X5 Retail Group N.V.
Q1 2021 financial results
Conference call held on 27 April 2021
Edited transcript

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

Participants asking questions:
- Henrik Herbst, Morgan Stanley
- Kirill Panarin, Renaissance Capital
- Nikolay Kovalev, VTB Capital

Operator:

Good day and thank you for standing by. Welcome to X5 Retail Group's Q1 2021 Financial Results Conference Call. For the time being, all participants are in listen-only mode. After the speakers' presentation, there will be a question-and-answer session. To ask a question during the session, you will need to press "star" "1" on your telephone keypad. Please be advised that today's conference is being recorded. If you require any further assistance, please press "star" "0." I would now like to hand the conference over to our first speaker of the day, Natalia Zagvozdina, Head of Corporate Finance and IR. Please go ahead.

Natalia Zagvozdina:

Thank you, operator. Good morning, good afternoon, ladies and gentlemen. On behalf of X5, let me welcome you to our call today, which is dedicated to our Q1 2021 financial results presented in accordance with IFRS 16 as well as pre-IFRS 16 accounting standards. Our management will be discussing the results on a pre-IFRS 16 basis.

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 X5's future financial performance. Please refer to Page 7 of our press release for a full disclaimer related to these statements. The press release as well as financial statements were published this morning and are available on our website in the Investor Relations section.

Today's speakers are Igor Shekhterman, CEO of X5 Retail Group, and Svetlana Demyashkevich, our CFO. Vsevolod Starukhin, the current advisor to the CEO, is also present on our call today.

Without further ado, let me pass the floor to the CEO of X5 Retail Group, Mr. Shekhterman.

Igor Shekhterman:

Thank you, Natalia. Good morning and good afternoon, ladies and gentlemen. Thank you for joining us on our call today. I would like to begin by giving an update on X5's operations over the last few months. After that, our CFO, Svetlana Demyashkevich, will elaborate on our results in finer detail and give an overview of year-to-date trading. Following our presentation, we will be happy to address all of your questions.

Before we move on, I would first like to comment on the upcoming changes to our management team. As you may know, on May 17, Svetlana Demyashkevich will step down as our CFO as she shifts to focus on a new project for Alfa Group that includes overseeing the launch of a new partnership between X5 and Alfa Bank in the fintech sector. Svetlana will continue working as my adviser in order to ensure a smooth transition.

From May 17, Vsevolod Starukhin will be the company's new CFO. Vsevolod is an experienced manager with a background in a variety of industries. He has held financial management positions in the Russian and international FMCG sector, operational management positions, and has experience transforming companies both functionally and digitally as CEO. We are confident that the diversity of Vsevolod's experience, combined with his professional competencies and personal attributes, will help X5 to continue implementing its strategy effectively. We expect Vsevolod to continue financing new businesses effectively and to work towards X5's goal of improving the efficiency of our traditional formats.

I would like to take this opportunity to thank Svetlana for her valuable contribution to developing a successful and efficient digital finance function at X5. Her efforts in this area have helped to significantly reduce funding costs as well as maintain productive relationships with our investors, analysts and credit rating agencies. Under her management, X5 has significantly strengthened its risk and internal control systems and improved the budgeting of its non-commercial procurement and investment process. I am confident that her experience and knowledge will be valuable in launching X5's new fintech service. Svetlana, thank you on behalf of the entire X5 team.

I will now summarize X5's key achievements in Q1 2021 as well as the progress of our online businesses. Given that we held our 2020 financial results conference call just a month ago, I will refrain from giving a long introduction. Revenue increased by 8.1% y-o-y driven by 6.4% growth in offline sales and 1.7% contribution to sales from our digital businesses.

Last year, we had two drivers pushing quarterly sales higher – the extra day in February given it was a leap year and abnormal consumer demand starting from March 14 due to customers stocking up ahead of the COVID lockdown. Excluding both of these factors, our normalized revenue growth would have been 13.2%, which I personally consider a solid result.

In Q1, X5 sustained market leadership in e-grocery by total GMV from our Vprok and express delivery services. In Q1, total MAU of X5's digital services increased by 91% y-o-y to RUB 14.7 mln. Sales increased across all formats and channels. Like-for-like sales remained positive despite the higher base effect in Q1 last year when our LFL was 5.7%.

In Q1 2021, we improved our gross margin to 25.2%. This was largely a result of our improved commercial margin shrinkage level and increased logistics efficiency. Our EBITDA margin excluding LTI, remained stable at 7.0% in accordance with pre-IFRS 16 standards. I would like to specifically focus on the 63 b.p. improvement in EBITDA margin for Pyaterochka, which reflects the team's successful efforts at boosting operational efficiency. The margin improvement comes in spite of the fast growth of express delivery services, which have accounted for the format margin. The increased profitability of Pyaterochka has enabled us to balance our temporary weakness in terms of Perekrestok Vprok's margin, and more importantly to invest in; new digital businesses, 5Post, and hard discounters, without impacting the Group's consolidated margin.

While the pandemic is not fully over, we are well placed to build on the momentum and success of the past year. We continue to strengthen our core business while developing our digital businesses and online capabilities. As always, we remain committed to providing great value and support for our customer in challenging times.

In Q1, we continued our program to refurbish Pyaterochka and Perekrestok stores, in line with our plan to refurbish 1,500 stores this year. Stores operating under the new concept continued to demonstrate significantly higher LFL sales growth and NPS levels than their predecessors, and by the end of the March, represented 17% of all Pyaterochka and 14% of all Perekrestok stores.

Like our tech competitors, we see huge market potential in e-grocery and aim to hold a 20% share in this market segment by 2023. As a Russian, regional food retailer, we have an important advantage over our competitors thanks to our vast infrastructure, purchasing power and data on customer preferences related to groceries. We are aware, however, that in order to maintain growth, certain levels of investment are required. We are considering various options to develop our digital businesses in the future after their planned carve out, and will be able to share more details on this later in the year.

Revenue from our digital businesses grew by 4.6x in Q1 2021, with Vprok.ru Perekrestok and express delivery successfully fulfilling over 74,000 daily orders during the peak period in March. Our digital businesses' share in X5's sales saw its fastest growth in Moscow and the Moscow region where sales penetration reached 4.0% in Q1 2021.

Vprok.ru Perekrestok continued to expand organically by growing its assortment, attracting new and existing customers. Its total number of projects doubled y-o-y to 1.2 mln in Q1. The service fulfilled 15,000 daily order on peak days.

We continue to expand the reach of our express delivery service from Pyaterochka proximity stores and Perekrestok supermarkets. It is now available in 24 regions and from 1,300 stores. The service fulfilled an average of 45,600 orders per day in Q1. The number of customers exclusively using these services exceeded 500,000 in March. Despite its relatively recent launch in December 2019, express delivery contributed 52% to X5's total digital revenue in Q1 this year. We see significant growth potential for this segment. Orders fulfilled by X5's post e-commerce delivery service reached 4 mln in Q1 2021 from 17,000 pickup points.

The online hypermarket Vprok,ru Perekrestok is expanding its delivery offering through use of 5Post's existing infrastructure. By the end of June, these services will be available in 43 regions and accessible to 66% of the country’s population. This expansion will lay the foundation for developing the online hypermarket into a marketplace. By making use of X5’s existing infrastructure, the Company will have a unique competitive edge. Over the course of this transformation, Vprok.ru Perekrestok’s assortment will double to consist of over 100,000 SKUs by the end of the year.

In April, we announced the acquisition of Mnogo Lososya to enter the dark kitchen segment. This deal diversifies our ready-food business. While dark kitchens currently account for 5% of the ready-to-deliver market, their growth outpaces other online HoReCa segments. Our Okolo aggregator already features Mnogo Lososya ready-to-eat brands.

To ensure that X5 covers all stages of the customer journey, in a few months we plan to launch a media platform that will include recipes and price comparison sites. This will be available through our online platform and mobile app. It will enable us to communicate with the customer more efficiently and enable us to suggest food purchasing options.

Starting this year, X5 will also focus on fintech, including payments and subscriptions. By the end of 2021, we plan to launch a subscription service that will offer customers the opportunity to receive special discounts at X5 and its partnered stores. In partnership with Alfa Bank, X5 will also begin offering fintech services to its clients as part of its digital discount project. This project will include integrating a new payment solution into the mobile applications of all X5 businesses.

I would like now to hand over to X5 CFO, Svetlana Demyashkevich. Thank you for your attention.

Svetlana Demyashkevich:

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

As you already know, next month I will take on a new role overseeing the launch of new venture between X5 and Alfa Bank to develop retail financial services. In the four years that I have been with the company, we have assembled a very professional financial team. We have also introduced systemic changes to improve business efficiency that have resulted in growing returns. It has been a great experience working in the management team of a public company, and I'm very grateful to Igor and to all members of the X5 Supervisory Board for this opportunity.

As usual, let me begin today with the external environment. In Q1, food inflation accelerated to a quarterly average of 7.4% y-o-y, up from 5.8% in Q4 2020 and peaking in February at 7.7%. Key drivers of price inflation included fruit and vegetables, with inflation of 13.5%, as well as sugar, eggs and vegetable oils. This was influenced by the increasing costs of global soft commodities, price inflation and the weaker rouble.

Consumer demand continued to recover and reached -1.1% y-o-y in Q1 2021 compared to -3.8% y-o-y in Q4 2020.

Nominal wage growth averaged 4.8% during the quarter, slightly decelerating from 5.3% in January to 4.6% in March. Unemployment in Q1 2021 decreased to 5.8% compared to 6.1% in Q4 2020. We still see changes in customer behaviour related to safety considerations, with less frequent visits to stores and larger purchase provision due to COVID. Other than that, there were no signs of changing consumer behaviour during the quarter.

Now a few words about X5's financial performance in Q1 2021. Igor already discussed our revenue growth, which we consider solid at 13.2% when adjusted for the effect of the Leap Year and the last 2 weeks of March. The high base for our revenue will continue in April but should start normalizing through May. I would like to remind you that in Q2 2020, April revenue growth was 16% y-o-y, but by May and June was already at 11% and 12.5%, respectively. High food inflation, although a challenge for retailers considering low nominal wages and decreased disposable income, of course supported our revenue in first quarter.

During Q1, we opened 252 stores on a net basis, which led to an 8.7% increase in selling space. We also refurbished 425 Pyaterochka stores and 1 Perekrestok store, bringing the share of stores operating under the new concept to 17% in Pyaterochka and 14% in Perekrestok. The gross number of store openings totaled 330 in Q1 and, together with refurbishments and investments in digital businesses, drove quarterly capex of RUB 20.6 bln, up 18.2% y-o-y. In Q1, approximately 45% of capex went to refurbishments, 35% to new stores, 5% to logistics, 9% to IT, while 10% consisted of maintenance capex. Other investments accounted for 14% of total capex and included efficiency projects and initiatives to develop our digital businesses.

LFL sales increased by 2.1% when excluding the extra Leap Year day from Q1 2020 data. On a normalized basis, we estimate our like-for-like performance at 5.4%. The LFL basket remained the main driver of LFL sales until mid-March. From mid-March, due to the base effect of last year we saw a reversal in our LFL sales composition, with traffic becoming a larger driver and basket size normalizing.

The net sales of X5's digital businesses totalled RUB 10.5 bln, which comprised 2.1% of consolidated Q1 2021 revenue – we think that by year-end, this should rise to around 3%.

Looking at margins. The gross profit margin increased by 81 b.p. y-o-y in the first quarter. This increase was mainly driven by a reduction of 50 basis points in shrinkages and logistics costs. This was a result of operating improvements within our businesses. The balance was due to a better commercial margin on the back of lower price investments. The net effect on gross profit of the reclassification of income from the sale of recyclable materials, distribution centers and transportation as well as costs related to Perekrestok stock and express, last mile delivery was almost zero.

In Q1 2021, SG&A expenses as a percentage of revenue increased by 109 b.p. y-o-y, excluding depreciation, amortization impairments, share-based payments and the impact of the current sales transformation. This is mainly due to higher soft cost utilities, third-party service expenses and other expenses. It can also be attributed to the reclassification of Vprok.ru Perekrestok and express delivery last mile costs to SG&A expenses from cost of sales. Excluding the reclassification, SG&A expenses increased as a percentage of revenue by 86 basis points, which was offset by gross margin improvements. Starting from Q2 2021, reclassification will not affect these numbers.

As a result, adjusted EBITDA in the first quarter increased by 7.6% y-o-y, with the adjusted EBITDA margin down 4 b.p. to 7.0%. The rapid growth of our new and digital businesses impacted our quarterly EBITDA by 19 b.p., up from 13 b.p. in Q1 2020. Another negative factor was the ongoing transformation of Karusel. Karusel's revenue contribution is small, but its EBITDA margin is also in the low single-digit range, which affects our consolidated EBITDA results. Having said that, we are happy to report that Pyaterochka's EBITDA margin demonstrated a 63 b.p. improvement from Q1 of last year driven by improvements in commercial margins and reductions in logistics and shrinkages, all of which are system components.

Both Vprok.ru Perekrestok and express delivery are still showing planned EBITDA losses, but Vprok.ru Perekrestok is on track to break even by the end of this year. 5Post is also expected to break even on the EBITDA level, most likely before year-end. In February and March, 5Post already achieved positive EBITDA.

We continue to grow LTI expenses related to the last LTI program. According to the accounting requirement, given there is a 50% deferred payment in 2022, LTI expenses amounted to RUB 422 mln in Q1 2021. The remaining accrual for the old LTI program is estimated at around RUB 1.3 bln and if targets are maintained, will be accrued until the second payment in Q2 2022. The new LTI program is at its final stage of approval, and there have not been any accruals so far.

D&A and impairment costs increased as a percentage of revenue by 18 b.p. to 3.6% in Q1. This was mainly due to the gross book value of assets growth outpacing revenue growth and the accelerated depreciation rate due to the increased number of refurbishments compared with last year.

In Q4 2020, net finance costs decreased by 4.6% y-o-y due to a decline in the weighted average effective interest rate of X5's total debt. This was driven by the declining interest rates in Russian capital markets and X5's actions to minimize interest expenses.

In Q4 2020, income tax expenses grew by 14.9%, in line with the increase in profit before taxes.

The company's net profit in Q1 increased by 12.1% y-o-y to RUB 9.2 bln, while net profit margin increased by 6 b.p. y-o-y to 1.8%. Net profit was supported by smaller noncash FX as the ruble fell less in value in Q1 2021 than it did in Q1 2020.

I will now turn to our financial leverage. At the end of Q1 2021, our net debt-to-EBITDA ratio was at a comfortable level of 1.60x. Going forward, we seek to maintain this ratio below 1.8x while continuing to pay dividends.

Now, a few comments about cash flow. Net cash flow generated from operating activities in the first quarter was RUB 24.4 bln, down from RUB 40.0 bln in Q1 2020, which was abnormally high for the seasonally low first quarter and was a result of the working capital changes related to COVID stock up.

The RUB 5 bln reduction in our working capital in Q1 2021 reflects normal business seasonality. This year, X5 did not witness the abnormal changes in working capital that occurred in 2020. So working capital was released in Q1 2020 and [there will be] investments in working capital in Q2 2020. Last year, those changes reflected increased demand and large inventory drawdown as COVID-19 emerged. This rise in purchases led to much higher accounts payable and faster inventory turnover.

Finally, I will give a short update on the quarter-to-date results and some guidance before we transition to the Q&A session. Net retail sales, excluding VAT, grew by 6.8% y-o-y in the first 26 days of April. LFL sales growth stood at 0.5%. This is on the comparable 26 days of April 2020, which had LFL of 6.7%. Now that we have passed the comparable period of last year's stock up buying, we are seeing a substantial acceleration of sales and LFL: From the beginning of the last week of April, net retail sales grew by 15.1% y-o-y and LFL sales by 8.5%.

Finally, let me confirm our previously announced plans to open around 1,500 stores before any planned closures across all formats in 2021 while maintaining our profitability and returns. A similar number of stores will be refurbished. The plan is for capex not to grow faster than revenue. We remain committed to continue paying dividends in line with our dividend policy.

With that, I would like to conclude the discussion of our results and take this opportunity to thank the investors and analysts that I worked with during my tenure as X5's CFO. Thank you for your interesting questions, ideas, discussions, your interest in our company and your support over the years. I have greatly enjoyed working with you all.

We are now ready for your questions.

Operator:

Thank you. As a reminder, to ask a question, you will need to press "star" "1" on your telephone keypad. To withdraw your question, please press the "pound" or "hash" key. Please stand by while we compile the Q&A for you.

Our first question comes from the line of Henrik Herbst.

Henrik Herbst:

I had a couple of questions. Firstly, I just wanted to check, it looks like your Moscow and Moscow region sales densities fell year-on-year. If you could maybe talk a little bit about what's going on there and how you think that will evolve going forward. And then secondly, I was wondering if you could help us sort of understand a little bit better the building blocks in your EBITDA margin progression, and how we should think about the margin progression for the rest of the year given that, as you point out, Pyaterochka is delivering very, very solid margin improvement.

I guess as we go through the year, the drag from Vprok.ru Perekrestok should reduce if the business is getting closer to breakeven or positive EBITDA. And I guess Perekrestok had weaker sales so it was a bit of a drag. And if people start to return to shopping malls, et cetera, which should help that business, why shouldn't we expect EBITDA margins, I guess, to improve year-on-year?

Svetlana Demyashkevich:

Thank you for your question – I will first comment on sales densities in the Moscow region. I think that Pyaterochka’s performance was actually the biggest cause of the fall in sales densities due to the fact that in the first quarter, we still didn't see a return in traffic to shopping malls. Lower sales densities were also largely expected given the abnormal stockpiling that occurred in March of last year.

We are glad that we have seen much more positive trends in Perekrestok in late April. And I believe that in May and June – so overall for the second quarter – we will see better overall trends in sales densities as well as in traffic and revenue growth.

And your second question on margin progression. First of all, we still see potential to further improve our gross margin by making operational improvements that will impact shrinkages and logistics costs. In addition to that, we don't see any negative developments in the promotional environment or any aggressive behavior from competitors. So we think that we have the potential to improve our overall gross margin further.

At the same time, as you know, we are continuing our digital transformation, and are constantly seeing its positive effects. So, the overall effect in 2020 and 2021 of the implementation of digital processes in our core decision-making procedures will be around RUB 20 bln on the EBITDA margin. So that also gives additional potential for improvements.

At the same time, we do see that in the first quarter, we did have this effect of negative operating leverage because of last year’s high base. Totalling all of that up and taking into account the fact that food inflation was higher than we had expected in our budgeting process, I think that the EBITDA margin will remain above 7 as we planned. I think that the overall level will be closer to the level seen last year.

Henrik Herbst:

But I guess what you're saying, why shouldn't margins improve year-on-year for the rest of the year if you're using better operating leverage. Are you saying basically that you will reinvest your operating leverage in the digital business? Or how should I think about it?

Svetlana Demyashkevich:

As you know, we are always ready to reinvest in the development of new businesses, in the development and engagement of our personnel, and I think this will be the case here. So I think we're happy keeping our EBITDA margin above 7%, pretty much at last year's level, and investing the rest to help us gain leadership in the e-grocery segment, to develop our online customer proposition, and to digitally transform all of our businesses because we think that strategically, in the long term, it's the right thing to do.

Operator:

And your next question comes from the line of Kirill Panarin.

Kirill Panarin:

A couple of questions, please. Firstly, there was quite a significant improvement in gross margin in Q1 versus Q4. Can you give any comments on the short-term outlook, please? Is it fair to assume that the trend will continue? And if you could also talk about the pricing environment over the past month given the growth slowdown, that would be helpful. That's the first question.

Svetlana Demyashkevich:

I think we already commented on this when we discussed the results of Q4 2020 and the overall results of last year. We are planning based on annual budgets and usually, if we do have surplus in the first half of the year or three quarters of the year, we might be ready to invest some of the surplus EBITDA margin into our customers, personnel, new projects or businesses. This was actually the case in the fourth quarter of last year.

Now, in this first quarter, we see our normalized EBITDA margin at the level we had planned in our budget for this year. So we're just on track with our plans.

Igor Shekhterman:

And I just wanted to add, we mentioned in our call in April when we discussed our full year results that investments made in the fourth quarter are important for us to support our business in Q1. And you can see that the results in Q1 have definitely been impacted by our investments in Q4.

Svetlana Demyashkevich:

The second part of your question was regarding the promotional environment. I would say that it was at quite a comfortable level for us in the first quarter of this year. We don't see any aggressive behavior from our competitors. So we are able to keep a promotional level in line with normalized trends.

Kirill Panarin:

OK. Great. And secondly, just wanted to ask about staff costs. They grew materially ahead of sales and space in Q1, and it looks like the growth actually accelerated versus Q4 if we exclude the one-offs you previously talked about. So if you could comment on the drivers of that growth in staff costs and on the near-term outlook, that would be great. And also, could you remind us what share of staff cost is fixed versus linked to sales?

Svetlana Demyashkevich:

So actually, the biggest driver of growth of this structural proportion of staff cost revenue is the negative operating leverage because the growth seen in the first quarter of 2021 was slower than the peak in 2020 related to COVID, and that gives this effect of a lot of the lines of our SG&A expenses looking higher than usual. We do expect that in the second quarter the structure of SG&A expenses should normalize. And over the course of the year, in our annual results, you will see that we continue to increase efficiency in our SG&A.

Kirill Panarin:

OK. I was just a bit surprised that staff costs didn't decelerate together with sales more materially, but that's OK. Last one for me. On express delivery, it continues to grow very rapidly. As you previously said, there was no cannibalization of off-line sales. So I just wonder if that's still the case. And if not, are there ways to optimize in-store costs to offset the pressure from courier expenses? That's it from me.

Igor Shekhterman:

Thank you for the question. We don't see any meaningful cannibalization when we analyse what the customer behaviour. We are also working to improve efficiency and reduce the length of the entire process of express delivery from our stores.

Operator:

Thank you. Once again, ladies and gentlemen, "star" "1" if you wish to ask a question.

And our next question comes from the line of Nikolay Kovalev.

Nikolay Kovalev:

Also, I wanted to clarify a couple of points. You mentioned a slowdown in the price of investments in the first quarter, which basically left the EBITDA gross margin at its highest level of the last – almost like 10 years. So my question was, can you comment on what kind of promo activities you see across various segments at the moment? And what you expect to happen in the second quarter when revenue growth picks up?

My second question is on your digital businesses. If my calculations are correct, you plan to achieve 10% revenue growth and 3% in digital businesses, so roughly a RUB 65 bln turnover this year. Can you potentially break it down between your various (missions)? So I mean stock up express delivery and 5Post?

Igor Shekhterman:

Let's start with your question on promo, Nikolay, and we would like to ask you to clarify the second question, OK?

Svetlana Demyashkevich:

Yes. So on promo activity, for the first quarter of this year, the overall promotion level was less than 35%, whereas last year, it was closer to 40%. We don't see any active promos from any of our off-line competitors. In online, I would say that it's more intense. But the influence on our gross margin is not that significant. So...

Igor Shekhterman:

Yes, 40%, it refers to Q4 2020, right? Not year-on-year.

Svetlana Demyashkevich:

Not year-on-year. Nikolay, and we understand your question – the second one was about the contribution from the digital businesses to overall growth of 10% revenue per year, right?

Nikolay Kovalev:

But can I follow up on the first question, if you don't mind, because mostly, I wanted to ask, given the current level of promo, which fell and then picked up with revenue growth, do you anticipate higher promo in the second quarter or will growth be achieved with a sustainable level of price investment?

Svetlana Demyashkevich:

Usually, we see high levels of promo in the third and fourth quarter if you're talking about normal seasonality. But as with last year, in 2021 we may also see a slightly abnormal dynamic here. For example, last year, in the third quarter, we didn't have any additional promo activities. So in general, I would expect that in the second quarter, the promo level will not increase significantly apart from during holidays and seasonal promos.

Nikolay Kovalev:

OK. That's clear. So to clarify, on the second question, I was talking about digital turnover. You have planned for total revenues to increase by approximately 10% this year, and on the call today, you mentioned 3% coming from digital services. So, calculating total revenues and the share of digital, I got RUB 65 bln – please correct me if I'm wrong. Also, if turnover will be in line with this, how will it be split between your three online businesses?

Svetlana Demyashkevich:

So I think I mentioned that we expect the annual growth of our digital businesses to have an impact of about 1.5%-1.7%. So overall, I don't think we're giving guidance for the revenue in 2021 of our digital businesses. But we do not expect growth to slow down. And in the first quarter, you see very good results in both Perekrestok Vprok and express delivery. So I think it should continue.

Because express delivery is growing much faster but expanding geographically, in Q1 revenue from our digital businesses equalled half of what we achieved from our digital businesses last year. Therefore, of course, it's very difficult to forecast exactly what the penetration of digital sales to revenue will be in the last quarter, but we do see a clear trend that this is continuing to increase.

Operator:

There are no further questions at this time. Please continue.

Natalia Zagvozdina:

Thank you, operator. Thank you very much for taking the time to participate in our call today. We have now finished and will look forward to next speaking to you in August when we deliver our first half and second quarter financial results. Thank you, and goodbye.

Operator:

Thank you. Ladies and gentlemen, that concludes our conference call for today. Thank you all for participating. You may now disconnect.