HMS Group Reports 3Q 2019 Profit of Rub 369 million

Moscow, Russia – December 16, 2019 – HMS Group Plc (the "Group") (LSE: HMSG), the leading pump, oil & gas equipment and compressor manufacturer and provider of flow control solutions and related services in Russia and the CIS, today announces its financial results for the nine months ended September 30, 2019.

Financial highlights 9 months 2019:

- Revenue: Rub 36.7 bn (+15% yoy)
- EBITDA[1]: Rub 3.4 bn (-21% yoy), EBITDA margin at 9.2%
- Operating profit: Rub 1.6 bn (-41% yoy)
- Profit for the period: Rub 195 mn (-83% yoy)

- Total debt: Rub 21.1 bn (+10% yoy)
- Net debt: Rub 17.0 bn (+14% yoy)
- Net debt-to-EBITDA LTM ratio: 2.98x

Operational highlights 9 months 2019:

- Backlog: Rub 41.4 bn (+9% yoy)
- Order intake: Rub 36.2 bn (+18% yoy)

[1] EBITDA is defined as operating profit/(loss) adjusted for other operating income/expenses, depreciation and amortisation, amortisation of government grants, impairment of assets, excess of fair value of net assets acquired over the cost of acquisition, defined benefits scheme expense and provisions (including provision for obsolete inventory, ECL allowance and provision for impairment of trade and other receivables and other financial assets, unused vacation allowance, warranty provision, provision for legal claims, tax provision and other provisions). This measurement basis, therefore, excludes the effects of a number of non-recurring income and expenses on the results of the operating segments.

GROUP PERFORMANCE

9M 2019 FINANCIAL RESULTS

in millions of Rub	9m 2019	9m 2018	Change yoy	3Q 2019	2Q 2019	Change qoq
Orders	36,227	30,715	18%	11,686	13,054	-10%
Backlog	41,395	37,904	9%	41,395	43,412	-5%
Revenue	36,681	31,862	15%	13,262	14,565	-9%
EBITDA	3,392	4,319	-21%	1,439	1,452	-1%
EBITDA margin	*9.2%*	*13.6%*		*10.8%*	*10.0%*	
Profit for the period	195	1,174	-83%	369	321	15%
Depreciation & amortization	1,699	1,321	29%	587	564	4%
Free cash flow	(2,623)	(1,993)	32%	(705)	(690)	2%

Order intake grew by 18% yoy to Rub 36.2 billion, compared with Rub 30.7 billion for 9m 2018, based on the increase in all main business segments. Both recurring business and large contracts contributed to this growth.

Backlog grew to Rub 41.4 billion by 9% yoy, compared with Rub 37.9 billion last year, driven by all main business segments as well. Also, the growth was based on both the recurring business and large contracts.

Revenue grew to Rub 36.7 billion, up by 15%, compared with Rub 31.9 billion for 9m 2018. The main contributor to this growth was the compressors business segment.

EBITDA was down to Rub 3.4 billion compared with Rub 4.3 billion (-21% yoy) because of a weak performance of the oil & gas equipment and projects segment.

Revenue from recurring business was up by 18% yoy, and revenue from large projects grew by 9% yoy. EBITDA from recurring business increased 37% yoy, but from large projects contracted by 45% yoy. Due to a lower input of large contracts, EBITDA margin declined to 9.2%, compared with 13.6% for 9m 2018.

Profit for 3Q 2019 of Rub 369 million together with 2Q 2019 compensated the loss in 1Q 2019, so profit for 9m 2019 turned positive Rub 195 million, but it was 83% yoy lower compared with Rub 1.3 billion profit for the period for 9m 2019.

Depreciation & amortization was up 29% yoy to Rub 1.7 billion, compared with Rub 1.2 billion for 9m 2018 due to acquired assets in 2018-2019.

Free cash outflow increased to Rub (2.6) billion from Rub (2.0) billion for 9m 2018, due to an increase in working capital and Rub 700 million acquisition made in Feb 2019. If excluding this acquisition, free cash outflow this year was lower compared with last year.

HMS AUSTERITY PROGRAM

In 2019, HMS experiences the influence of several negative factors that affected the company's financial results:

- Change in a mix of large contracts portfolio, where compressor-based large contracts increased their share, and they traditionally have lower margins compared with pumps and oil & gas equipment:
  HMS addressed this by working on prospective profitable contracts. As a result, today the company has signed already a sustainable volume of large contracts in the pumps and the compressors segments. In the oil & gas equipment and projects segment, the portfolio of large contracts is improving. Also, based on a current pipeline of large projects, the oil & gas equipment and projects segment has a potential of the further portfolio's development.
- Weak results of the oil & gas equipment and projects business segment in recurring business:
  HMS had analyzed the factors, that affected financial results of the segment, and has taken actions to mitigate their impact on 2020 FY results.
- Postponement of a number of signed and budgeted oil & gas equipment deliveries from 3Q-4Q 2019 to the 2020 year due to HMS customers' decisions:
  On the one hand, this factor will affect and has already affected 2019 FY financial results, and on the other hand, it should positively influence 2020 FY financial results.
- The "Arctic Cascade" project of PAO NOVATEK, the first ever HMS project in the field of designing and manufacturing of compressors for liquefaction of natural gas:
  HMS Group had analyzed the project, and has taken actions to prevent losses in foreseeable projects of that kind. The equipment was manufactured under the innovative proprietary natural gas liquefaction technology called the "Arctic Cascade" patented by PAO NOVATEK in 2018. The aim of the project was to localize the manufacturing and assembly of LNG equipment to decrease the overall cost of liquefaction and develop a technological base within Russia. While the participation in the project incurred losses for HMS due to the fact that the company has developed a new product, the project's successful execution has given the access to the new and prospective LNG market in Russia.
- Austerity measures time lag:
  HMS had started the cost-optimization program at the end of 1H 2019. It has taken several months from the implementation of austerity measures to the decrease of fixed costs and increase of profitability, which were clearly seen at the improved results of 3Q 2019.

The cost-optimization program of HMS Group consists of two types of austerity measures - short-term and long-term. The short-term measures have been already implemented and realized. In 2020, the short-term ones will be partly complimented or replaced by long-term measures.

The short-term measures include (1) a temporarily decrease of wages, which has been already realized in 2H 2019, and (2) a decrease or cancellation of dividend payments in 2020, which decision will depend on 2019 FY results and general situation with large contracts portfolio in the spring 2020.

The long-term austerity measures include, among others:

- Rightsizing (personnel optimization);

- Minimization of operating costs including optimization of procurement processes and improvement of products' design solutions;
- Reduction of capital expenditures to Rub 1.5 billion per annum (pure maintenance level);
- Strengthening of control over working capital;
- Analysis of non-performing assets for further decision-making regarding restructuring of HMS business.

EXPENSES AND OPERATING PROFIT

in millions of Rub	**9m 2019**	**9m 2018**	**Change yoy**	**Share of 9m 2019 revenue**	**Share of 9m 2019 revenue**
Cost of sales[2]	**29,620**	**23,790**	**25%**	**80.7%**	**74.7%**
Materials and components	20,582	15,278	35%	56.1%	47.9%
Labour costs incl Social taxes	5,238	5,395	-3%	14.3%	16.9%
Depreciation and amortization	1,437	1,131	27%	3.9%	3.6%
Construction and design and engineering services of subcontractors	1,561	1,197	30%	4.3%	3.8%
Others	803	790	2%	2.2%	2.5%

Cost of sales increased to Rub 29.6 billion by 25% yoy, compared with Rub 23.8 billion for 9m 2018, because of the combination of two main factors:

- Large contracts to produce compressors have a higher share of outsourced components in their costs of sales, and as a result, their profitability are lower than those ones in the pumps or the oil & gas equipment segment;
- Recurring business portfolio consisted of less profitable contracts compared with last year.

Gross profit was down 13% yoy to Rub 7.1 billion, compared with Rub 8.1 billion for 9m 2018.

in millions of Rub	**9m 2019**	**9m 2018**	**Change yoy**	**Share of 9m 2019 revenue**	**Share of 9m 2019 revenue**
Distribution and transportation	1,402	1,378	2%	3.8%	4.3%
General and administrative	3,981	3,876	3%	10.9%	12.2%
SG&A expenses	*5,382*	*5,253*	*2%*	*14.7%*	*16.5%*
Other operating expenses	89	117	-24%	0.2%	0.4%
Operating expenses ex. Cost of sales	*5,471*	*5,370*	*2%*	*14.9%*	*16.9%*
Operating profit	1,590	2,701	*-41%*	*4.3%*	*8.5%*
Finance costs	1,292	1,186	9%	3.5%	3.7%

[2] Herein, materials & components, labour costs and social taxes, construction & design were additionally derived from Change in work in progress and finished goods, thereby do not coincide with the note in the financial statement

Distribution and transportation expenses increased by 2% yoy, mainly due to an increase in transportation expenses (+16% yoy). As a share of revenue, distribution and transportation expenses was down to 3.8% compared with 4.3% last year.

General and administrative expenses were up by 3% yoy to Rub 4.0 billion, compared with Rub 3.9 billion last year, mainly due to the increase in bank services (+41% yoy) and depreciation & amortization (+40% yoy). As a share of revenue, general and administrative expenses decreased to 10.9% from 12.2% for 9m 2018.

SG&A expenses (Selling, General and Administrative Expenses, compiled of distribution & transportation expenses plus general & administrative ones) grew to Rub 5.4 billion, up 2% yoy, and as a share of revenue, declined to 14.7% from 16.5%.

As the result of the cost-optimization program, SG&A labour expenses (the sum of labour costs and social taxes) in 3Q 2019 decreased to 6.6% as a share of revenue, compared with 8.0% in 2Q 2019. That was also one of the factors that influenced positively 3Q 2019 profit for the period and increased margins.

Operating profit was down to Rub 1.6 billion, compared with Rub 2.7 billion last year (-41% yoy).

in millions of Rub	**9m 2019**	**9m 2018**	**Change yoy**
Finance costs	**1,292**	**1,186**	**9%**
Interest expenses	1,279	1,180	8%
Interest rate, average	8.72%	8.75%	
Interest rate Rub, average	8.89%	8.90%	

Finance costs were Rub 1.3 billion, up by 9% yoy, compared with Rub 1.2 billion for 9m 2018. The main factor was an increase of interest expenses (+8% yoy) due to a higher total debt level. Average rates decreased to 8.72% p.a., compared with 8.75% last year.

BUSINESS SEGMENTS PERFORMANCE

Industrial pumps[i]

in millions of Rub	**9m 2019**	**9m 2018**	**Change yoy**	**3Q 2019**	**2Q 2019**	**Change qoq**
Orders	16,423	13,432	22%	5,852	5,011	17%
Backlog	18,834	17,450	8%	18,834	19,398	-3%
Revenue	13,904	11,198	24%	5,924	4,739	25%
EBITDA	1,871	1,198	56%	804	793	1%
EBITDA margin	13.5%	10.7%		13.6%	16.7%	

Order intake of industrial pumps grew by 22% yoy based on both recurring business and large contracts.

Backlog grew by 8% yoy to Rub 18.8 billion due to recurring business and large contracts as well, mainly in the sphere of pumps for nuclear power stations.

Revenue was Rub 13.9 billion, up 24% yoy, compared with Rub 11.2 billion for 9m 2018. EBITDA increased to Rub 1.9 billion, by 56% yoy, from Rub 1.2 billion for 9m 2018. The growth was based on both recurring business and large contracts.

EBITDA margin recovered to 13.5%, compared with 10.7% for 9m 2018, due to a number of factors, including the implemented cost-optimization program as well as a higher share of large contracts.

There are two low-margin production facilities in the pumps business segment, and their negative effect has been already reflected in the company's financial results. Currently, HMS is working on an optimization strategy of their operations.

Oil and Gas equipment & projects (OGEP)[ii]

in millions of Rub	9m 2019	9m 2018	Change yoy	3Q 2019	2Q 2019	Change qoq
Orders	11,096	8,820	26%	4,410	3,679	20%
Backlog	9,374	7,631	23%	9,374	7,550	24%
Revenue	8,599	16,512	-48%	2,664	3,528	-24%
EBITDA	(171)	2,716	na	79	(120)	na
EBITDA margin	-2.0%	16.5%		3.0%	-3.4%	

Order intake increased to Rub 11.1 billion by 26% yoy, compared with Rub 8.8 billion for 9m 2018, fully based on recurring contracts.

Backlog was up by 23% yoy to Rub 9.4 billion, compared with Rub 7.6 billion for 9m 2018, due to recurring contracts as well.

Revenue was down by 48% yoy to Rub 8.6 billion, compared with Rub 16.5 billion for 9m 2018. EBITDA and EBITDA margin were still negative.

HMS Neftemash was the main loss-generator for the segment. When its backlog of large projects decreased in mid-2018, the production facility didn't manage to cut quickly its fixed costs. Also it didn't manage to sign a sufficient volume of profitable recurring contracts to replace large contracts. The combination of the above-mentioned factors resulted in a decrease of revenue and margins in the period from 4Q 2018 to 2Q 2019. Consequently, recurring business generated less EBITDA than expected.

HMS Group has changed management at HMS Neftemash to speed up the costs reduction. Implemented austerity measures align with more profitable orders portfolio resulted in a recovery of the oil & gas equipment and projects segment's financial results, where 3Q 2019 EBITDA grew to Rub 79 million compared with Rub (120) million in 2Q 2019.

The management has a positive outlook for 2019 FY results, though by customers' requests, HMS Neftemash postponed deliveries from 3Q-4Q 2019 to the 2020 year, worth c. Rub 0.4 billion EBITDA, that should positively influence 1H 2020.

Compressors[iii]

in millions of Rub	9m 2019	9m 2018	Change yoy	3Q 2019	2Q 2019	Change qoq
Orders	8,578	8,072	6%	1,400	4,278	-67%
Backlog	11,931	10,146	18%	11,931	14,854	-20%
Revenue	13,326	5,306	151%	4,388	6,006	-27%
EBITDA	1,266	438	189%	431	458	-6%
EBITDA margin	9.5%	8.3%		9.8%	7.6%	

Order intake was up 6% yoy to Rub 8.6 billion, compared with Rub 8.1 billion, mainly due to large contracts signed.

Backlog increased by 18% yoy to Rub 11.9 billion, compared with Rub 10.1 billion last year, based on growing backlog of large contracts.

Revenue was up by 151% yoy to Rub 13.3 billion, compared with Rub 5.3 billion, based both on recurring business and large contracts. EBITDA grew by 189% yoy to Rub 1.3 billion, compared with Rub 438 million for 9m 2018. EBITDA margin increased to 9.5%, compared with 8.3% for 9m 2018.

Among others, one of the main factors that affected the compressors segment's EBITDA was execution of the pilot "Artic Cascade" project. On the one hand, it generated losses for the company, but on the other hand, the company had analyzed the project, has taken actions to prevent them and is fully prepared for execution of similar projects in the future.

Also, the successful execution of the "Artic Cascade" turned PAO NOVATEK into one of HMS largest clients. Also, in September 2019, PAO NOVATEK and HMS Group signed the Memorandum on localization of LNG equipment.

The "Arctic Cascade" allowed HMS to develop competencies in the new area of equipment for liquefaction of natural gas and penetrate the Russia's booming LNG market.

Construction[iv]

in millions of Rub	9m 2019	9m 2018	Change yoy	3Q 2019	2Q 2019	Change qoq
Orders	129	391	-67%	24	87	-73%
Backlog	1,256	2,677	-53%	1,256	1,610	-22%
Revenue	1,098	1,258	-13%	404	359	13%
EBITDA	49	(160)	na	33	4	668%
EBITDA margin	4.5%	-12.7%		8.3%	1.2%	

Order intake equaled Rub 129 million. Backlog declined to Rub 1.3 billion, compared with Rub 2.7 billion last year, due to execution of two large contracts signed in 2017-2018.

Revenue was Rub 1.1 billion, down 13% yoy, compared with Rub 1.3 billion for 9m 2018. EBITDA was Rub 49 million, compared with Rub (160) million last year.

WORKING CAPITAL AND CAPITAL EXPENDITURES

in millions of Rub	9m 2019	9m 2018	Change yoy	3Q 2019	2Q 2019	Change qoq
Working capital	11,522	11,340	2%	11,522	9,508	21%
Working capital / Revenue LTM	20%	25%		20%	17%	
Capex	1,203	1,441	-17%	403	293	37%
Acquisition	670	-		-	-	

Working capital was Rub 11.5 billion, up by 2% yoy, compared with Rub 11.3 billion for 9m 2018, due to revenue growth. As a share of revenue, working capital declined to 20% from 25% in the comparing period.

Capital expenditures were Rub 1.2 billion, down by 17% yoy, compared with Rub 1.4 billion last year, as the result of the implemented austerity measures.

DEBT POSITION

in millions of Rub	9m 2019	9m 2018	Change yoy	3Q 2019	2Q 2019	Change qoq
Total debt	21,115	19,177	10%	21,115	19,988	6%
Net debt	16,960	14,828	14%	16,960	15,628	9%
Net debt / EBITDA LTM	2.98	2.40		2.98	2.97	

Total debt increased to Rub 21.1 billion, up by 10% yoy, compared with Rub 19.2 billion for 9m 2018. Net debt was Rub 17.0 billion, up by 14% yoy, compared with Rub 14.8 billion for 9m 2018.

Net debt to EBITDA LTM ratio increased to 2.98x compared with 2.40x last year.

SIGNIFICANT EVENTS AFTER THE REPORTING DATE & FINANCIAL MANAGEMENT

LARGE CONTRACTS

After the reporting date, HMS announced the signature of a number of large compressor contracts, worth Rub 7.5 billion.

DEBT REFINANCING

In November 2019, the Group completed refinancing of a number of credits, which moved the most repayments to the 2022 year. Average interest rate was decreased to 8.55% pa.

HMS Group attracted Rub 3 billion bank credit that was deposited, which will be utilized for ruble bonds redemption in February 2020.

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WEBCAST TO DISCUSS 9 MONTHS 2019 IFRS FINANCIAL RESULTS

Date: Tuesday, December 17, 2019
Time: 4.00 PM (MOSCOW) / 1.00 PM (London) / 8.00 AM (NY)
Conference passcode: 94353676#

Speaker:
Inna Kelekhsaeva – Deputy Head of Capital markets
Q&A session:
Kirill Molchanov – First Deputy General Director and Co-Founder
Alexander Rybin – Head of Capital markets

To participate in the conference call, please dial in:

Russia Local:	+7 495 646 9315
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UK Local:	+44 207 194 3759
UK Toll Free:	0800 376 6183
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US Toll Free:	+1 844 286 0643
Conference ID:	94353676#
Title:	HMS Group 9 months 2019 IFRS results

Webcast meeting:
To access the live event, click on the link:
https://webcasts.eqs.com/hmsgroup20191217

Please, dial in 5-10 minutes prior to the scheduled start time. Pre-registration is available.
We will share materials on **HMS' investor website** ahead of the webcast.

Contacts:
Investor Relations, ir@hms.ru

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HMS Group is the leading pump and compressor manufacturer, as well as provider of flow control solutions and related services to the oil and gas, nuclear and thermal power generation and water utilities sectors in Russia and the CIS. HMS Group's products are mission-critical elements of projects across a diverse range of industries. It has participated in a number of large-scale infrastructure projects in Russia, including providing pumps and modular equipment to the Vankor oil field and pumping stations on recent trunk pipelines projects linking Russia's core oil producing areas to export ports on the Pacific Ocean and Baltic Sea. HMS Group's global depositary receipts ("GDRs") are listed under the symbol "HMSG" on the London Stock Exchange.

Press Release Information Accuracy Disclaimer
Information published in press releases was accurate at the time of publication but may be superseded by subsequent releases or other information.

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[i] The industrial pumps business segment designs, engineers, manufactures and supplies a diverse range of pumps and pump-based integrated solutions to customers in the oil and gas, power generation and water utilities sectors in Russia, the CIS and internationally. The business segment's principal products include customized pumps and integrated solutions as well as pumps built to standard specifications; it also provides aftermarket maintenance and repair services and other support for its products.

[ii] The oil and gas equipment and projects business segment manufactures, installs and commissions modular pumping stations, automated metering equipment, oil, gas and water processing and preparation units and other equipment and systems for use primarily in oil extraction and transportation. The segment's core products are equipment packages and systems installed inside a self-contained, free-standing structure which can be transported on trailers and delivered to and installed on the customer's site as a modular but fully integrated part of the customer's technological process.

[iii] The compressors business segment designs, engineers, manufactures and supplies a diverse range of compressors and compressor-based solutions, including compressor units and compressor stations, to customers in the oil and gas, metals and mining and other basic industries in Russia. The business segment's principal products include customized compressors, series-produced compressors built to standard specifications, and compressor-based integrated solutions.

[iv] The construction provides construction works for projects for customers in the oil upstream and midstream, gas upstream.