HMS Group Reports 2019FY Revenue of Rub 51.4 billion

Moscow, Russia – April 24, 2020 – 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 twelve months ended December 31, 2019.

Financial highlights FY 2019:

- Revenue: Rub 51.4 bn (-2% yoy)
- EBITDA[1]: Rub 4.8 bn (-27% yoy), EBITDA margin at 9.4%
- Operating profit: Rub 2.1 bn (-51% yoy)
- Profit for the year: Rub 151 mn (-92% yoy)

- Total debt: Rub 24.3 bn (+25% yoy)
- Net debt: Rub 14.4 bn (+9% yoy)
- Net debt-to-EBITDA LTM ratio: 2.98x

Operational highlights FY 2019:

- Backlog: Rub 44.7 bn (+5% yoy)
- Order intake: Rub 52.2 bn (-7% 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

2019FY FINANCIAL RESULTS

in millions of Rub	2019FY	2018FY	Change yoy	4Q 2019	4Q 2018	Change yoy
Orders	52,196	55,891	-7%	15,970	25,176	-37%
Backlog	44,693	42,634	5%	44,693	42,634	5%
Revenue	51,413	52,619	-2%	14,732	20,757	-29%
EBITDA	4,824	6,621	-27%	1,432	2,302	-38%
EBITDA margin	*9.4%*	*12.6%*		*9.7%*	*11.1%*	
Profit for the year/ period	151	1,946	-92%	(45)	772	-106%
Depreciation & amortization	2,296	1,843	25%	597	521	14%
Free cash flow	23	(139)	na	2,646	1,854	43%

Order intake declined by 7% yoy to Rub 52.2 billion, compared with Rub 55.9 billion for 2018FY, mainly due to a decrease in the compressors business segment because less large contracts were signed in the reported period.

Backlog, in contrast, grew to Rub 44.7 billion by 5% yoy, compared with Rub 42.6 billion last year, based on growth in the pumps and the oil & gas equipment. In terms of contracts type, the recurring business was the main contributor to this growth.

Revenue decreased to Rub 51.4 billion, down by 2%, compared with Rub 52.6 billion for 2018FY, due to weak results of the oil & gas equipment business segment.

EBITDA was down to Rub 4.8 billion, compared with Rub 6.6 billion (-27% yoy) mainly because of the oil & gas equipment and partly because of the compressors.

Revenue from recurring business increased by 8% yoy, and revenue from large projects declined by 19% yoy. EBITDA from recurring business increased by 56% yoy, and from large projects contracted by 62% yoy. EBITDA margin was down to 9.4%, compared with 12.6% for 2018FY.

Profit for the 2019 year declined to Rub 151 million, compared with Rub 1.9 billion for 2018FY, down by 92% yoy.

Depreciation & amortization was up 25% yoy to Rub 2.3 billion, compared with Rub 1.8 billion for 2018FY because of assets acquired in 2019.

Free cash outflow grew to Rub 23 million, compared with Rub (139) million for 2018FY, mainly due to a decrease in working capital (-3% yoy).

HMS AUSTERITY PROGRAM

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

1. 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.

2. 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 2020FY results.

3. Postponement of a number of the oil & gas equipment signed and budgeted deliveries from 3-4Q 2019 to the 2020 year due to HMS customers' decisions:

One 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.

4. 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 the company due to the fact that HMS has developed a new product, the project's successful execution has given the access to the new and prospective LNG market in Russia.

5. 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	2019FY	2018FY	Change yoy	Share of 2019 revenue	Share of 2018 revenue
Cost of sales	**41,804**	**40,617**	**3%**	**81.3%**	**77.2%**
Materials and components	27,957	27,628	1%	54.4%	52.5%
Labour costs incl Social taxes	7,060	7,276	-3%	13.7%	13.8%
Depreciation and amortization	1,954	1,567	25%	3.8%	3.0%
Construction and design and engineering services of subcontractors	2,467	2,102	17%	4.8%	4.0%
Others	2,365	2,045	16%	4.6%	3.9%

Cost of sales was up to Rub 41.8 billion by 3% yoy, compared with Rub 40.6 billion for 2018FY, due to the increase in Materials and components (+1% yoy). The main reason of the increase was large compressor contracts, which had a higher share of outsourced components in their costs of sales.

Gross profit was down 20% yoy to Rub 9.6 billion, compared with Rub 12.0 billion for 2018FY.

in millions of Rub	2019FY	2018FY	Change yoy	Share of FY 2019 revenue	Share of FY 2018 revenue
Gross profit	9,609	12,002	-20%	18.7%	22.8%
Distribution and transportation	1,961	1,916	2%	3.8%	3.6%
General and administrative	5,395	5,636	-4%	10.5%	10.7%
SG&A expenses	*7,356*	*7,551*	*-3%*	*14.3%*	*14.4%*
Other operating expenses	196	250	-22%	0.4%	0.5%
Operating expenses ex. Cost of sales	*7,552*	*7,802*	*-3%*	*14.7%*	*14.8%*
Operating profit	2,057	4,200	*-51%*	*4.0%*	*8.0%*
Finance costs	1,785	1,611	11%	3.5%	3.1%

Distribution and transportation expenses grew by 2% yoy, due to the grown transportation expenses (+25% yoy) that was because of increased deliveries of equipment produced under large contracts to the remoted regions of Russia. As a share of revenue, distribution and transportation expenses was up to 3.8% compared with 3.6% last year.

General and administrative expenses were down by 4% yoy to Rub 5.4 billion, compared with Rub 5.6 billion last year, due to the sizable 9% yoy totaling decrease in labor costs and social taxes. As a share of revenue, general and administrative expenses was down to 10.5% from 10.7% for 2018FY.

SG&A expenses[2] declined to Rub 7.4 billion, compared with Rub 7.6 billion (-3% yoy), and as a share of revenue, declined to 14.3% from 14.4%.

Operating profit was down to Rub 2.1 billion, compared with Rub 4.2 billion last year (-51% yoy).

in millions of Rub	**2019FY**	**2018FY**	**Change yoy**
Finance costs	**1,785**	**1,611**	**11%**
Interest expenses	*1,764*	*1,598*	*10%*
Interest rate, average	8.56%	8.72%	
Interest rate Rub, average	8.69%	8.91%	

Finance costs were up to Rub 1.8 billion, compared with Rub 1.6 billion for 2018FY, due to the increase of interest expenses (+10% yoy) because of a higher level of total debt. Average rates decreased to 8.56% p.a. compared with 8.72% p.a. last year.

BUSINESS SEGMENTS PERFORMANCE

Industrial pumps[i]

in millions of Rub	**2019FY**	**2018FY**	**Change yoy**	**4Q 2019**	**4Q 2018**	**Change yoy**
Orders	22,792	19,573	16%	6,369	6,141	4%
Backlog	19,572	17,152	14%	19,572	17,152	14%
Revenue	19,770	17,811	11%	5,866	6,613	-11%
EBITDA	2,599	2,390	9%	728	1,191	-39%
EBITDA margin	13.1%	13.4%		12.4%	18.0%	

Order intake of industrial pumps grew by 16% yoy based mainly on large contracts.

Backlog grew by 14% yoy to Rub 19.6 billion due to both recurring business and large contracts, mainly in the sphere of pumps for nuclear power plants.

Revenue was Rub 19.8 billion, up 11% yoy, compared with Rub 17.8 billion for 2018FY. The growth was based on both recurring business and large contracts.

EBITDA increased to Rub 2.6 billion, by 9% yoy, from Rub 2.4 billion for 2018FY due to recurring business. And EBITDA margin was 13.1%, compared with 13.4% for 2018FY, with a minor drop, because recurring business generated a larger share of EBITDA compared with 2018FY.

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

[2] SG&A expenses - Selling, General and Administrative Expenses, compiled of distribution & transportation expenses plus general & administrative ones

optimization strategy of their operations.

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

in millions of Rub	2019FY	2018FY	Change yoy	4Q 2019	4Q 2018	Change yoy
Orders	11,887	12,023	-1%	791	3,203	-75%
Backlog	7,426	6,658	12%	7,426	6,658	12%
Revenue	13,160	20,859	-37%	4,562	4,346	5%
EBITDA	430	2,883	-85%	601	166	261%
EBITDA margin	3.3%	13.8%		13.2%	3.8%	

Order intake slightly declined to Rub 11.9 billion, compared with Rub 12.0 billion for 2018FY, and totally consists of recurring contracts.

Backlog was up by 12% yoy to Rub 7.4 billion, compared with Rub 6.7 billion for 2018FY, also based on recurring contracts.

Revenue decreased by 37% yoy to Rub 13.2 billion, compared with Rub 20.9 billion for 2018FY. EBITDA declined to Rub 430 million, compared with Rub 2.9 billion, and EBITDA margin was 3.3% vs. 13.8% for 2018FY.

The main reason of the decline were absence of new large contracts under execution in 2019FY compiled with a low profitability of recurring business in 1H 2019.

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.

HMS Neftemash postponed deliveries from 3-4Q 2019 to 2020, worth c. Rub 0.4 billion EBITDA, that should positively influence 1H 2020.

Compressors[iii]

in millions of Rub	2019FY	2018FY	Change yoy	4Q 2019	4Q 2018	Change yoy
Orders	17,363	23,883	-27%	8,785	15,811	-44%
Backlog	16,067	16,688	-4%	16,067	16,688	-4%
Revenue	17,884	14,678	22%	4,558	9,371	-51%
EBITDA	1,546	1,758	-12%	280	1,320	-79%
EBITDA margin	8.6%	12.0%		6.1%	14.1%	

Order intake was down 27% yoy to Rub 17.4 billion, compared with Rub 23.9 billion, because of a lower volume of large contracts signed. Recurring business orders, in contrast, grew by 7% yoy.

Backlog decreased by 4% yoy to Rub 16.1 billion, compared with Rub 16.7 billion last year, also because of less large contracts signed.

Revenue was up by 22% yoy to Rub 17.9 billion, compared with Rub 14.7 billion, based on both recurring business and large contracts. EBITDA declined by 12% yoy to Rub 1.5 billion, compared with Rub 1.8 billion for 2018FY. EBITDA margin was down to 8.6% compared with 12.0% for 2018FY.

In the 2nd half of 2018, HMS Group started execution of the pilot "Artic Cascade" project. That was a project to supply a main 25 MW gas compression system for the Yamal LNG project of PAO NOVATEK. Since HMS had developed a new product, it has incurred losses for the company, and that was one of the main factors that affected the compressors segment's EBITDA. But on the other hand, the company had analyzed the project, has taken actions to prevent these losses and is fully prepared for execution of similar projects in the future. 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.

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

In 2019, PAO NOVATEK and HMS Group signed two large compressor contracts worth Rub 3 billion rubles. And in 2020, another large contract was signed, to engineer and manufacture 6 main gas compression units to deliver and install at the Obsky LNG processing plant.

Construction[iv]

in millions of Rub	2019FY	2018FY	Change yoy	4Q 2019	4Q 2018	Change yoy
Orders	155	411	-62%	25	20	25%
Backlog	1,628	2,137	-24%	1,628	2,137	-24%
Revenue	1,394	1,795	-22%	295	537	-45%
EBITDA	(29)	(138)	-79%	(78)	23	-443%
EBITDA margin	-2.1%	-7.7%		-26.4%	4.2%	

Order intake equaled Rub 155 million. Backlog was Rub 1.6 billion.

Revenue was down to Rub 1.4 billion, compared with Rub 1.8 billion for 2018FY. EBITDA was Rub (29) million, compared with Rub (138) million last year.

WORKING CAPITAL AND CAPITAL EXPENDITURES

in millions of Rub	2019FY	2018FY	Change yoy	4Q 2019	3Q 2019	Change qoq
Working capital	8,846	9,115	-3%	8,846	11,522	-23%
Working capital / Revenue LTM	17.2%	17.3%		17.2%	20.1%	
Capex	1,571	2,335	-33%	367	403	-9%
Acquisition	670	(112)		-	-	

Working capital was Rub 8.8 billion, down by 3% yoy, compared with Rub 9.1 billion for 2018FY. As a share of revenue, working capital slightly declined to 17.2%.

Capital expenditures were Rub 1.6 billion, down by 33% yoy, compared with Rub 2.3 billion last year, as the result of the implemented austerity measures.

DEBT POSITION

in millions of Rub	2019FY	2018FY	Change yoy	4Q 2019	3Q 2019	Change qoq
Total debt	24,321	19,458	25%	24,321	21,115	15%
Net debt	14,369	13,163	9%	14,369	16,960	-15%
Net debt / EBITDA LTM	2.98	1.99		2.98	2.98	

Total debt increased to Rub 24.3 billion, up by 25% yoy, compared with Rub 19.5 billion for 2018FY. Net debt was Rub 14.4 billion, up by 9% yoy, compared with Rub 13.2 billion for 2018FY.

Net debt to EBITDA LTM ratio increased to 2.98x compared with 1.99x last year.

SHAREHOLDING AND HMS GDRS

In December 2019, the major shareholder of HMS Group, JSC HMS Holding ("HMS Holding"), completed the process of cancellation (disposal by HMS Holding) of 2,924,207 global depositary receipts issued under the Company's depositary receipts program representing 14,621,035 shares in the Company (the "Underlying Shares") and withdrawal of (acquisition by HMS Holding of) the Underlying Shares from the depositary (the Bank of New York Mellon) in the name of HMS Holding (the "Conversion").

As a result of the Conversion, HMS Holding retains full control over the majority shareholding in the Company being a direct holder of 71.51 percent of the Company's issued share capital, and, consequently, the Conversion neither triggers an obligation of the Company or HMS Holding to make any mandatory offer to the GDR holders, nor leads to any change in corporate governance of the Company.

Further details of the transactions above are available here:
http://grouphms.com/files/MAR_notification_by_HMS_Holding.pdf

SIGNIFICANT EVENTS AFTER THE REPORTING DATE & FINANCIAL MANAGEMENT

LARGE CONTRACTS

After the reporting date, HMS announced the signature of a large compressor contract with PAO NOVATEK, to deliver main compression units to the Obsky LNG processing plant.

DEBT REFINANCING

In February 2020, the Group made a full Rub 3 billion redemption of its bonds, issued in 2017, at 100%

par value. In 4Q 2019, HMS Group attracted Rub 3 billion bank credit, that was deposited, for this bonds redemption.

COVID-19 AND FALL IN OIL PRICES

Starting from early 2020, a new coronavirus disease (COVID-19) has begun rapidly spreading all over the world resulting in announcement of the pandemic status by the World Health Organization in March 2020. Responses put in place by many countries to contain the spread of COVID-19 are resulting in significant operational disruption for many companies and have significant impact on global financial markets. As the situation is rapidly evolving it may have a significant effect on business of many companies across a wide range of sectors, including, but not limited to such impacts as disruption of business operations as a result of interruption of production or closure of facilities, supply chain disruptions, quarantines of personnel, reduced demand and difficulties in raising financing. In addition, the Group may face the increasingly broad effects of COVID-19 as a result of its negative impact on the global economy and major financial markets. The significance of the effect of COVID-19 on the Group's business largely depends on the duration and the incidence of the pandemic effects on the world and Russian economy.

In addition to that, in March-April 2020, oil prices dropped significantly, which resulted in immediate weakening of Russian Rouble against major currencies.

Management considers the outbreak of COVID-19 coronavirus infection and the reduction in oil prices to be non-adjusting events after the reporting period.

The Group developed a stress scenario of the possible impact of the current operating environment on the Group's business, including the analysis of possible deviations in execution of large contracts, included in the Group's budget for 2020, as well as assessment of probability of reduction in revenues on recurring business, the analysis of factual liquidity and debt position of the Group at the date of issuance of these consolidated financial statements, its future expected cash inflows and outflows and the consideration of debt covenants. The scenario demonstrated the Group's ability to continue as a going concern.

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DUE TO THE SITUATION WITH COVID-19, HMS GROUP WILL NOT HOLD THE WEBCAST

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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.

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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.