

## **S&P UPGRADES X5'S RATING TO BB+/STABLE**

**Amsterdam, 11 June 2020** – X5 Retail Group N.V. ("X5" or the "Company"), a leading Russian food retailer that operates the Pyaterochka, Perekrestok and Karusel chains (LSE and MOEX ticker: "FIVE"), announces that S&P Global Ratings ("S&P") has upgraded the Company's credit rating to BB+ from BB. The outlook is "Stable".

S&P stated that the upgrade reflects X5's strong operating performance, reduced capital expenditure and lower interest rates.

X5 Chief Financial Officer Svetlana Demyashkevich said: *"The S&P credit rating upgrade affirms X5's high credit quality and strong business profile, especially given the current environment. We are particularly pleased to note that this is the only credit rating upgrade in Russia since the start of the COVID-19 pandemic. This is a great achievement for our team and for X5 as a whole."*

**Note to Editors:**

X5 Retail Group N.V. (LSE and MOEX: FIVE, Fitch – ‘BB+’, Moody's – ‘Ba1’, S&P – ‘BB+’, RAEX – ‘ruAA+’) is a leading Russian food retailer. The Company operates several retail formats: the chain of proximity stores under the Pyaterochka brand, the supermarket chain under the Perekrestok brand and the hypermarket chain under the Karusel brand.

As of 31 March 2020, X5 had 16,658 Company-operated stores. It has the leading market position in both Moscow and St Petersburg and a significant presence in the European part of Russia. Its store base includes 15,739 Pyaterochka proximity stores, 846 Perekrestok supermarkets and 73 Karusel hypermarkets. The Company operates 42 DCs and 4,098 Company-owned trucks across the Russian Federation.

For the full year 2019, revenue totalled RUB 1,734,347 mln (USD 26,791 mln), Adjusted EBITDA under IAS 17 reached RUB 127,380 mln (USD 1,968 mln), and net profit under IAS 17 for the period amounted to RUB 25,908 mln (USD 400 mln). In Q1 2020, revenue totalled RUB 468,994 mln (USD 7,065 mln), adjusted EBITDA reached RUB 32,980 mln (USD 497 mln), and net profit amounted to RUB 8,175 mln (USD 123 mln).

X5's Shareholder structure is as follows: CTF Holdings S.A. – 47.86%, Intertrust Trustees Ltd (Axon Trust) – 11.43%, X5 Directors – 0.08%, treasury shares – 0.02%, Shareholders with less than 3% – 40.61%.

**Forward looking statements:**

*This announcement includes statements that are, or may be deemed to be, "forward-looking statements". 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 words such as "anticipate", "target", "expect", "estimate", "intend", "expected", "plan", "goal", "believe", or other words of similar meaning.*

*By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances, a number of which are beyond X5 Retail Group N.V.'s control. As a result, actual future results may differ materially from the plans, goals and expectations set out in these forward-looking statements.*

*Any forward-looking statements made by or on behalf of X5 Retail Group N.V. speak only as of the date of this announcement. Save as required by any applicable laws or regulations, X5 Retail Group N.V. undertakes no obligation publicly to release the results of any revisions to any forward-looking statements in this document that may occur due to any change in its expectations or to reflect events or circumstances after the date of this document.*

*Elements of this press release contain or may contain inside information about X5 Retail Group N.V. within the meaning of Article 7(1) of the Market Abuse Regulation (596/2014/EU).*

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Research Update:

# Russia-Based Retailer X5 Retail Group N.V. Upgraded To 'BB+' On Strengthening Credit Metrics; Outlook Stable

June 10, 2020

## Rating Action Overview

- S&P Global Ratings expects X5 Retail Group N.V.'s reduced capital expenditure (capex) and lower interest rates, coupled with a strong operating performance amid the coronavirus-related surge in demand, will help it strengthen its credit metrics.
- In our view, X5 is well positioned to sustain its leading share in the Russian food retail market and its above-average profitability, despite the current moderate pressure on its margins.
- Therefore, we are upgrading X5 to 'BB+' from 'BB'.
- Our stable outlook reflects our view that X5's leading market position will support its above-average EBITDA margins of 11%-12%, adjusted debt to EBITDA of around 3.0x-3.3x, funds from operations (FFO) to debt of 21%-23%, and a positive free operating cash flow (FOCF) after leases, while financial policy will support such stronger metrics.

## Rating Action Rationale

**We expect lower leverage and sustainably stronger credit metrics due to healthy demand in the food retail segment, cost control, and cash preservation measures amid lower interest rates.**

Our upgrade of X5 reflects our expectation that its revenue base will grow by around 9% year-over-year (yoy) in the next 24 months, supported by new store openings and by like-for-like growth, allowing X5 secure its leading market share, which was 11.5% in 2019 (compared to 10.7% a year before) across Russia and widening the gap with the peers, in particular with Magnit, whose market share in food retail was 7.6% in 2019, according to X5. We factor in that the management expects top-line growth of 11-12% per year in 2020-2021.

We believe revised capex will support X5's metrics in 2020, which we currently expect to stay almost flat yoy at around Russian ruble (RUB) 75 billion compared to around RUB85 billion we expected previously. We also factor in the improving interest rate environment with the Russian Central Bank rate down to 5.5% in March 2020 from 6.0% previously. As a result, we now expect

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X5's cash flow generation capacity will improve, allowing it to gradually improve the adjusted debt to EBITDA ratio to around 3.1x in 2020 from 3.3x in 2019, and support its FFO to debt sustainably above 20% in 2020-2021.

**X5 demonstrated strong results in the first quarter of 2020, and this should shield it from a moderate slowdown of demand in the subsequent quarters.** X5 posted revenue growth of 15.6% yoy in the first-quarter of 2020. This was supported by an 11% selling space growth and 5.7% like-for-like sales growth, out of which traffic growth was 3.7%. We understand that part of this growth was driven by consumer stockpiling due to COVID-19 fears, and believe part of this demand would likely slow in the subsequent months of 2020 as lockdown measures relax and real incomes soften. Nevertheless, in the COVID-19 environment, the proximity stores format is gaining popularity at the expense of larger retail formats. In the first quarter of 2020, X5's Pyaterochka stores operating in the proximity stores segment generated around 79% of the total revenues, having increased by 17.4% yoy driven by 6.1% increase of like-for-like sales and 12.9% increase of selling space.

**The e-grocery segment should support growth, although we do not factor in any contribution to EBITDA before 2022.** We consider X5's development of its e-grocery segment to meet consumer demand during the coronavirus pandemic, will contribute to its top-line growth, although we do not expect the overall addition to revenues to exceed several percentage points in the next year or two. In April 2020, X5 gained the leading market position in the Russian e-grocery market by turnover, including express delivery as well as online supermarket operations, and it expects to expand to other large Russian cities in the coming months from Moscow, Moscow region, St. Petersburg, Nizhniy Novgorod, and Krasnodar. Nevertheless, we do not factor in any contribution to EBITDA until 2022.

**Environmental, social, and governance (ESG) credit factors for this credit rating change:**

- Health and safety

## **Outlook**

The stable outlook reflects our expectation that X5 will maintain its leading market position in the Russian food retail market and grow its business over the next 12-24 months with broadly stable profitability margins. It also assumes the group will expand its positive FOCF after all lease payments, and gradually improve the headroom under its credit metrics. In particular, we forecast that in 2020, X5 will post FFO to debt of 21%-23%, positive FOCF (after all lease payments), and dividend payments only partially funded with debt at more beneficial interest rates than was historically the case.

## **Downside scenario**

We could take a negative rating action over the next 12 months if X5 is unable to maintain its leading market position or continue its profitable growth due to operational setbacks, fierce competition, or softer macroeconomic conditions in Russia, thus resulting in weaker earnings and cash flow generation. This would result in adjusted FFO to debt falling to 20% or less, FOCF after leases close to neutral, leading to increasingly debt-funded dividend cover. Sizable debt-funded acquisitions or shareholder returns significantly above our base case, leading to sustained increase in leverage and weakening of cash flow metrics, could also prompt a negative rating

action.

## Upside scenario

We view an upgrade over the next 12 months as unlikely at this stage due to relatively limited headroom under the rating, even taking into account the improvement in trading and credit metrics incorporated in our base case. Likewise, COVID-19 prompted a high level of uncertainty affecting trading conditions over the medium term, which curbs upside potential for X5 rating at this time.

## Company Description

X5 is a leading Russian food retailer founded in 2006. Its parent company is headquartered in Amsterdam. The group generated about RUB1.7 trillion (about \$26 billion) revenue in 2019. X5 had 16,658 stores as of March 31, 2020, of which 15,739 are Pyaterochka proximity stores, 846 Perekrestok supermarkets, and 73 Karusel hypermarkets, spread across 65 Russian regions. X5 owns an extensive logistics system, including five direct import hubs, 42 distribution centers, and 4,098 proprietary trucks (as of March 31, 2020).

X5's global depositary receipts are publicly traded on the London Stock Exchange and on the Moscow Stock Exchange. The group's largest shareholders are CTF Holdings S.A. (a top holding company of the Alfa Group Consortium (47.9%), one of Russia's largest privately owned financial industrial conglomerates), and Intertrust Trustees Ltd. (Axon Trust) (11.4%). Shareholders with less than 3% represent about 40.7% of the total outstanding shares. X5's market cap was USD8.3 billion as of June 5, 2020.

## Our Base-Case Scenario

Our base case includes the following:

- Our assumptions for X5 reflect economic scenarios for Russia, which is the sole country of operation for the company. We factor in that after a period of a 3%-4% annual growth, Russia's GDP is expected to decline by about 4.8% yoy due to the COVID-19-related setbacks and low oil prices, recovering in 2021.
- Our view that the normalized demand for grocery products will remain relatively resilient to the downside economic scenario, as witnessed during the 2008 and 2014 downturns. We factor in that in the last weeks of March, X5 benefited from a strong increase of demand driven by stocking up fueled by COVID-19 concerns. This should offset somewhat softer demand expected in the remaining quarters of 2020 due to real income decline.
- We anticipate that food price inflation in 2020 will be slightly above the 2019 level at around 1%-3%, declining in 2021. This, coupled with new store openings, should support our expectation of sales growth of about 9.0%-9.5% in 2020 and around 8.5%-9.0% in 2021.
- EBITDA margin of just below 7.0% in 2020 and at around 7.1% in 2021 (Under IAS 17), compared with 7.1% in 2019. Including the impact of IFRS 16, we expect EBITDA margin to be in the range of about 11.5%-12.0%, compared with 12.2% in 2019.
- Capex of around RUB75 billion in 2020 and about RUB85 billion in 2021, driven by the opening of new stores, refurbishment, maintenance spending, IT, digital projects, logistics, and other projects, after around RUB75 billion in 2019 capex;

- Minimal acquisitions of around RUB5 billion per year in 2020-2021; and
- Cash dividend payments of about RUB30 billion in 2020 and -RUB35 billion in 2021, after RUB25 billion in 2019.

Based on these assumptions, we arrive at the following credit measures:

- S&P Global Ratings-adjusted debt to EBITDA of around 3.1x in 2020-2021, after 3.3x in 2019; and
- S&P Global Ratings-adjusted FFO to debt of around 22%-23% in 2020-2021, after 20.2% in 2019.

## **Liquidity**

We assess X5's liquidity as adequate, with sources covering uses by around 1.3x for the 12 months starting from March 31, 2020. Our assessment of liquidity reflects X5's sound relationships with its banks and access to local and international bond markets. We also factor in that around half of X5's capex is to some extent discretionary, providing the group flexibility and hence supporting our liquidity assessment.

We also understand that the group has access to about RUB23 billion of undrawn short-term committed credit lines maturing in less than 12 months, which we don't include in our liquidity sources, although based on X5's track record we understand that the company could extend the maturity of these lines should that become necessary.

For the 12 months ending March 31, 2021, we estimate that X5's principal liquidity sources comprise:

- Cash balances of about RUB12 billion;
- Undrawn long-term committed bank lines of about RUB8 billion;
- RUB40 billion actual debt issuance, including RUB20 billion of domestic bonds and RUB20 billion of treasury lines used for refinancing of a RUB20 billion eurobond in April 2020; and
- Around RUB100 billion-RUB105 billion of cash FFO after capital lease payments.

We estimate X5's principal liquidity uses comprise:

- Approximately RUB66.4 billion of debt maturities;
- About RUB15 billion of working capital outflow including intra-year seasonal peaks; and
- Around RUB40 billion of capex that we consider nondiscretionary.

## **Covenants**

We expect X5 will have headroom of more than 30% under its financial covenants, including its 4.0x net leverage covenants applicable to loans.

## Ratings Score Snapshot

Issuer Credit Rating: BB+/Stable/--

Business risk: Satisfactory

- Country risk: High
- Industry risk: Intermediate
- Competitive position: Satisfactory

Financial risk: Significant

- Cash flow/leverage: Significant

Anchor: bb+

Modifiers

- Diversification/portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Financial policy: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Management and governance: Satisfactory (no impact)
- Comparable ratings analysis: Neutral (no impact)

## Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

## Ratings List

**Upgraded; Outlook Action**

	To	From
<b>X5 Retail Group N.V.</b>		
<b>X5 Finance 000</b>		
Issuer Credit Rating	BB+/Stable/--	BB/Positive/--

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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