 2024 we expect our share of the last mile delivery market in Russia to reach 5%.

To conclude, let me highlight our priorities for the second half of this year.

We continue to deliver on the strategy that was approved in 2018 with three core streams of activity:

- short-term measures to improve the current business;
- medium-term initiatives to create new innovative capabilities;
- our long-term goal of transforming X5 into Russia's leading next-gen retailer.

To improve the current business, we will focus on further enhancing operational efficiency, on smart and balanced expansion, as well as on further update of our formats' CVPs to changing consumer needs.

We will continue implementing innovative technologies and omnichannel business models. This will help us to increase sales by expanding our audiences and increasing the share of wallet among our customers.

Now I would like to pass the floor to X5's CFO Svetlana Demyashkevich. Thank you for your attention.

Svetlana Demyashkevich:

Thank you, Igor.

Good morning and good afternoon Ladies and Gentlemen.

Let me start with the external environment, after which I will give an overview of our financials and provide you with some highlights on key quarter-to-date results.
So, to begin with I will say a few words about the external environment.

- Food inflation continued to accelerate in the second quarter of 2019 and averaged 5.9% y-o-y after 5.8% in the first quarter. In June and July 2019, we observed a relatively sharp slowdown in food CPI to 5.5% versus 6.4% y-o-y in May 2019. This can be explained by the early harvest of 2019, as well as the overall higher domestic supply of greenhouse-produced vegetables. In Q4 2019 food inflation may slow to 4-5% due to harvest-related seasonality.
- Demand for food products remained positive in the second quarter of 2019 and stood at 1.6% y-o-y in real terms. Despite increased inflationary pressure, demand was supported by moderately positive real wage dynamics, with real wages rising 2.3% y-o-y in Q2.
- Real disposable income continued to show a negative y-o-y reading in the second quarter of 2019 at -0.2% y-o-y, but the decline moderated after a 2.5% drop in Q1 2019.
- The unemployment rate fell to a record low 4.5% in Q2 2019.
- The consumer confidence index continued its slow improvement, edging up to -15% in Q2 2019 from -16% in Q1 2019. While consumer behaviour during this period remained pragmatic and sensitive to promo, no trading down trends were detected.

Before we move on to financial results, I would like to say a few words about ROI.

Moscow and St Petersburg continue to demonstrate the highest ROIC levels, ahead of our regional operations. ROIC in these two cities began to increase in H1 2019, following a period of decline, and remained above our target levels. The main drivers behind ROIC improvements are higher labour productivity and improvements to operational efficiency, especially in shrinkage and logistics.

ROIC and profitability trends in the regions also remain encouraging as we continue to focus on the quality of new store openings in the regions.

Moving on to X5's financial performance in the second quarter.

Revenue increased by 14.3% year-on-year in Q2 2019 on the back of positive like-for-like sales of 5.0% and a 14.1% rise in selling space.

Like-for-like sales growth was positive for all X5 formats. LFL traffic made a greater contribution due to changing customer behaviour – more frequent visits to stores with lower purchases. In our proximity format we are also seeing an inflow of customers from other proximity and hypermarket peers. Our offer in the supermarket segment remains very competitive on prices and assortment, which allows Perekrestok to retain loyal customers and attract new ones.

Looking at margins in the second quarter.

The gross profit margin increased by 105 basis points to 25.0% in Q2 2019. The increase was driven primarily by successful measures to decrease shrinkage levels and improve logistical efficiency, while the commercial margin remained flat y-o-y due to balanced promo activity. As planned, the level of promo remained at around 35%, which is flat y-o-y. Our efforts to further reduce shrinkage will continue, but the impact on our gross margin will not be as visible as it was at the beginning of the year, because our CVP update in core formats is increasing the share of fresh product, which has the highest shrinkage level among all categories. We will have to mitigate this structural change with higher efficiency in our assortment planning, product quality tracking, marketing and logistics.

In Q2 2019, SG&A expenses excluding depreciation, amortisation, impairment, LTI and share-based payments as a percentage of revenue increased by 36 basis points year-on-year mainly due to higher staff costs and other expenses. In today's disclosure we have provided extensive details about all the factors affecting SG&A expenses, so I would prefer not to spend time on that.

Adjusted EBITDA in Q2 2019 increased by 24.2% year-on-year. Our adjusted EBITDA margin rose by 67 basis points to 8.3% mainly due to LFL sales growing faster than a number of operating cost items and supported by gross margin improvements, which I have already commented on.

In Q2, we continued to accrue LTI expenses covering the old and new LTI programmes. LTI expenses for the old programme totalled 128 million roubles. For the new programme, LTI expenses targeting revenue leadership among listed Russian retail peers amounted to 306 million roubles. We are still not accruing LTI expenses targeting leadership on the EV/EBITDA multiple over any of our listed Russian food retail peers.

D&A and impairment costs decreased as a percentage of revenue by 15 basis points to 3.2% in Q2 versus 3.3% for the same period last year. This was due to revenue growth outpacing the growth of gross book value of assets.

In Q2 2019, net finance costs decreased by 6.5% year-on-year due to a lower level of gross debt and a decrease in the weighted average effective interest rate on X5's total debt. The rate decreased from 8.59% in H1 2018 to 8.14% in H1 2019 as a result of actions undertaken by X5 to minimise interest expenses and reflecting the trend of declining key policy rate in Russia. In H1 2019, X5 achieved its lowest ever weighted average effective interest rate since fully switching to rouble-denominated borrowing.

X5's effective tax rate for the quarter totalled 26.0% (including the accrual of deferred tax associated with potential dividend payments). It increased due to the low base effect of Q2 2018, impacted by an amended tax return in the past comparable period.

The Company's net profit in the reporting period increased by 55.5% y-o-y to 13.5 billion roubles, while net profit margin reached 3.1%.

Turning to our financial leverage, at the end of Q2 2019 our net debt to EBITDA ratio remained at 1.59x under IAS 17. Going forward, we seek to maintain this ratio below 1.8x while paying dividends in line with our dividend policy.

Turning to the cash flow.

Net cash flow generated from operating activities in Q2 was 31.8 billion roubles, up from 13.9 billion roubles a year ago, driven by business growth, improved profitability and stronger results in working capital management.

The change in working capital in the second quarter of 2019 was positive 1,939 million roubles compared with negative 8,126 million roubles reported in Q2 2018. This was mainly due to an increase in accounts payable and a smaller increase in inventories y-o-y due to better inventory management.

Net cash used in investing activities decreased to 18.2 billion roubles in Q2 2019, compared with 23.8 billion roubles for Q2 2018. The decline was mainly due to a slower pace of new openings and greater discipline in Capex allocation.

Now a few words about Capex.

X5's total capital expenditure amounted to 21.8 billion roubles in Q2 2019, compared to 20.4 billion roubles in Q2 2018. Approximately 54% of Capex in Q2 2019 went to expansion of our store base.

The remaining Capex includes refurbishments (6%), logistics (14%), IT (8%), maintenance (8%) and other investments (10%).

Our Capex in H1 2019 totalled 34.2 billion roubles, which is below our budget for the first half of 2019. We have left our guidance of 80-90 billion rubles for total Capex in 2019 unchanged and will provide further details at our Capital Markets Day in October.

Finally, I will give a short update on the quarter-to-date results before we go to the Q&A session.

Total turnover (including VAT) grew by 14.2% year-on-year and net retail sales growth (excluding VAT) was around 13.6%. LFL sales rose by 4.1%.

With that I would like to conclude the discussion of our results, thank you for your attention.

Natalia Zagvozdina:

Operator, please open the call for questions. We would like to ask the participants to stay within one to maybe two questions per person for the first round. Thank you.

Operator:

Yes, ma'am. Thank you. Ladies and gentlemen, we will now begin the question and answer session. Your first question comes from the line of Nikolay Kovalev. Your line is now open. Please, go ahead and ask your question.

Nikolay Kovalev:

Hello. I have one question but with two parts. You mentioned flat commercial margin and lower shrinkage on a gross level and my question is how your purchasing terms changed and, if so, did you see a sizeable improvement. You also mentioned a quite good improvement in employee turnover and shrinkage. Could you comment whether you see room for further optimisation or are the low hanging fruits pretty much over?

Svetlana Demyashkevich:

Thank you for your question. Yes, commercial margin remained flat. At the same time, we did have our regular improvement in terms with suppliers, which was also partially offset by investments in price which we regularly make. You know that we do not usually pass inflation on to our shelves in full amount. It is usually 50–70% of food CPI that is transferred into the prices on our shelves. That is why it is important for us to have successful renegotiations of terms with suppliers every year to be able to invest more in our clients. As for the shrinkage, we had a very good trend last year. Actually, it started in August-September 2018 and continued in H1 2019. We have a sizeable improvement of around 1% in shrinkage. At the same time, we still see the space for further improvement, but it will not be that sizeable. Of course, the formats (and Pyaterochka especially) still have the target to further improve the level of shrinkage. We also continuously see improvements in logistics costs due to economies of scale, our development in the regions, which also helps us with efficiency improvement in logistics.

Personnel turnover decreased by around 10% in all formats. It was part of our strategy and one of the key KPIs for top management and management of the formats. We do implement programmes not only in terms of investments in personnel which you see in our staff costs, but we also run a lot of non-monetary motivation programmes – working with personnel, training, new electronic forms of training, even VR training at Perekrestok. And, of course, as for working with people, I think it is in Pyaterochka especially that we have a new approach to HR processes and a new approach to working with middle management in regard to their approach to personnel. That all gives sizeable results and you can see it in our performance in terms of efficiency.

Nikolay Kovalev:

OK, that is pretty much clear. But to complete the answer, can you mention the levels of shrinkage and turnover that you see at the moment. And also, are the improvements applicable for both convenience and Perekrestok formats or for Pyaterochka only?

Igor Shekhterman:

We do not give guidance regarding the numbers of shrinkage. I can just repeat what Svetlana already mentioned. We made a lot of effort to improve the shrinkage but it still remains above the target level and we will continue to reduce it. At the moment, we are in the process of [running] a big project at Pyaterochka called Freshness. We have already started rolling out the results of this project in Moscow and we have planned to finish this project by the end of the year. We plan to roll out the new elements of our to-be Freshness in all Pyaterochkas during the next year. And we are planning to have some more improvements in the shrinkage levels.

Nikolay Kovalev:

OK, thank you.

Natalia Zagvozdina:

Next question, please, Thank you.

Operator:

Thank you. Your next question comes from the line of Maria Kolbina. Your line is now open, please go ahead.

Maria Kolbina:

Good afternoon. Congratulations on the numbers. The first question is on your promo activity in Q3 and presumably Q4 2019. You achieved very decent levels of margins in Q2. Do you think you will be more promo driven in Q3, as you have already created quite a strong profitability cushion the year-end, and, if so, are you already more promo driven in July and August and how much of your profitability, if you can indicate it, is already invested in the price? Thank you.

Svetlana Demyashkevich:

Thank you for the congratulations on our results. We are also quite happy. As I said, we believe that we are ahead of our budget for H1 2019 in terms of financial results. We do have the ability to invest more not only in prices, but also in our personnel and marketing. And we do see that it gives very positive results in terms of LFL revenue and overall NPS level which is also very important for us. I would say that, in terms of metrics, financial metrics are very important for us but the client centricity and centricity on our employees are really in place. So, I would say that an increase in our net promoter scores and a decrease in turnover of our in-store personnel are very important and we will be looking forward to seeing further trends.

In terms of investment into prices, we had it in our budget for this year. As I said, we are usually quite active in terms of promo activities and investment in Q3 and Q4. This year will not be an exception. We will probably see the same trends as we see every year. So, we do expect EBITDA margin levels to be pretty much flat compared to the last year levels. We are quite sure that we will be able to continue our operations with EBITDA margin above 7%, which we are happy with. And we think that we will be able to remain leaders in the food retail market, grow faster than the market and attract new customers, which is also very important, through our new offerings.

Maria Kolbina:

OK, thank you. Do I get it right that July and August were more promo driven than Q2 in general? What is the current share of promo and how does it compare to Q2?

Svetlana Demyashkevich:

Well, I would not say we did have a significant increase in levels of promo. I am not ready to disclose the numbers now. As you know, we are only disclosing LFL sales, which I have commented on. We have very positive results of 4.1% up to date. And, as I said, at the beginning of September the usual promo activities are related to the beginning of school year, Q4 will also be as usual. So, I would say, we are working in a normal environment.

Maria Kolbina:

OK, thank you. My second question is on store formatting. You have opened [stores that are somewhat] a role model at Pyaterochka and Perekrestok recently. I think, there have been a few openings in both formats since the beginning of the year. Do you consider them as role models for you or are you still working on the concept? If you can, please share the results that you have seen and whether you are planning to implement them on a Company scale? Can you share some information on the recent openings? Thank you.

Svetlana Demyashkevich:

We are still experimenting with new elements of CVP and there are a number of stores in Moscow (Pyaterochka, for example) which have opened with new elements but, if you visit them, you will see that they sometimes look slightly different with trials of different elements. So, we are still in the process of developing this new model. As Igor already mentioned, we will talk about that in more detail at our Capital Markets Day in London at the end of October. I think you will be able to see these probe stores by the end of the year for both Pyaterochka and Perekrestok.

Igor Shekhterman:

We will finally probe the new CVP of Pyaterochka at the end of September – beginning of October and we will be able to present the new concept at the Capital Markets Day. The new elements will include some changes in our assortment, another push towards our private label, as well as a bigger range of ready-to-eat [products], as it is a very important trend in the market. Regarding the Perekrestok [format], you can visit some of the pilot stores that have just opened on Andropova and Tallinskaya where some new elements of CVP are already in place. But the final element of Perekrestok's CVP will be at the end of the year. We are still in progress.

Maria Kolbina:

Will you share LFL data on these stores in October?

Igor Shekhterman:

As these pilot stores have existed for only a few months we will not be able to tell any LFL or financial indicators for them because it is a very short period of time.

Svetlana Demyashkevich:

When we are testing new elements of the CVP concept, the only elements that stay in the existing stores are the ones that give positive results. So, all the changes that will stay in the final concept are giving positive results in terms of LFL and margins.

Natalia Zagvozdina:

Next question, please.

Operator:

Thank you.

We now have our next question which comes from the line of Yulia Gerasimova. Your line is now open. Please, go ahead.

Yulia Gerasimova:

Good afternoon, everyone. Congratulations on the very strong results. I will have a question on dividends because what we are seeing currently is that you are behind your Capex budget though you have not adjusted the guidance yet and your free cash flow has improved very strongly in Q2. That all points to a better dividend payout but your current dividend policy is only minimum 25% which kind of offers a lot of room for manoeuvre actually, and for us as well to think what the payout is going to be for the next year. Can you please comment on how we should think about the dividends for the next year in the context of good results that you have shown?

Svetlana Demyashkevich:

Yulia, hi and thank you for feedback. On dividends, as I said, we are not changing our guidance for Capex. It will depend, of course, on M&A activities. As you remember, last year our final Capex was less than budgeted, also because of less M&A activities. And, to be honest, we see less investment targets which could be interesting for us in the market. At the same time, we think that Capex for the year will stay within the range of RUB 80–90 bn. The pace of spending usually speeds up in Q3 and Q4 when all projects are closer to their final stage.

Speaking about our dividend policy, you are right that we only have this minimum requirement of 25% of net profit. But, as we already explained before, we will be looking at our debt-to-EBITDA situation and ratio. Now, as you see, it is quite conservative – at 1.6x. We think we will not be willing to decrease it further, so we will probably be able to pay dividends higher than 25% of net profit. As you remember, this year dividend for 2018 payout ratio was 87%. Plus, when we were discussing the argumentation on the amount of dividends, we were also looking at the trend for absolute amounts of dividends both in RUB and USD. Our intention is at least to demonstrate a steady growth in absolute numbers, both in terms of RUB and USD. That is probably the guidance I will give.

Yulia Gerasimova:

Thank you so much, Svetlana. My second question will be to Igor. In his presentation, he commented on the new pricing system based on the Big Data tools. I just want to understand what is the plan for the roll out of this new pricing system to all of the stores (because currently it is only in 1,700 stores). And can you quantify what kind of uplift you are seeing in terms of revenues, if it is possible?

Igor Shekhterman:

Regarding the roll-out, we are planning to roll out in all our Moscow stores this year and next year it will be rolled out across all our stores. Regarding the numbers for uplift, unfortunately we cannot open this information.

Yulia Gerasimova:

OK, thank you very much.

Operator:

Thank you. No further questions have come through at this time. Please continue.

Natalia Zagvozdina:

Ladies and gentlemen, if there are no further questions at this point, we would like to thank you for participating in our call today. Let me remind you that X5 Retail Group will hold the Capital Markets Day on 23 October in London. The registration link will be distributed via e-mail tomorrow. We look forward to seeing you at our event. Have a good day. Good afternoon. Thank you and goodbye.

Svetlana Demyashkevich:

Thank you.

Operator:

Thank you. That concludes our conference for today. Thank you all for participating. You may now disconnect. Speakers, please stand by.