



# Detsky Mir – Investor Presentation

#1 Russian specialized children's goods retailer

April 2018



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**1** Detsky Mir at a glance

**2** Summary performance post IPO

**3** Our investment case re-cap

**4** Financial results

# Russia's Children Goods Retail Market Leader Combining Growth and Shareholder Returns

## Key Facts



Detsky Mir is the undisputed #1 player in the specialized children's goods market in Russia



"Detsky Mir" is an iconic brand with 99% prompted awareness<sup>1</sup>



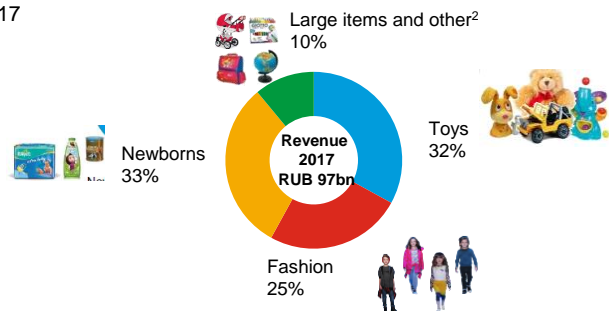
556 Detsky Mir branded stores in 207 Russian cities, 22 stores in 12 cities in Kazakhstan and 44 Early Learning Center ("ELC") stores as of 31 December 2017



Average store size of c.1,400 sqm, located in modern shopping malls with product range of 20,000–30,000 SKUs

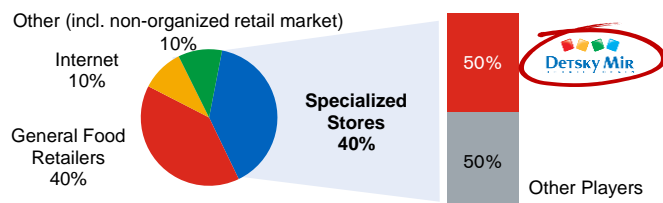
## Diversified product portfolio<sup>3</sup>

2017



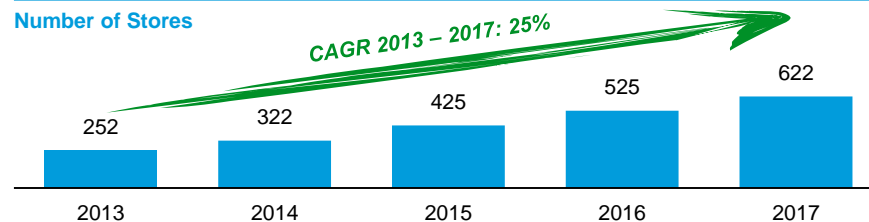
## Leading Market Position

2017 Structure of Children's Goods Retail Market in Russia (%)

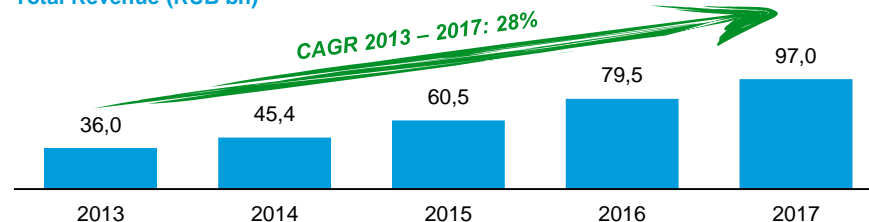


## Strong Operating and Financial Results<sup>3</sup>

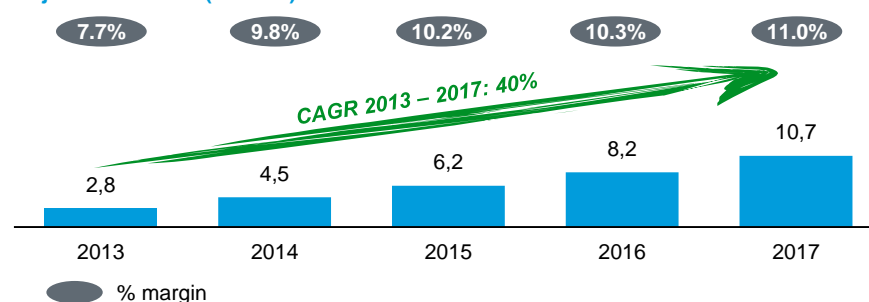
### Number of Stores



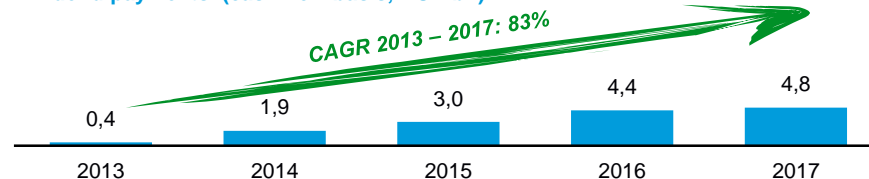
### Total Revenue (RUB bn)



### Adjusted EBITDA<sup>4</sup> (RUB bn)



### Dividend payments (cash flow basis, RUB bn)



Source: Company data, Ipsos Comcon

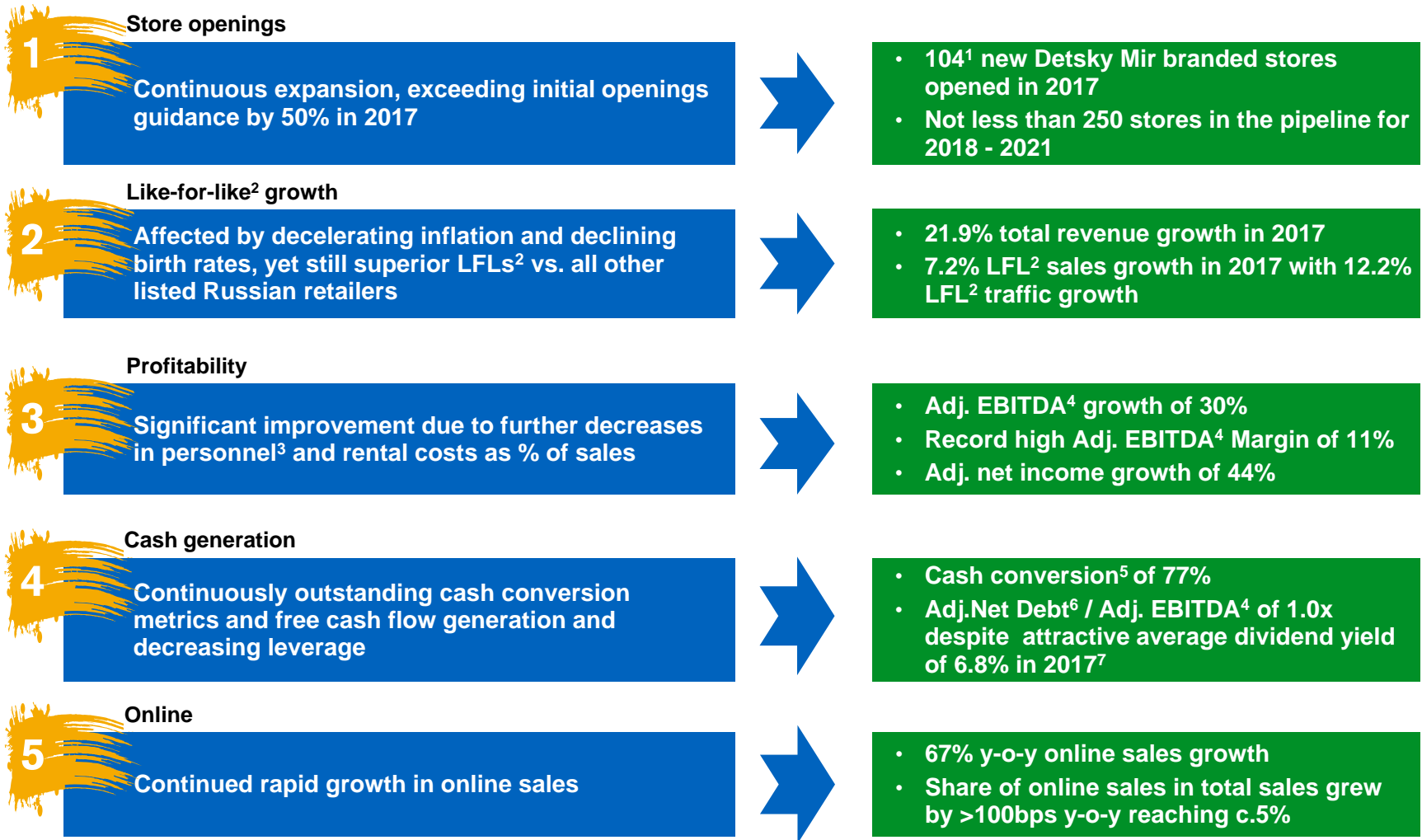
<sup>1</sup> Source: "Children Goods Market in Russia" report by Ipsos Comcon ("Ipsos Comcon report"). Poll was conducted in December 2017

<sup>2</sup> Including large items, stationery, sports and seasonal goods

<sup>3</sup> The Group's consolidated financial statements for 2013 under US GAAP, 2014–2017 under IFRS. For the line items and the years presented, there was no difference between the calculation of numbers or presentation under US GAAP and IFRS

<sup>4</sup> Adj. EBITDA is calculated as profit for the year before income tax, FX gain/loss, gain on acquisition of controlling interest in associate, impairment of goodwill, net finance expense, D&A, adjusted for the one-off effect relating to disposal of the Yakimanka building in 2014, as well as share-based compensation and cash bonuses under the LTI program

# Delivering Strong Earnings Growth in the First Year Post IPO



<sup>1</sup> In 2017, Detsky Mir closed six stores as part of the Company's ongoing rationalisation programme

<sup>2</sup> LFL growth includes only DM stores in Russia that have been in operations for at least 12 full calendar months

<sup>3</sup> Excluding share-based compensation and cash bonuses under the LTI program

<sup>4</sup> Adj. EBITDA is calculated as profit for the year before income tax, FX gain/loss, gain on acquisition of controlling interest in associate, impairment of goodwill, net finance expense, D&A, adjusted for the one-off effect relating to disposal of the Yakimanka building in 2014, as well as share-based compensation and cash bonuses under the LTI program

<sup>5</sup> Calculated as (Adjusted EBITDA – Adjusted Capex) / Adjusted EBITDA

<sup>6</sup> Adjusted Net debt is calculated as total borrowings less cash and cash equivalent / adjusted for the loan issued to CJSC "DM Finance" (Sistema's subsidiary) on 3 July 2013

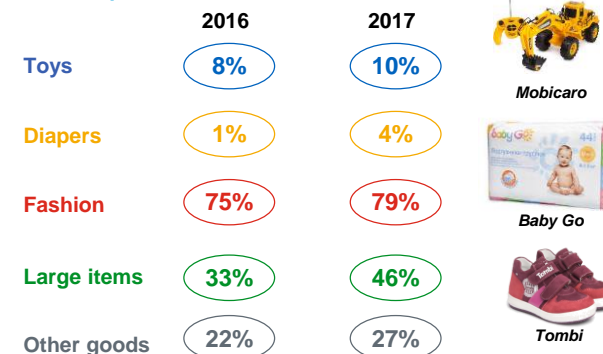
<sup>7</sup> Calculated as dividend per share paid in 2017 (based on total dividends paid in 2017 of RUB4,767m, shares outstanding of 738.6m) divided by average share price in 2017

# Key Business Initiatives in 2017

## Enhancement of the private label assortment in all categories

- Share of private labels **has grown** in **each of the four sales** categories
- Share of private labels in the total sales increased from **24%** to **~27%**
- Focus on toys private labels** supporting traffic and margins
- Successful introduction of the **diapers private label** BabyGo
- Number of private labels in **fashion** category reaching **29** (incl, **4 brands** launched in **2017**)

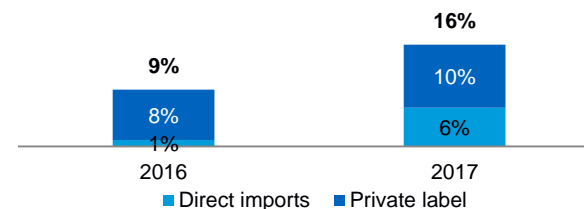
### Share of private labels in revenue



## Direct imports sourcing for branded products

- Significant shift towards **direct imports** vs. purchases from distributors / intermediaries, incl. toys category
- Share of **direct imports in toys** grew from **1%** in 2016 to **6%** in 2017
- Positive impact on the **profitability in line with the private label** products

### Toys - share of private labels and direct imports



## Ongoing upgrade of the online platform and customer offering

- New Composite Customer Service Level KPI** introduced for each delivery channel and call center, incl.
  - “**Ideal Instore**” initiative targeting **90%** of online orders to be ready for collection within 1 hour after placement (vs **45%** in 4Q'17)
- Upgraded “In-store pickup”<sup>1</sup>** functionality reaching **56.2%** of online sales for full year 2017
- Improved focus on UI/UX – full re-design of the “**Customer Cart / Check Out**”

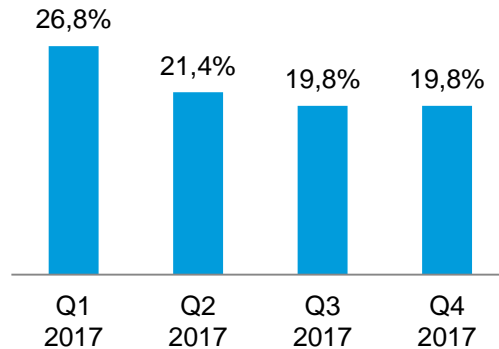


<sup>1</sup> Upgraded “In-store pickup” implies that online assortment that are not presented in offline stores can be dispatched from Detsky Mir warehouse and delivered via the Company’s logistics system to any store of the chain preferred by customer. Implemented in Oct- 2017

# Our Top-Line Performance in Context of the Macro Environment

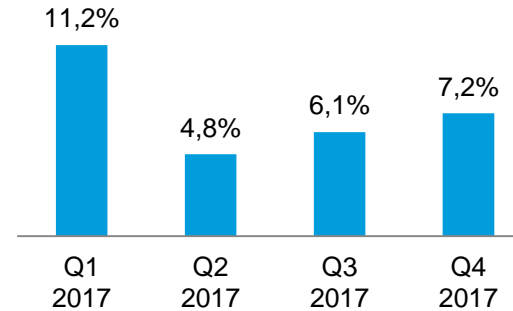
## Detsky Mir Total Sales<sup>1</sup>

(y-o-y growth)



## Detsky Mir LFL Sales<sup>1</sup>

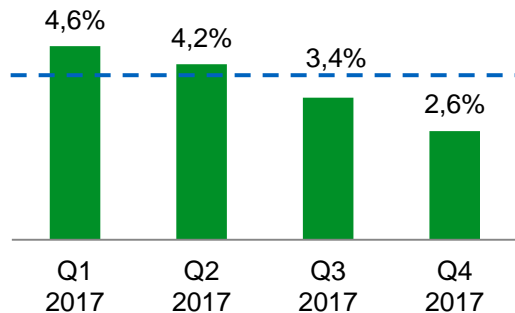
(y-o-y growth)



## CPI Inflation<sup>2</sup>

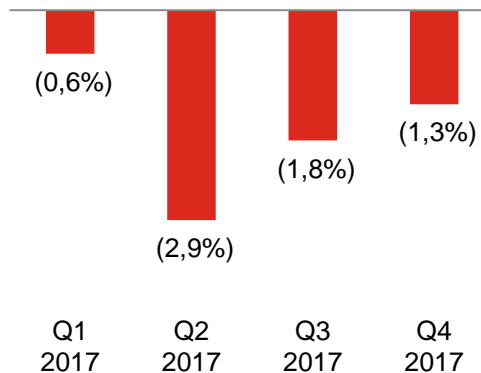
(y-o-y)

CBR target inflation rate of 4%



## Real Disposable Income

(y-o-y)



## Children's Goods Market



Market growth of  
~1% yoy (nominal terms)  
in 2017

Source: CBR, Rosstat, Ipsos Comcon

<sup>1</sup> Based on unaudited consolidated financial statements

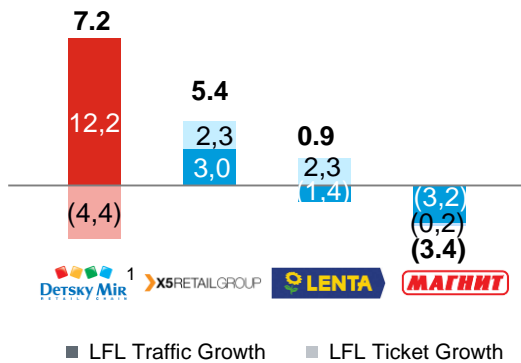
<sup>2</sup> Calculated as average for the respective three months

# Sustainable Profitable Growth Translating into Strong Cash Generation and Returns



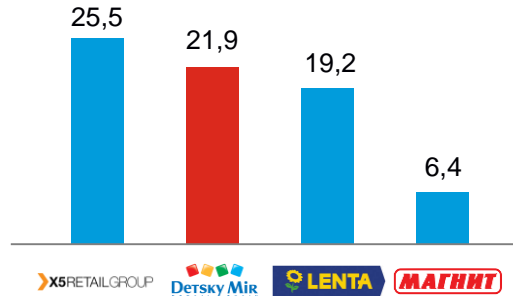
## Market Leading LFL Growth...

2017 (%)



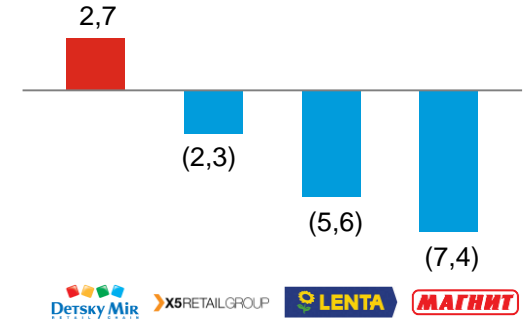
## ...As Well As Total Revenue Growth ...

2017 (%)



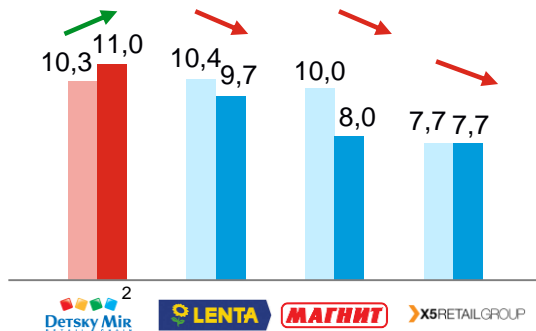
## ...Growing Sales Density...

Sales per sqm YoY Growth, 2017, %



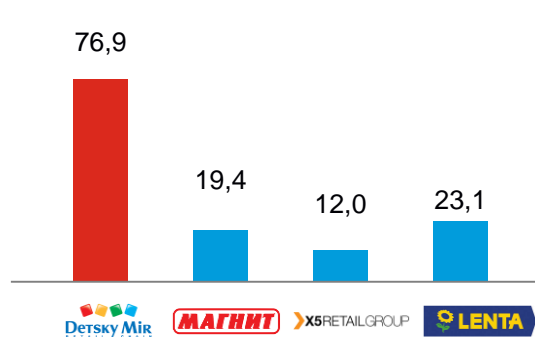
## ...Growing Adj.EBITDA Margin...

2017 (%)



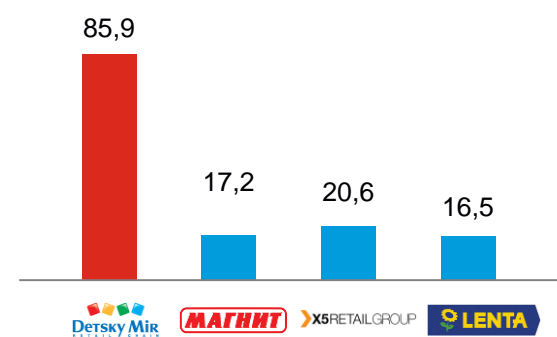
## ...Superior Cash Conversion<sup>3</sup>...

2017 (%)



## ...And Unmatched ROIC<sup>4</sup>

2017 (%)



Source: Public reports of companies

Based on the most recent available consolidated financial statements for other companies. Financial measures of other companies shown on this slide may be calculated differently and may not be directly comparable

<sup>1</sup> LFL growth in RUB terms. LFL growth includes only Detsky Mir stores in Russia that have been in operation for at least 12 full calendar months. Revenue of each store included in LFL comparison represents retail revenue of the store (incl. VAT, excluding plastic bags) for respective period but excludes store revenue for those months in which the store was not operating for 3 days or more.

<sup>2</sup> Adjusted EBITDA as per Detsky Mir disclosure

<sup>3</sup> Calculated as (Adjusted EBITDA LTM – Adjusted Capex LTM) / Adjusted EBITDA LTM

<sup>4</sup> Calculated as EBIT / Average Invested Capital. For Detsky Mir Invested capital is adjusted for amounts receivable under a loan granted to CJSC "DM-Finance". Operating profit is adjusted for LTI expense.





# Why Detsky Mir Is Very Different from the Food Retail?



## Leading Russian food retailers

Market structure	Market share	2016	17%	8% (#1)
		2017	20%	n/a
	Competition for new locations		Low	High
	Gap #1 to #2 (Revenue 2016)		4.0x <sup>1</sup>	1.1x
	ROIC 2016		61% <sup>2</sup>	18-29% <sup>4</sup>
	Average dividend yield 2017 (cash flow basis)		6.8% <sup>3</sup>	0-3.0% <sup>4</sup>

Source: Company data, Infoline, companies disclosures and reportings

<sup>1</sup> Based on 2016 revenue for Korablik of RUB20.0 Bn (according to Ipsos Comcon)

<sup>2</sup> Invested capital is adjusted for amounts receivable under a loan granted to CJSC "DM-Finance". Operating profit is adjusted for LTI expense

<sup>3</sup> Calculated as dividend per share paid in 2017 (based on total dividends paid in 2017 of RUB4,767m, shares outstanding of 738.6m) divided by average share price in 2017

<sup>4</sup> Includes Magnit, Lenta, X5

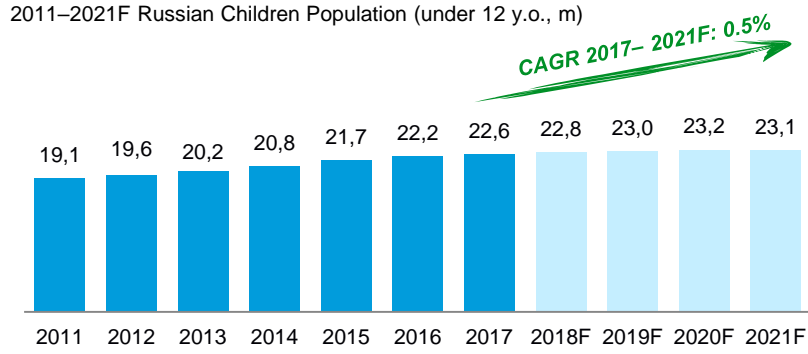
# Detsky Mir - The Leader of the Attractive Russian Children's Retail Sector



# #1 Player in a Large, Fragmented Market with Attractive Fundamentals

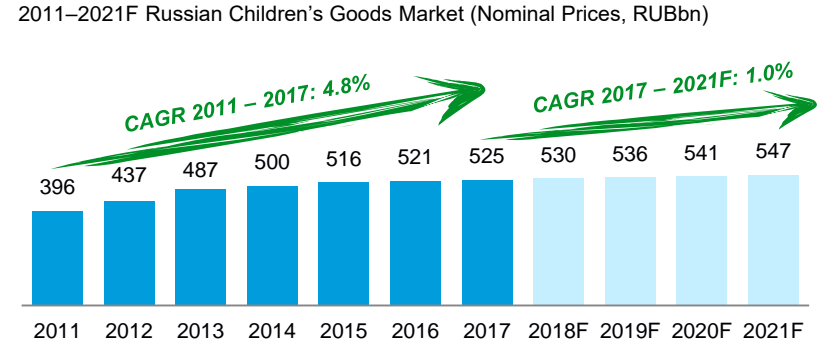


## Steadily Growing Children Population



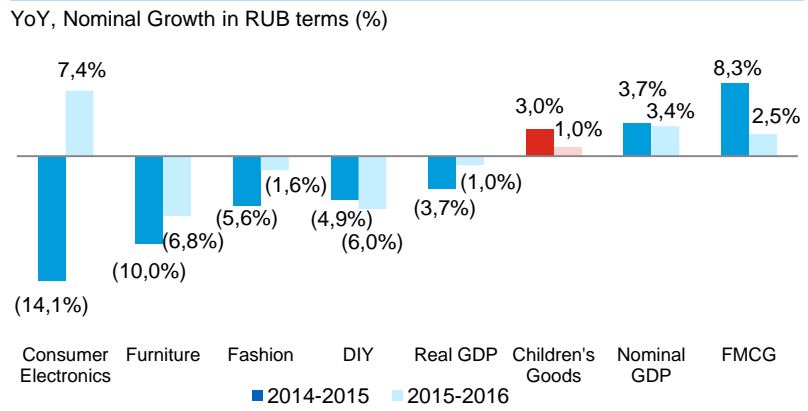
Source: Ipsos Comcon report

## Large and Growing Addressable Market



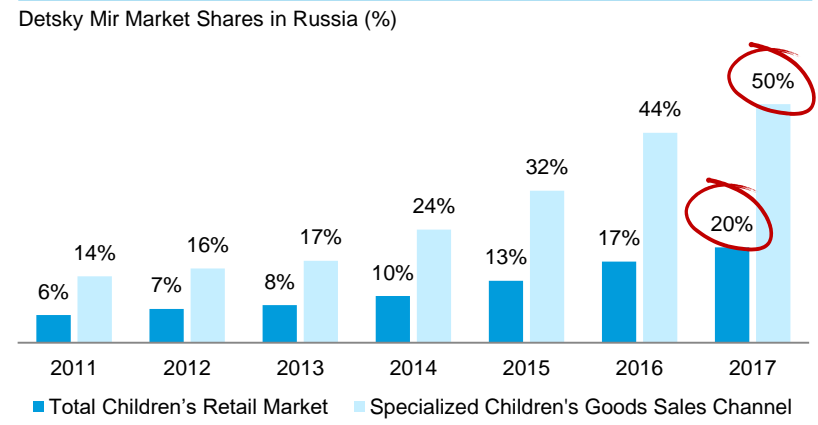
Source: Ipsos Comcon report

## With Proven Resilience in Downturn Times Compared to Many Other Retail Segments



Source: Rosstat, Ipsos Comcon report

## Detsky Mir is The Largest Specialty Children Goods Retailer with Rapidly Growing Market Share






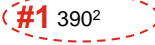






















Source: Company data, Ipsos Comcon report

# Iconic, Category Defining Brand with Attractive Multi-Category Customer Proposition

## Leading Customer Proposition



## Bigger and Better Than Competition

	Total Number of Stores (4Q17)	Net Store Openings in 2017	Stores in Moscow and Moscow Region (4Q17)	Stores in Other Regions (4Q17)	Average Selling Space per Store (ths. sqm)	Poll: Prompted Brand Awareness (Dec-17)	Poll: Purchases in L12M (Dec-17)
	 556 <sup>1,2</sup> <b>#1</b> 88 <sup>1,2</sup>	 <b>#1</b> 166 <sup>2</sup>	 <b>#1</b> 390 <sup>2</sup>	1.4 <sup>3</sup>	 99%	 79%	
	 204	 15	151	53	0.7	 40%	 21%
	 161	 10	52	109	1.2	 96%	 48%
	 109	 1	55	54	0.5	 51%	 12%
	 56	 -11	1	55	1.0	 58%	 11%

Source: Company data, Ipsos Comcon report

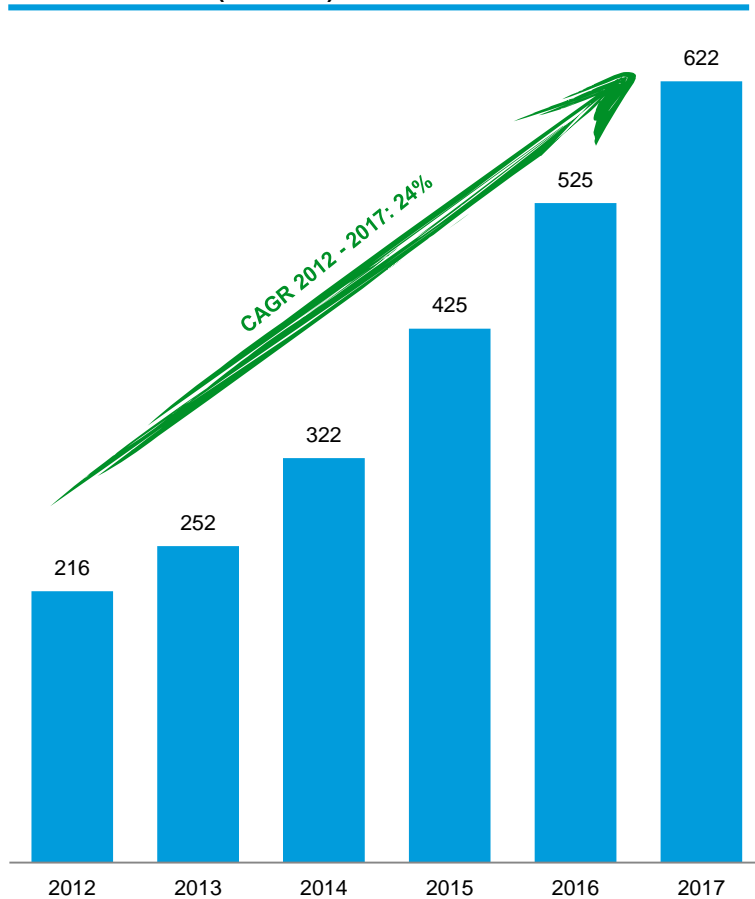
<sup>1</sup> Excluding Kazakhstan

<sup>2</sup> Excluding ELC stores

<sup>3</sup> New store roll-out: gross space

## A Taking over Whitespace in Large and Small Cities

Number of Stores (incl. ELC)

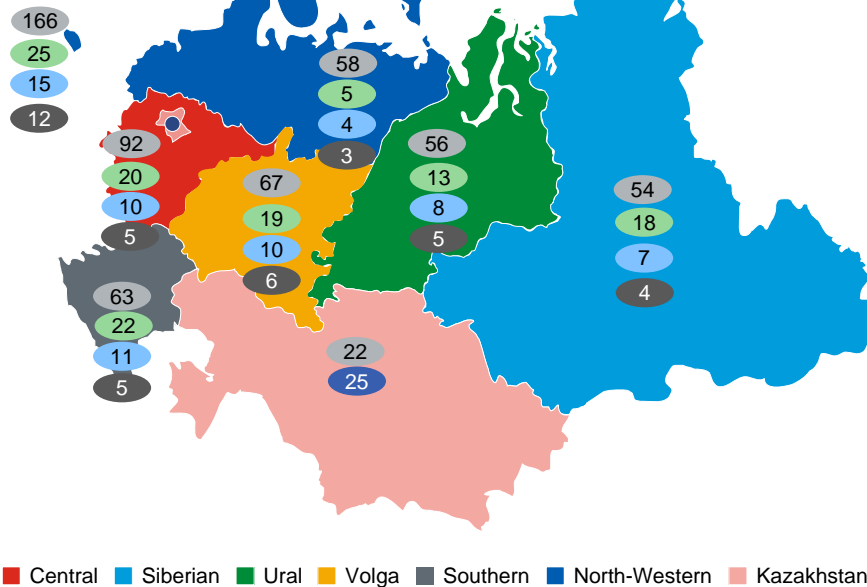


Source: Company data

Visible Expansion Pipeline

- 578<sup>1</sup> DM stores
- 120 Cities with no DM Presence
- 65 Malls identified as priority locations for DM (in the cities of presence)
- 40 Replacing competitors (specialized stores)
- 25 Medium-term target locations in Kazakhstan

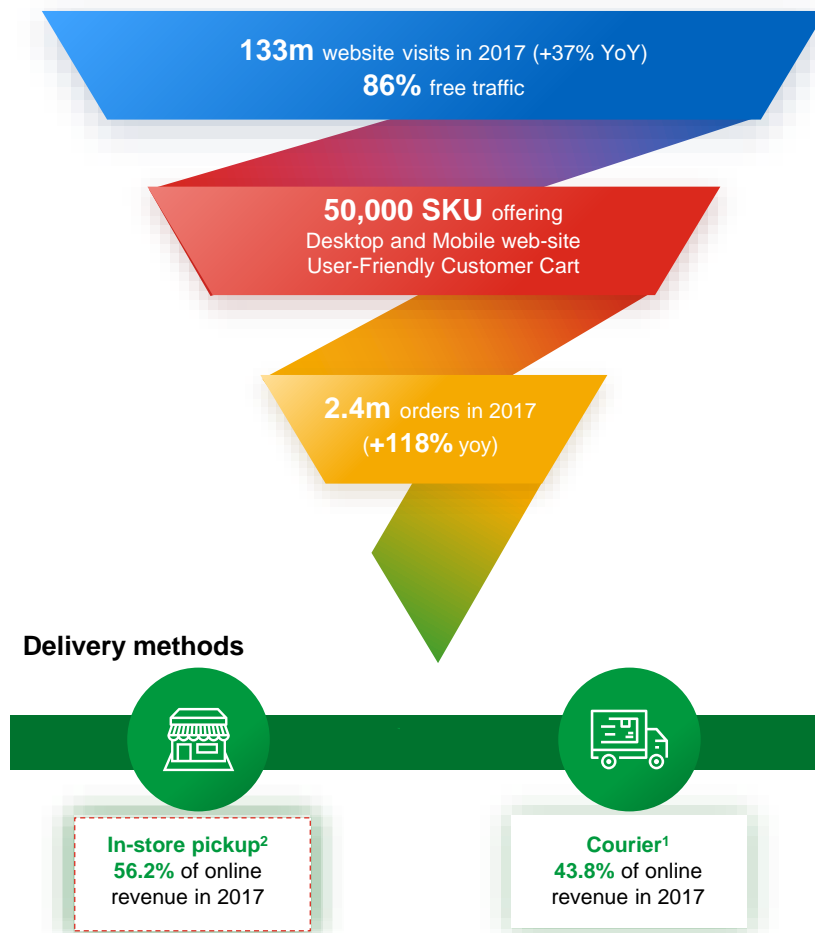
Moscow and Moscow Region



<sup>1</sup> Only Detsky Mir branded stores as of 31-Dec-17

# Well-Defined Four-Pillar Growth Strategy (cont'd)

## B Continuous development of our online platform...

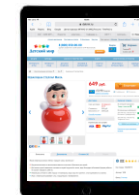


### Key achievements in 2017

- **New Composite Customer Service Level KPI** introduced for each delivery channel and call center
- Increased focus on **UI/UX** – full re-design of the “Customer Cart / Check Out”
- **Upgraded “In-store pickup<sup>2</sup> functionality**
- Increased focus on UI/UX – full redesign of the “**Customer Cart / Check Out**”
- Successfully introduced regular “**Cyber-Monday**” sales in the online store (2.0x-3.0x higher revenues vs ordinary trading days)
- SAP Hybris implemented



Desktop



Tablet



Mobile

### Key initiatives for 2018

- **Full redesign of website interface**, incl. product listing
- **Last mile delivery** in remote regions
- Improvement in **SEO traffic**
- “**Ideal Instore**” **target - 90%** of online orders to be ready for collection within 1 hour after placement (vs **45%** in 4Q'17)
- Number of “**Cyber Mondays**” to be increased up to **18**

Source: Company data

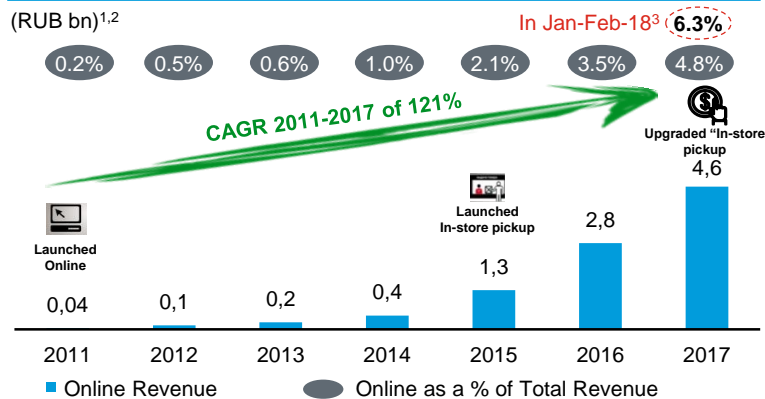
<sup>1</sup> Includes delivery to specified address and to pick-up point

<sup>2</sup> Includes online orders for assortment that is not presented in offline stores but dispatched from Detsky Mir warehouse and delivered via the Company's logistics system to any store of the chain preferred by customer. Implemented in Oct- 2017

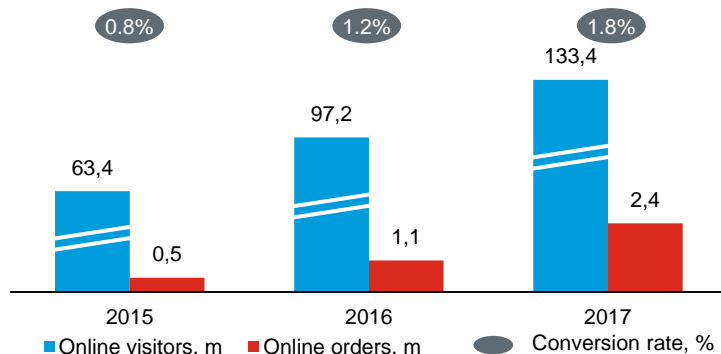
# Well-Defined Four-Pillar Growth Strategy (cont'd)

## B ...Resulting in Exponential Growth Across All Key Metrics

### Accelerated Online Revenue Growth

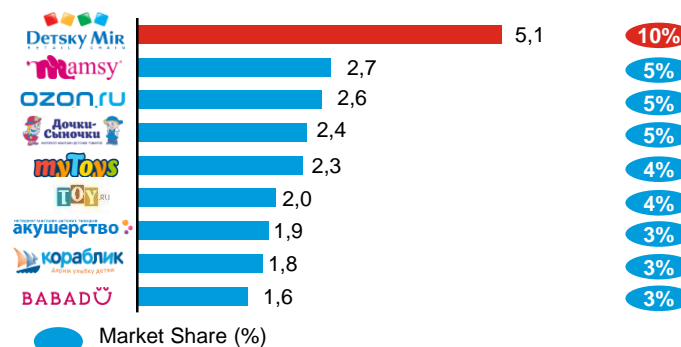


### Continuous growth in traffic and in particular improving conversion...



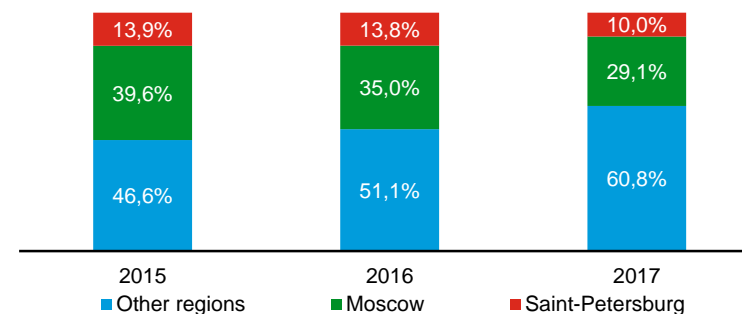
### Russian Top-5 Online Children's Goods Stores

(Online Sales Volume in 2017, RUB bn, incl. VAT)



### ... driven by the increasing share of regional sales

(value of online orders)



Company data

<sup>1</sup> The Group's consolidated financial statements for 2011-2013 under US GAAP, 2014-2017 under IFRS. For the line items and the years presented, there was no difference between the calculation of numbers or presentation under US GAAP and IFRS

<sup>2</sup> Including in-store pickup

<sup>3</sup> Based on preliminarily Detsky Mir sales in Russia

# Well-Defined Four-Pillar Growth Strategy (cont'd)

C

Competitive Pricing and Effective Merchandising with Focus on Traffic Generating Categories Drive Strong LfL Revenue Growth and Growing Gross Profit per sqm

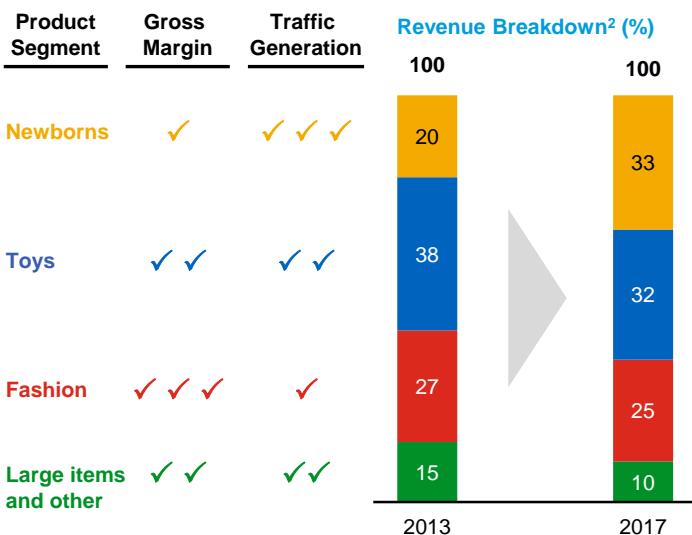
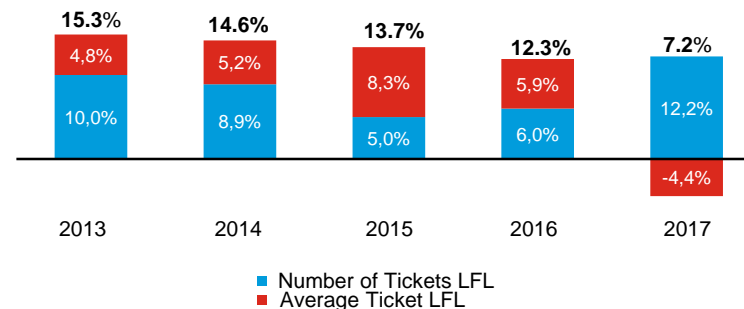
## Competitive Pricing

- ✓ Medium to medium-low prices
- ✓ Highly competitive pricing in traffic-generating categories
- ✓ Discounts and loyalty programmes

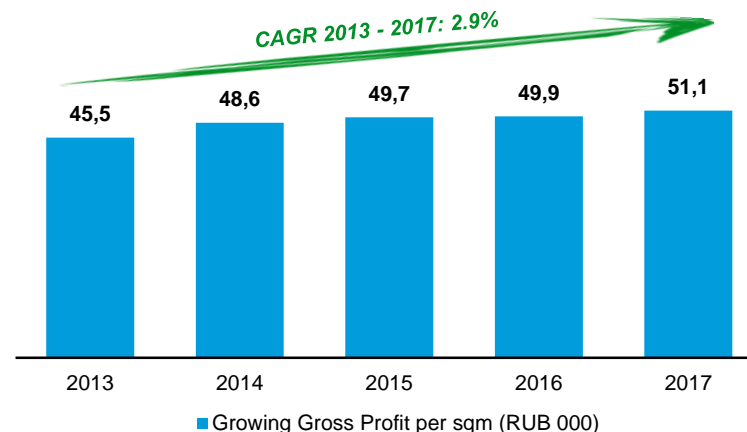
## Effective Marketing and Merchandising

- ✓ Innovative store concepts based on highly interactive formats
- ✓ Focus on best-in-class customer experience
- ✓ Powerful CRM driving marketing efforts

## Strong LfL Growth<sup>1</sup> (%)



## Growing Gross Profit per sqm<sup>3</sup>



Source: Company Data

<sup>1</sup> LfL growth includes only DM stores in Russia that have been in operations for at least 12 full calendar months. Revenue of each store included in LfL comparison represents retail revenue of the store (incl. VAT, excluding plastic bags) for respective period but excludes store revenue for those months in which the store was not operating for 3 days or more.

<sup>2</sup> Retail revenue only

<sup>3</sup> Calculated by dividing gross profit for the period by average selling space for the period (calculated in thousands of square metres as simple average of selling space as of the beginning and as of the end of the period)



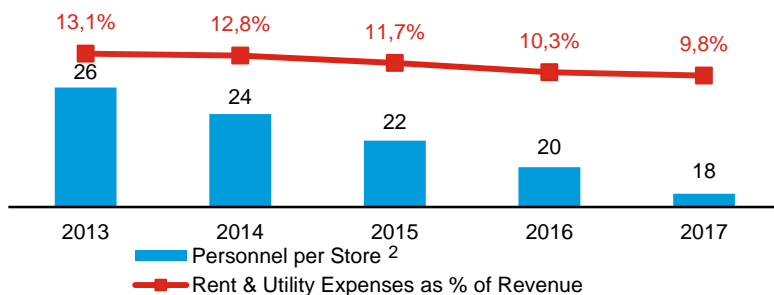
# Well-Defined Four-Pillar Growth Strategy (cont'd)

## D Focus on Execution Excellence to Achieve Superior Operating Margins

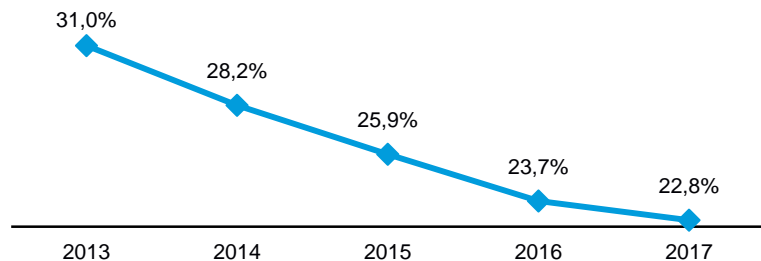
Improvement of 330bps in Adj. EBITDA<sup>1</sup> margin since 2013 driven by:

- ✓ Store operation improvements
- ✓ Optimization of IT platforms and personnel
- ✓ Reduction in Adj.SG&A<sup>3</sup> as a % of revenue by over 820bps since 2013

### Personnel per Store and Rent Costs Reductions

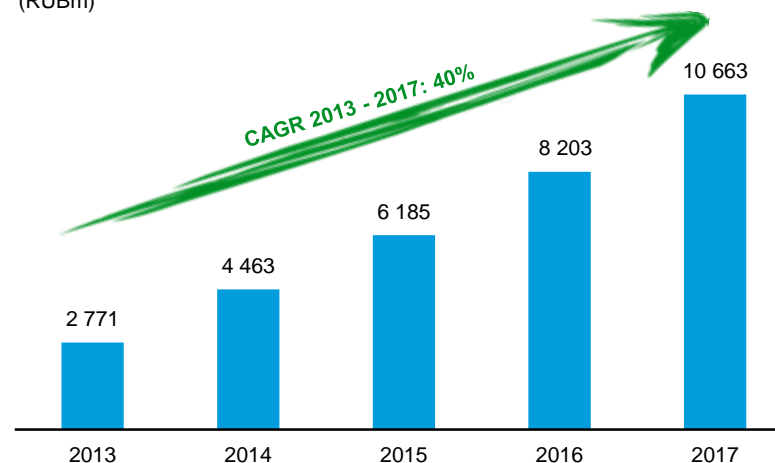


### Adjusted SG&A Expenses as % of Revenue<sup>3</sup>

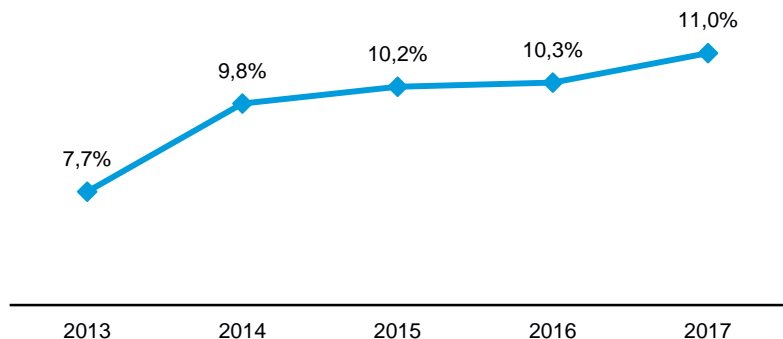


### Adjusted EBITDA<sup>1</sup>

(RUBm)



### Adjusted EBITDA Margin (%)



Source: The Group's consolidated financial statements for 2013 under US GAAP and 2014–2017 under IFRS. For the line items and the periods presented, there was no difference between the calculation of numbers or presentation under US GAAP and IFRS

<sup>1</sup> Adj. EBITDA is calculated as profit for the year before income tax, FX gain/loss, gain on acquisition of controlling interest in associate, impairment of goodwill, net finance expense, D&A, adjusted for the one-off effect relating to disposal of the Yakimanka building in 2014, as well as share-based compensation and cash bonuses under the LTI program

<sup>2</sup> Excluding personnel in headquarters

<sup>3</sup> Adjusted SG&A expenses are calculated excluding Depreciation and Amortisation and additional bonus payments under the LTI program

# Expansion Platform Designed for Future Growth

## Strong Infrastructure Backbone

### Store Management and Rollout

- Strict investment hurdles for store openings:
  - Focus on high-traffic shopping centres
  - Opportunistically consider standalone locations
- Flexible approach to store formats with size ranging from 500 to 2,000+ sqm
- Limited Capex per sqm due to asset-light business model with only 4 owned stores, including DM store on Prospect Vernadskogo (Moscow)

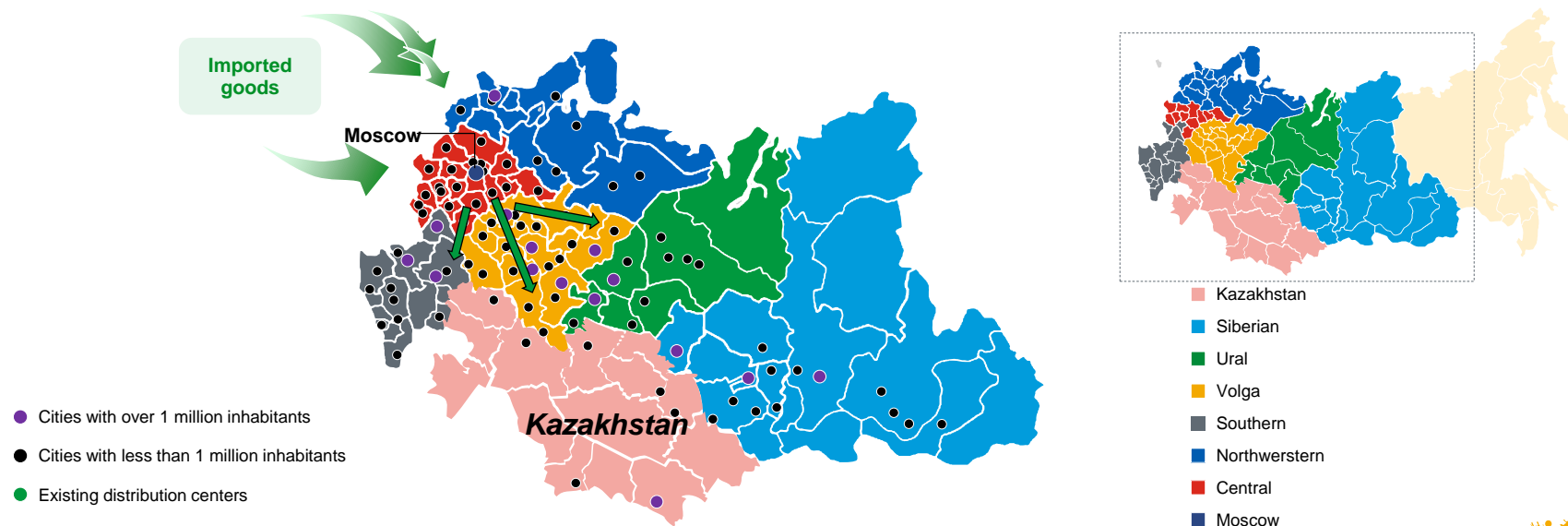
### Distribution & Logistics

- Well-established import trade competencies and in-house customs department:
  - Direct import contracts accounted for c.25% of 2017 revenue
- 2 modern DC in Moscow region of approximately 70,000 and 20,000 sqm
  - Target centralization level<sup>1</sup> of 75%<sup>2</sup> is achieved
- Increasing importance of e-Commerce as part of the omni-channel sales strategy
- In September 2017 Detsky Mir signed a preliminary rent agreement for a 46,000 sqm class A DC in Ural (Chelyabinsk region) for 10 years, likely to be launched in 1H 2018
- New DC in the north of Moscow region being considered for a 2019 launch

### IT Infrastructure

- Set-up SAP system manages on-stock balances
- IT-infrastructure is able to support up to 800 stores with in-store pickup function
- SAP Hybris (e-commerce platform) implemented in 2017

## Detsky Mir and ELC Network of 622 Stores<sup>2</sup> Across Russia and Kazakhstan



<sup>1</sup> Centralization level measured as ratio of cost of goods delivered to DM stores directly from DM's DCs to the total cost of goods delivered to DM stores

<sup>2</sup> As of 31 December 2017

# Asset Light Sustainable Business Model Providing Attractive Shareholder Return

## A Attractive New Store Economics and Disciplined Roll-out...

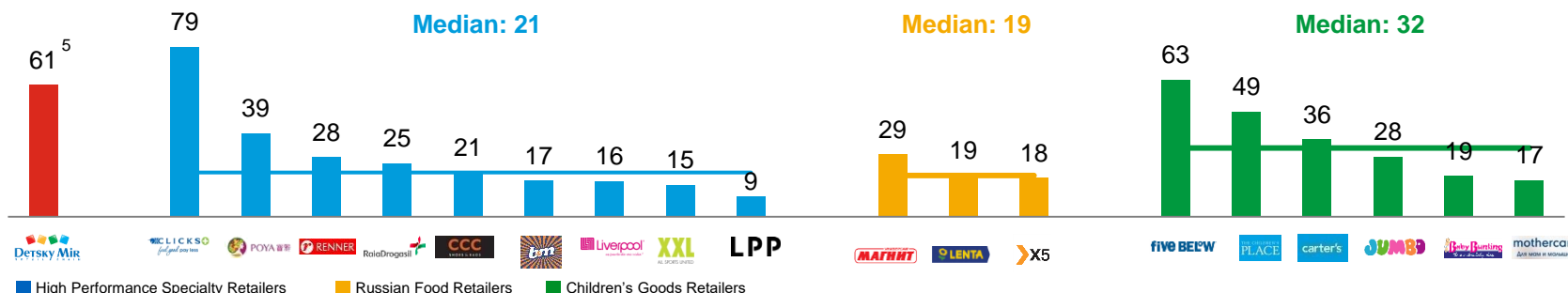
- Capex of c. RUB 13m per 1 standard DM store
- Strict investment criteria
  - IRR hurdle rate of 40% on 7-year cash flows (not accounting for terminal value)
- Total maturity period – 18-24 months
- Targeted EBITDA breakeven in 4 months after a store opening
- Payback period of 2.5-3.0 years

## B ...Supported by Well-Controlled Rental Costs...

- Primarily locations in high-traffic modern shopping malls
- Mostly more than 5-year rental agreements with fixed annual increases
- Unilateral termination rights for Detsky Mir (with reasonable notice periods)

## D ...and a Leading ROIC<sup>5</sup> in Global Retail Context

CY2016<sup>6</sup> (%)



## C ...Resulting in Strong Returns<sup>1</sup>...

	2013	2014	2015	2016	2017
Revenue Growth	30%	26%	33%	31%	22%
Selling Space Growth	10%	22%	26%	21%	15%
Adj. EBITDA <sup>2</sup> , RUBbn	2.8	4.5	6.2	8.2	10.7
Capex, RUBbn	(0.8)	(1.9)	(5.3)	(1.7)	(2.5)
Dividends, RUBbn	(0.4)	(1.9)	(3.0)	(4.4)	(4.8)
Adj. Net Debt <sup>3</sup> / Adj. EBITDA <sup>2</sup>	1.8x	0.6x	1.7x	1.4x	1.0x
Adjusted ROIC <sup>4,5</sup>	56%	88%	78%	61%	86%

Source: Companies disclosures and reporting

<sup>1</sup> The Group's consolidated financial statements for 2013 under US GAAP and 2014–2017 under IFRS. For the line items and the years presented, there was no difference between the calculation of numbers or presentation under US GAAP and IFRS

<sup>2</sup> Adj. EBITDA is calculated as profit for the year before income tax, FX gain/loss, gain on acquisition of controlling interest in associate, impairment of goodwill, net finance expense, D&A, adjusted for the one-off effect relating to disposal of the Yakimanka building in 2014, as well as share-based compensation and cash bonuses under the LTI program

<sup>3</sup> Adj. Net Debt is calculated as total borrowings (long term borrowings and short-term borrowings and current portion of long-term borrowings) less cash and cash equivalents adjusted for amounts receivable under the loan issued to CJSC "DM-Finance"

<sup>4</sup> Calculated as operating profit divided by average capital invested (simple average of capital invested as at the respective dates). Capital invested is calculated as net debt plus total equity (deficit)

<sup>5</sup> Invested capital is adjusted for amounts receivable under a loan granted to CJSC "DM-Finance", carrying amount of Yakimanka building and, for the year ended 31 December 2015, the net book value of the building occupied by the Bekasovo distribution centre and its equipment (which was completed in 2015, but was not operational for most of 2015). Operating profit is adjusted for LTI expense

<sup>6</sup> Calendarized to December year end

# Experienced Management Team With Well-Established Governance and Supportive Shareholders

## Highly Experienced Management...



**Vladimir Chirakhov**  
Chief Executive Officer

- Joined in 2012
- Held senior positions at Korablík, M.video



**Anna Garmanova**  
Chief Financial Officer

- Joined in 2008
- Held senior positions at Podruzhka, Understanding and Reconciliation Fund



**Farid Kamalov**  
Chief Operating Officer

- Joined in 2012
- Held senior positions at MediaMarkt, Korablík, M.video



**Pavel Pischikov**  
E-Commerce Director

- Joined in 2017
- Previously E-Commerce Director at Dochki-synochki



**Maria Davydova**  
Deputy CEO for Commercial Affairs

- Joined in 2013
- Held senior positions at Enter, Svyaznoy, MDK, Arbat Prestige



**Maria Volodina**  
Apparel and Footwear Commercial Director

- Joined in 2011
- Held senior positions at Sela, Reebok Rus, Kira, Plastinina, TJ Collection



**Tatiana Mudretsova**  
Marketing Director

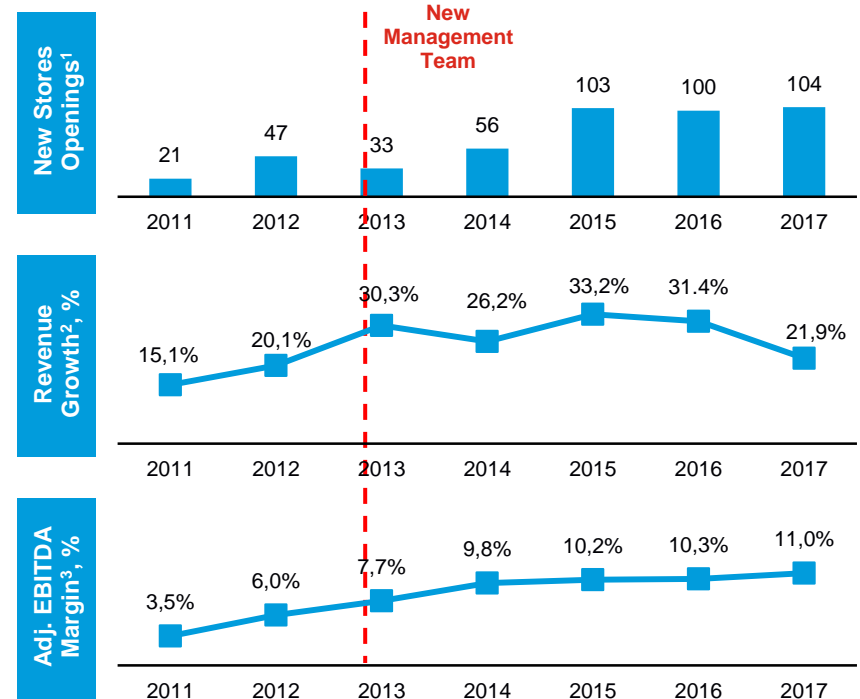
- Joined in 2014
- Held senior positions at Osnova Telecom, Beeline, DDB and Publicis



**Vyacheslav Mikhnenko**  
Head of Logistics

- Joined in 2012
- Previously Operational Logistics Director at X5 and Chief Logistics Officer at Kopeyka

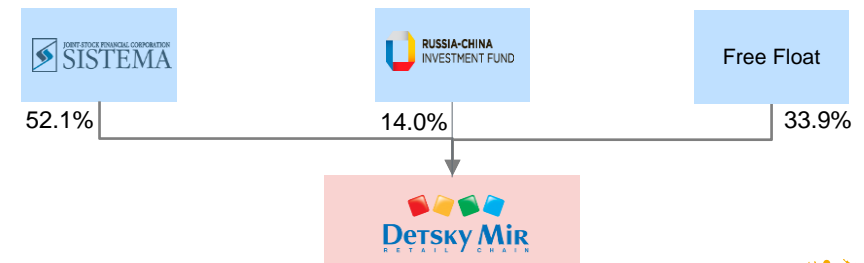
## ...With Strong Track Record...



## ...Supported by a Strong Governance Framework...

- BoD of 10 members including 4 INEDs
- Established Audit, Strategy and Nomination and Remuneration committees
  - at least 2 INEDs are members of each of the committees

## ...and a Prominent Shareholder Base



<sup>1</sup> Doesn't include ELC stores

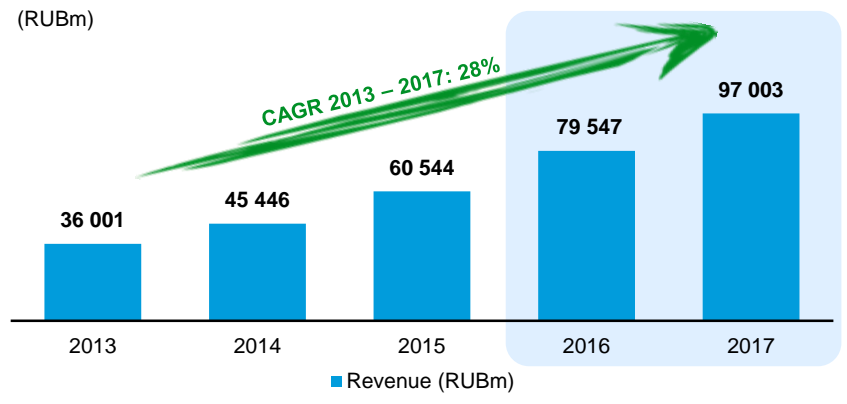
<sup>2</sup> The Group's consolidated financial statements for 2011 – 2013 under US GAAP, 2014–2017 under IFRS. For the line items and the years presented, there was no difference between the calculation of numbers or presentation under US GAAP and IFRS

<sup>3</sup> Adj. EBITDA is calculated as profit for the year before income tax, FX gain/loss, gain on acquisition of controlling interest in associate, impairment of goodwill, net finance expense, D&A, adjusted for the one-off effect relating to disposal of the Yakimanka building in 2014, as well as share-based compensation and cash bonuses under the LTI program

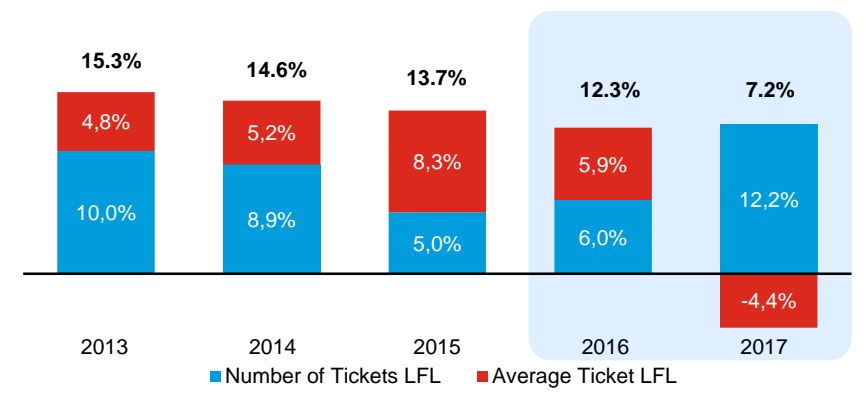
# Traffic-Led Revenue Growth



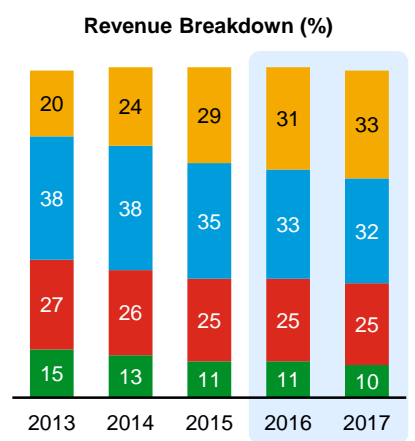
## Exceptional Revenue Growth Trajectory...



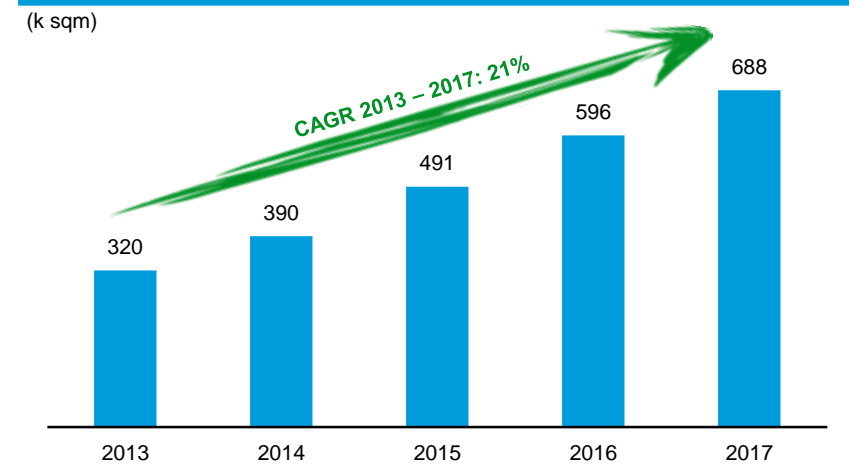
## ...Underpinned by Strong and Consistent Like For Like Growth<sup>1</sup>...



Product Segment	Gross Margin	Traffic Generation
Newborns	✓	✓ ✓ ✓
Toys	✓ ✓	✓ ✓
Fashion	✓ ✓ ✓	✓
Large items and other	✓ ✓	✓ ✓



## ...and Selling Space Growth



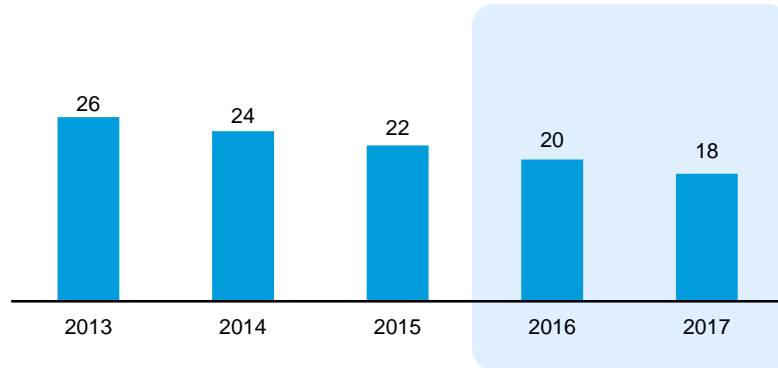
Source: Company data.

Note: The Company's consolidated financial statements for 2013 under US GAAP and 2014-2017 under IFRS. For the line items and the years presented, there was no difference between the calculation of numbers or presentation under GAAP vs IFRS.  
<sup>1</sup> Includes only Detsky Mir branded stores in Russia. LFL growth includes only DM stores in Russia that have been in operation for at least 12 full calendar months. Revenue of each store included in LFL comparison represents retail revenue of the store (incl. VAT, excluding plastic bags) for respective period but excludes store revenue for those months in which the store was not operating for 3 days or more.

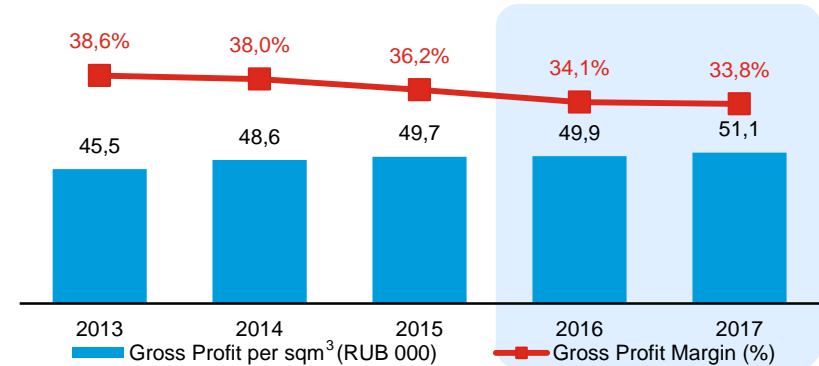
# Relentless Focus on SG&A Optimisation Underpinning Margin Expansion

## Continuous Optimisation of Personnel Expense...

Personnel per Store<sup>1</sup>

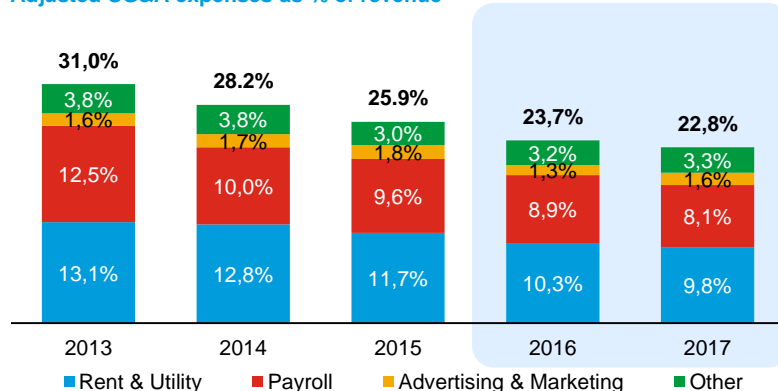


## ...while Growing Sales Density Offsetting Declines in Gross Margin...

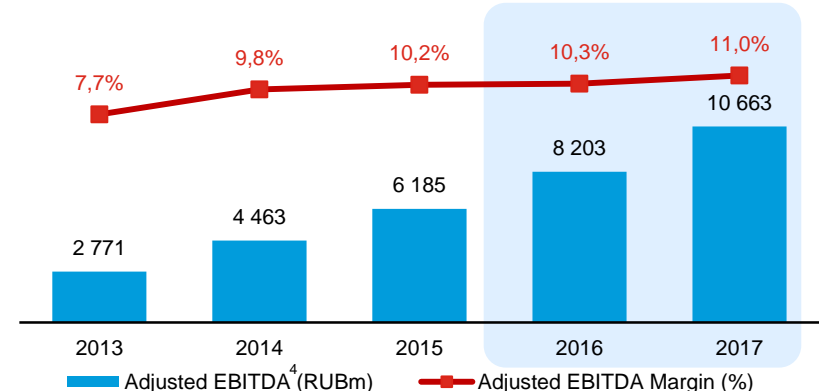


## ...Ensuring Strong Positive Operating Leverage...

Adjusted SG&A expenses as % of revenue<sup>2</sup>



## ...Resulting in Sustainable Margin Expansion



Source: Company data. Note: The Company's consolidated financial statements for 2013 under US GAAP and 2014-2017 under IFRS. For the line items and the periods presented, there was no difference between the calculation of numbers or presentation under GAAP vs IFRS

<sup>1</sup> Excluding personnel in headquarters

<sup>2</sup> SG&A expenses exclude D&A expenses and adjusted for LTI bonuses, as well as Income received from partial termination of employees' right to receive shares under the LTI program

<sup>3</sup> Calculated per average space for the period

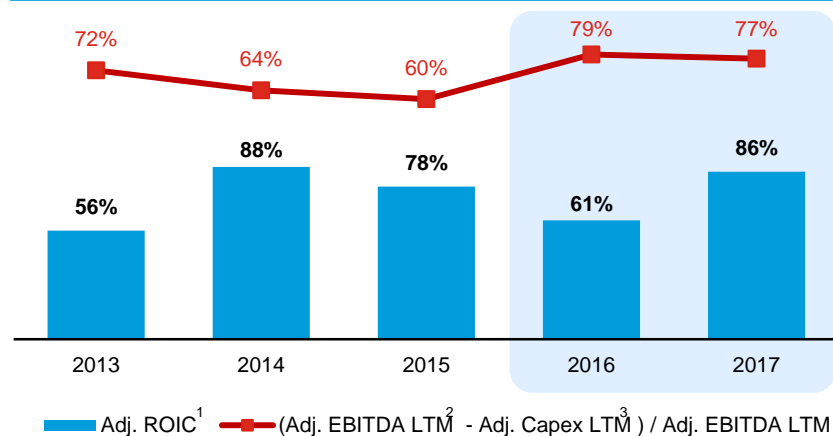
<sup>4</sup> Adj. EBITDA is calculated as profit for the year before income tax, FX gain/loss, gain on acquisition of controlling interest in associate, impairment of goodwill, net finance expense, D&A, adjusted for the one-off effect relating to disposal of the Yakimanka building in 2014, as well as share-based compensation and cash bonuses under the LTI program

# Converting Earnings Growth Into Strong Cash Flow Generation Profile...

## Comments

- Strong conversion of EBITDA into Operating Cash Flow and Free Cash Flow
- Limited working capital financing needs due to attractive payment terms / long payables, and improved inventory turnover in 2017
- Decrease in financing expense on the back of deleveraging and decreasing interest rates
- Disciplined capex focused on store openings and selective investments in IT & infrastructure; limited maintenance capex requirements

## Strong Cash Conversion and Returns on Capital



Source: The Group's consolidated financial statements for 2013 under US GAAP and 2014–2017 under IFRS. For the line items and the years presented, there was no difference between the calculation of numbers or presentation under US GAAP and IFRS.

<sup>1</sup> Calculated as operating profit LTM, adjusted for the effect of disposal of Yakimanka building in 2014 and LTI bonus payments, incl. Income received from partial termination of employees' right to receive shares under the LTI program, divided by average capital invested. Capital invested is calculated as Net Debt plus total equity/(deficit) minus amounts receivable under a loan granted to CJSC "DM-Finance" and, for the year ended 31 December 2015, the net book value of the building occupied by the Bekasovo distribution centre and its equipment (which was completed in 2015, but was not operational for most of 2015).

## Cash Flow (RUBm)

	2013	2014	2015	2016	2017
<b>Adjusted EBITDA<sup>2</sup></b>	<b>2,771</b>	<b>4,463</b>	<b>6,185</b>	<b>8,203</b>	<b>10 663</b>
Changes in NWC	(93)	(1,640)	(4,300)	(362)	(1,123)
Cash Income Taxes Paid	(477) <sup>4</sup>	(657)	(1,190)	(1,468)	(1,523)
Net Finance Expense Paid	(507)	(795)	(1,879)	(1,813)	(1,645)
Other Operating Cash Flow	331	121	505	1,285	708
<b>Operating Cash Flow</b>	<b>2,025</b>	<b>1,492</b>	<b>(679)</b>	<b>5,844</b>	<b>7,080</b>
<b>Capital Expenditure</b>	<b>(772)</b>	<b>(1,945)</b>	<b>(5,308)</b>	<b>(1,747)</b>	<b>(2,468)</b>
DC Construction	-	(330)	(2,842)	-	-
Store Openings, IT & Maintenance	(772)	(1,615)	(2,465)	(1,747)	(2,468)
<b>Free Cash Flow</b>	<b>1,253</b>	<b>(453)</b>	<b>(5,987)</b>	<b>4,097</b>	<b>4,612</b>

<sup>2</sup> Adj. EBITDA is calculated as profit for the year before income tax, FX gain/loss, gain on acquisition of controlling interest in associate, impairment of goodwill, net finance expense, D&A, adjusted for the one-off effect relating to disposal of the Yakimanka building in 2014, as well as share-based compensation and cash bonuses under the LTI program

<sup>3</sup> Adjusted for one-off items

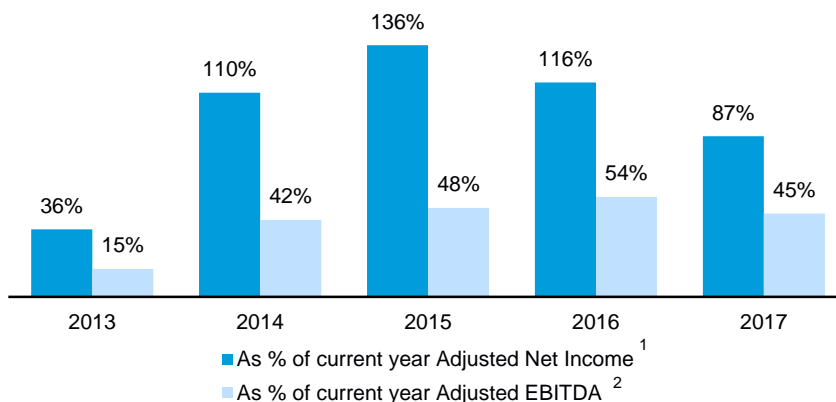
<sup>4</sup> Calculated as Income tax expense plus deferred tax income benefit

# ...Imminently Shared with our Shareholders via Consistent Dividend Payments Flow

## Comments

- Asset-light cash generative model underpinning significant dividend paying capacity
  - Dividends as major differentiator from the majority of Russian high-growth food retailers
  - Ability to consistently maintain sound leverage levels despite significant dividend payout
- Dividend policy: payout of *at least* 50% of consolidated IFRS net profit of the previous year
  - Historically, up to 100% of net income *under RAS* paid out
  - Typically two dividend payments per year (9M interim and full year)
- 4.8bn RUB distributed in dividends in 2017 with respect to Q4 2016 and 9m 2017

## Dividends as % of Adjusted EBITDA and Adjusted Net Income



Source: Company data

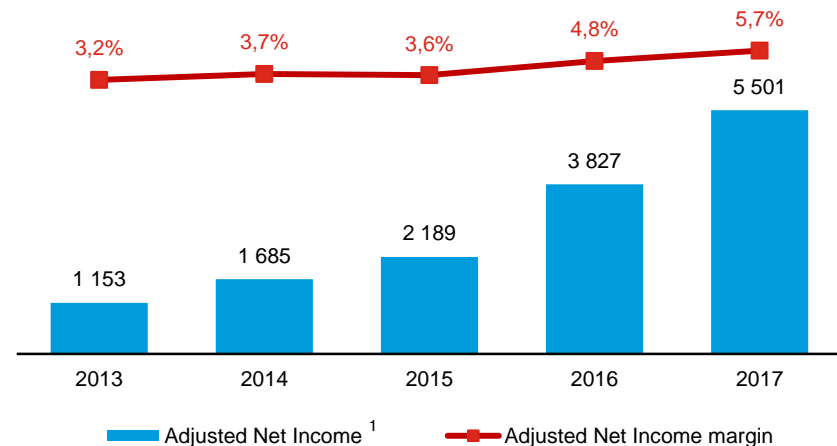
Note: The Company's consolidated financial statements for 2013 under US GAAP and 2014-2017 under IFRS. For the line items and the years presented, there was no difference between the calculation of numbers or presentation under GAAP vs IFRS.  
<sup>1</sup> Adjusted for the one-off effect relating to disposal of the building occupied by the Yakimanka Gallery in 2014 (together with related tax effects), as well as additional bonus accruals and Income received from partial termination of employees' right to receive shares under the LTI program

<sup>2</sup> Adj. EBITDA is calculated as profit for the year before income tax, FX gain/loss, gain on acquisition of controlling interest in associate, impairment of goodwill, net finance expense, D&A, adjusted for the one-off effect relating to disposal of the Yakimanka building in 2014, as well as share-based compensation and cash bonuses under the LTI program

<sup>3</sup> Calculated as dividend per share paid in 2017 (based on total dividends paid in 2017 of RUB4,767m, shares outstanding of 738.6m) divided by average share price in 2017.

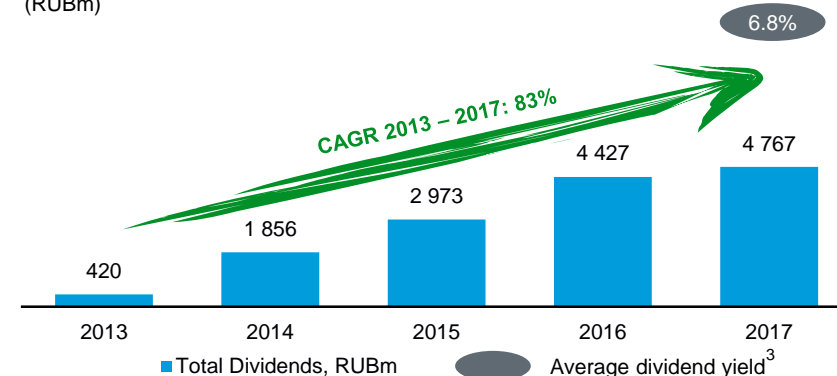
## Adjusted Net Income<sup>1</sup>

(RUBm)



## History of Dividend Payments (cash flow basis)

(RUBm)





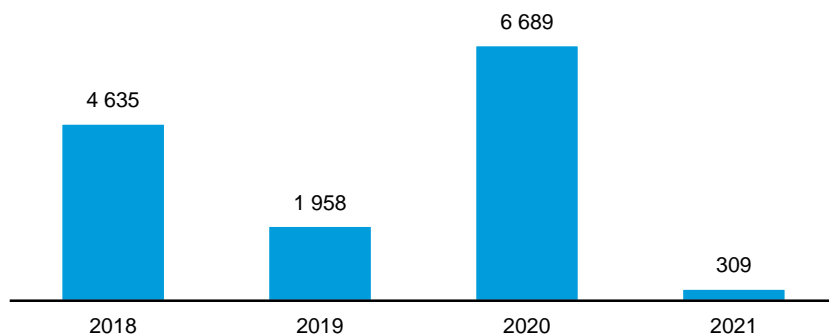
# Conservative Financial Policy and Stable Leverage

## Comments

- Commitment to a conservative financial policy
  - Fully RUB denominated debt to match RUB revenue
  - Relationships with multiple Russian and international banks
- Leverage<sup>1,2</sup> as of 31-December-2017 is 1.0x of vs. 4.0x average covenant level across the loan portfolio
- Weighted average interest rate<sup>3</sup> – 10.3% (as of 31 December 2017)
  - Incl. RUB 3bn outstanding bond with fixed annual coupon rate of 9.5 p.p. and a three-year put option
- Predominantly fixed interest rates across the portfolio
- No contingent off-balance sheet liabilities

## 31-December-17 Debt Repayment Schedule

(RUBm)



Source: Company data

Note: The Company's consolidated financial statements for 2013 under US GAAP and 2014-2017 under IFRS. For the line items and the years presented, there was no difference between the calculation of numbers or presentation under GAAP vs IFRS.

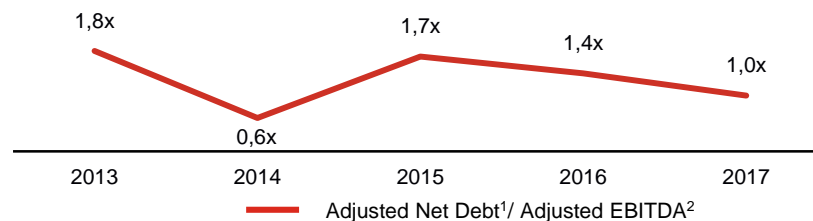
<sup>1</sup> Adjusted Net debt is calculated as total borrowings less cash and cash equivalent / adjusted for the loan issued to CJSC "DM Finance" (Sistema's subsidiary) on 3 July 2013

<sup>2</sup> Adj. EBITDA is calculated as profit for the year before income tax, FX gain/loss, gain on acquisition of controlling interest in associate, impairment of goodwill, net finance expense, D&A, adjusted for the one-off effect relating to disposal of the Yakimanka building in 2014, as well as share-based compensation and cash bonuses under the LTI program

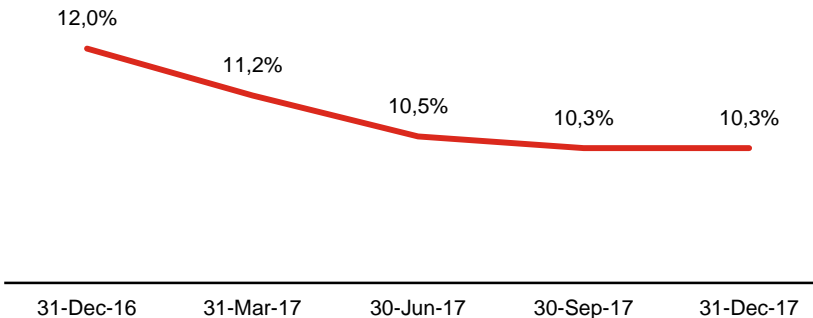
<sup>3</sup> Calculated on the basis of the weighted interest rates applying to the specified indebtedness (weighted by the principal amount of such indebtedness) as of the dates specified.

## Leverage<sup>1,2</sup> dynamics

- Detsky Mir provided CJSC "DM-Finance" (Sistema's subsidiary) with the loan to buy out 25% stake from Sberbank in 2013. Most of the loan (RUB4,875m including interest) was repaid in January/February 2016
- RUB1.1 bn fully repaid on February 27, 2017
- Total debt – RUB 13.6bn,  
Net Debt – RUB 10.4bn as of 31-December-2017



## Weighted average interest rate<sup>3</sup> dynamics (%)



# Guidance Update

	Near Term guidance at IPO	2017 fact	Mid- to Long-Term guidance at IPO	Updated guidance
<b>Store Count</b>	<ul style="list-style-type: none"> <li>~70 new stores</li> </ul>	>100 new stores opened <sup>1</sup>	<ul style="list-style-type: none"> <li>~250 new stores in 2017-2020 (increased to 300 in Nov-17)</li> </ul>	<ul style="list-style-type: none"> <li>~70 new stores in 2018</li> <li>At least 250 new stores in 2018-2021</li> </ul>
<b>Revenue</b>	<ul style="list-style-type: none"> <li>Driven by store openings, LFL &amp; ramp ups</li> </ul>		<ul style="list-style-type: none"> <li>Driven by store openings, LFL &amp; ramp ups</li> </ul>	
<b>LFL Revenue Growth</b>	<ul style="list-style-type: none"> <li>Low double-digit growth below 2016, including effect of new store ramp-ups and 103 new stores entering LFL panel in 2017</li> </ul>	7.2% LFL growth, outperforming the market	<ul style="list-style-type: none"> <li>Slightly positive traffic growth, below inflation ticket growth, plus effect of new store ramp ups</li> </ul>	Single-digit growth, outperforming the market
<b>Gross Margin</b>	<ul style="list-style-type: none"> <li>Decline, but by less than 2016 vs 2015, as process of offline price reductions to match online is complete</li> </ul>	✓	<ul style="list-style-type: none"> <li>Stable</li> </ul>	No change in guidance
<b>Rent &amp; Utility Expenses</b>	<ul style="list-style-type: none"> <li>Further meaningful decline as % of revenue vs 2016, with virtually no rise in rent/sqm in a continued soft rentals market</li> </ul>	✓	<ul style="list-style-type: none"> <li>Rents/sqm rise first slightly above inflation then in line with inflation, so stable as % of revenue</li> </ul>	No change in guidance
<b>Personnel Expenses<sup>2</sup></b>	<ul style="list-style-type: none"> <li>Further meaningful decline as % of revenue vs 2016, on operating leverage</li> </ul>	✓	<ul style="list-style-type: none"> <li>Stable to slightly declining as % of revenue</li> </ul>	No change in guidance
<b>Adjusted EBITDA Margin</b>	<ul style="list-style-type: none"> <li>Double-digit supported by expectations of SG&amp;A efficiency gains and new store ramp-ups more than offsetting the effect of lower gross margins</li> </ul>	✓	<ul style="list-style-type: none"> <li>Double-digit</li> </ul>	No change in guidance

Source: Company data

<sup>1</sup> In 2017, Detsky Mir closed six stores as part of the Company's ongoing rationalisation programme

<sup>2</sup> Adjusted for share-based compensation and cash bonuses under the LTI program



# Appendix



# Top Management Compensation Structure Overview

## Annual Compensation Structure

		CEO	«CEO-1»	Department Heads
<b>Fixed</b>		50%	50% - 80%	70% - 85%
<b>Variable</b>	Total	50%	20% - 50%	15% - 30%
	<i>incl. Financial<sup>1</sup></i>	25%	6% -17%	3% -9%
	<i>Incl. Functiona<sup>2</sup></i>	25%	14% -33%	10.5% - 21%

## Last LTI Programme

Pre-IPO liquidity event	At IPO
<ul style="list-style-type: none"> <li>2015 award - triggered by RCIF transaction; %-based payment linked to valuation increase</li> <li>Vesting at liquidity event; payable over 3 years (last tranche to be paid in June 2017)</li> <li>Accruals and payments fully disclosed in IFRS accounts</li> </ul>	<ul style="list-style-type: none"> <li>%-based payment linked to valuation increase at IPO</li> <li>Amount calculated as 3% from the differential between new liquidity event (i.e. IPO) price and RCIF price in 2015</li> <li>50%/50% cash and share based payments (via purchases of shares in the open market)</li> </ul>

## New Equity-Based Compensation Programme

After IPO
<ul style="list-style-type: none"> <li>Approved by the Board of Directors in August 2017</li> <li>Covers the 3-year period to February 2020, the third anniversary of the Company's IPO, senior management in continuing employment by the Company as of that anniversary will be eligible for share grants from a share pool equivalent in value to up to 2% of the increase in the Company's stock market value (including dividend payments) over the period.</li> <li>The LTIP also provides for cash payments expected to total around RUB 500 million (plus any social taxes); of this amount, around RUB 250 million was paid in January 2018, while payment of the balance remains approved by BoD and will be paid on the first workday of January 2019</li> </ul>

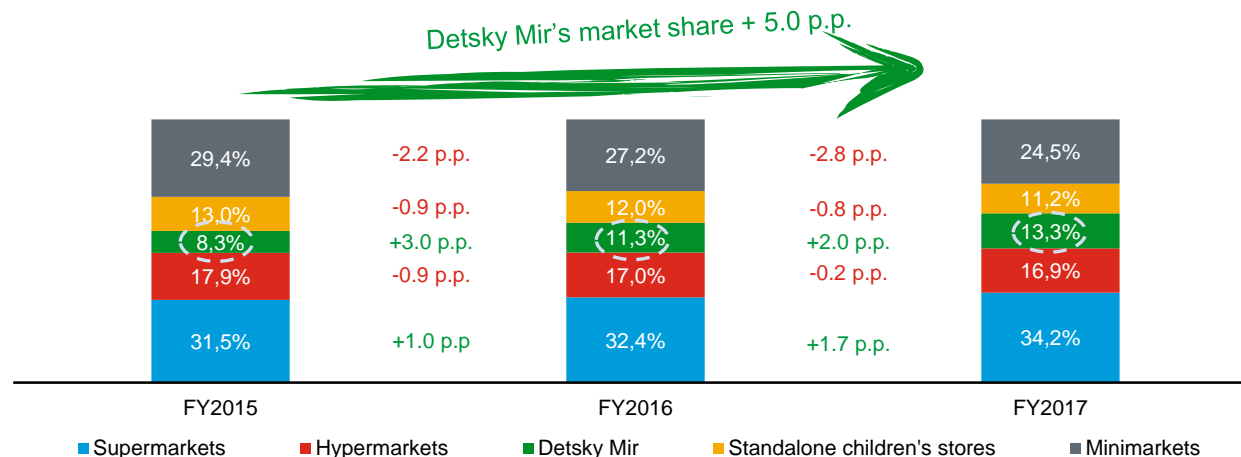
**Incentive programme to cement management long-term focus on shareholder value creation**

<sup>1</sup> Financial KPIs – EBITDA, net income, revenues

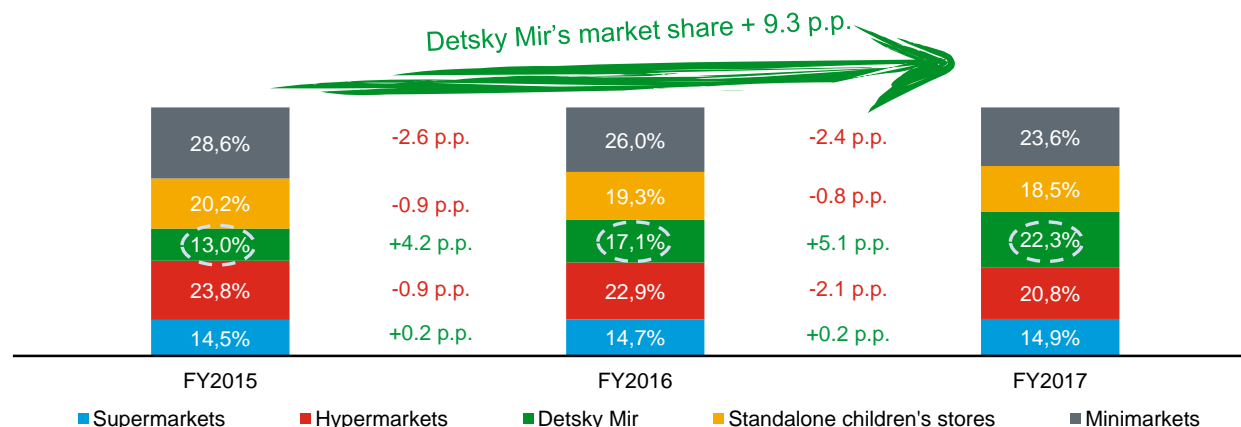
<sup>2</sup> Functional KPIs – specific operational KPIs, individual for each role

# Case Study: Gaining Market Share in Baby Food and Diapers Sales

## Baby Food Sales by Channel in Russia



## Diapers Sales by Channel in Russia



## Comments

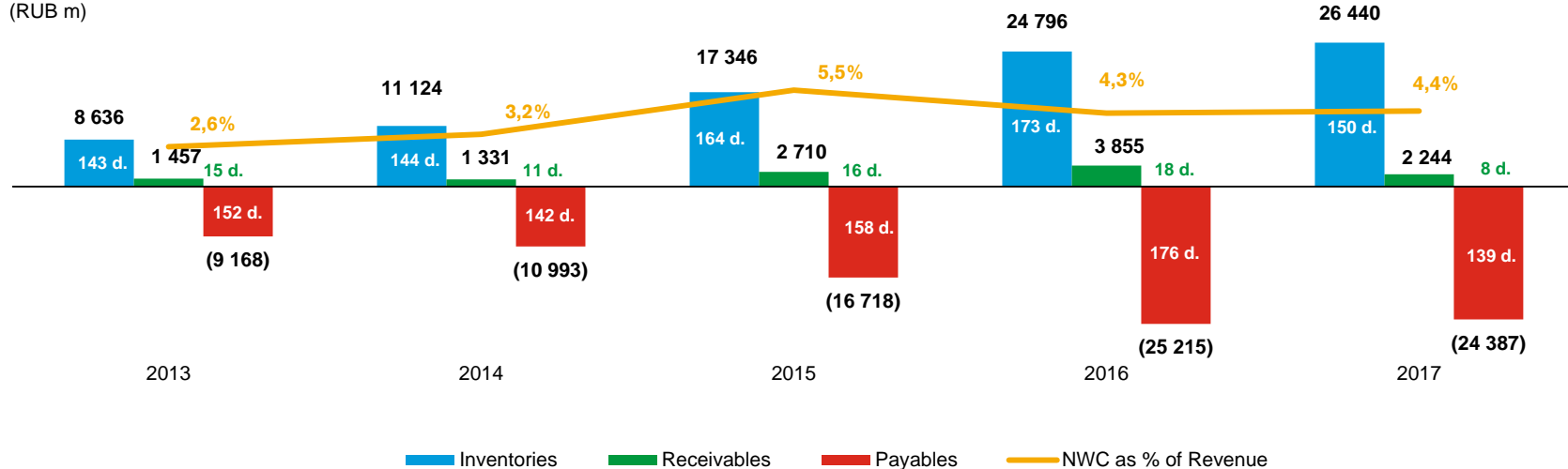
- Baby food and Diapers remain key categories for children's goods stores as traffic generators
- Only children's goods specialized stores offer a full range of Baby Food and Diapers products unlike hypermarkets which are focused on "bestsellers" SKU
- Detsky Mir gained market share away from other channels
- Notably, Detsky Mir has outperformed supermarkets and hypermarkets which have been the largest sales channel for baby food historically
- Detsky Mir's Baby Food market share increased from 8.3% in 2015 to 13.3% in 2017
- Detsky Mir's Diapers market share increased from 13.0% in 2015 to 22.3% in 2017

**Detsky Mir's shares in the baby food and diapers markets have almost doubled over several years**

# Net Trade Working Capital Overview

## Focus on Constant Improvement & Optimization of NWC<sup>1,2</sup>

(RUB m)



- Increase in trade working capital in 2015 mainly driven by
  - Change of margin structure (shift from front to back thus higher retro-bonuses thus increased AR)
  - Company has opened new DC, initial fill-up resulted in inventory level growth
  - Increase in number of new stores also resulted in inventory level growth
- Improvements in 2016 achieved via
  - Improved logistics processes efficiency
  - Improved AR: retro-bonuses are calculated and received on a monthly basis instead of quarterly effective beginning of 2016
- Improvements in 2017 achieved via
  - Improved Inventories turnover on the back of optimization of current stock as well as purchases of new goods (positively affected gross margin) and additional promotions agreed with and compensated by suppliers
  - Changes in Payables turnover due to an increase in imports and private label purchases (positive effect on gross margin) and better turnover of goods sold with “on being sold” payment condition

Source: Company data.

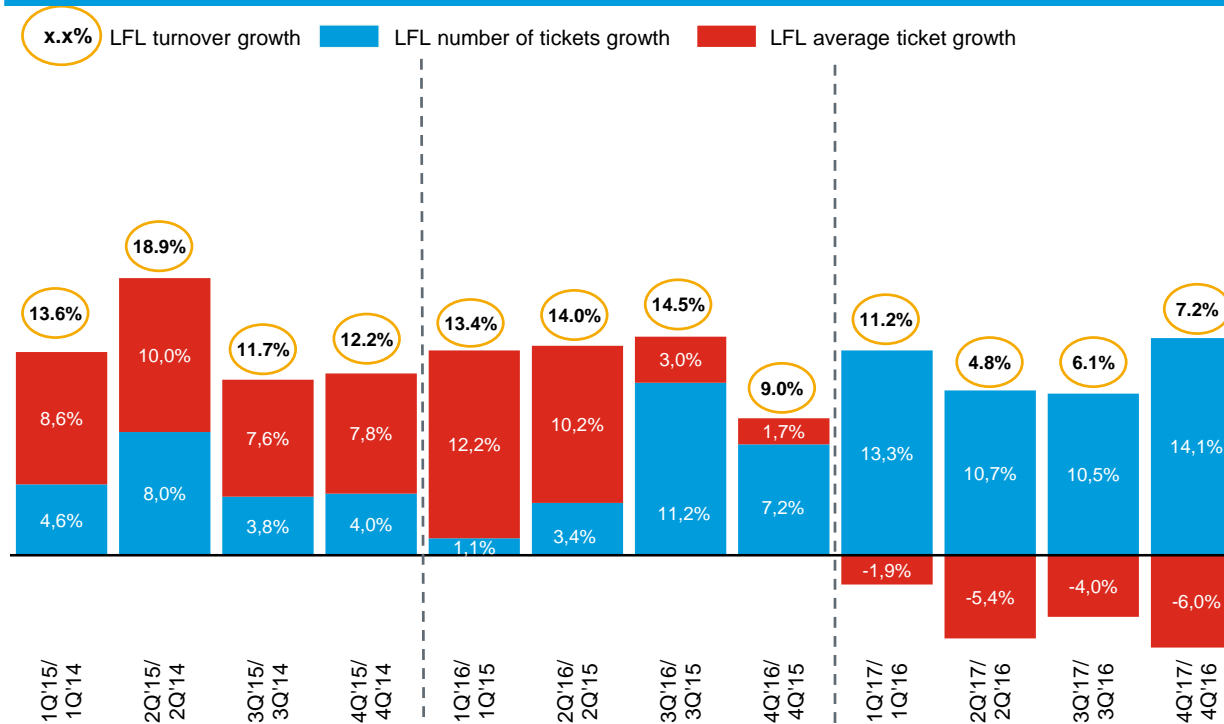
Note: The Company's consolidated financial statements for 2013 under US GAAP and 2014-2017 under IFRS. For the line items and the periods presented, there was no difference between the calculation of numbers or presentation under GAAP vs IFRS.

<sup>1</sup> Net trade working capital calculated as Receivables + Inventories – Payables

<sup>2</sup> Days of Inventories / Receivables / Payables turnover calculated as corresponding metric divided by COGS / Revenue / COGS multiplied by 365 for FY numbers.

# Robust Like-for-Like Performance

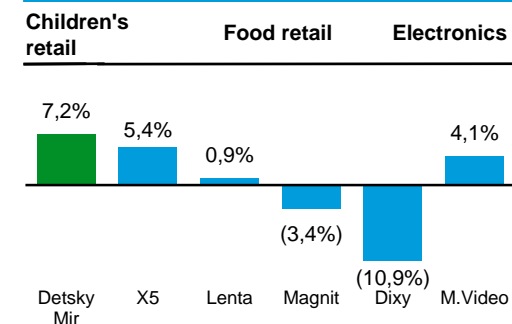
## Like-for-like revenue (in RUB)\*



## Comments

- Strong growth of the like-for-like sales was a result of competitive pricing policy marketing activities and improvements in merchandising
- Focus on attracting of new customers as result double digit LFL number of tickets growth in 2017
- New openings under new store concept, attractive loyalty program and competitive prices are key factors supporting further like-for-like growth

## Like-for-like revenue growth for 2017



## LFL growth

Total  
Average ticket  
Number of tickets

## LFL growth 2015

13.7%  
8.3%  
5.0%

## LFL growth 2016

12.3%  
5.9%  
6.0%

## LFL growth 2017

7.2%  
(4.4%)  
12.2%

Source: Company data, publicly available data with respect to other companies  
\*LFL growth in RUB terms. LFL growth includes only DM stores in Russia that have been in operations for at least 12 full calendar months.

**Detsky Mir demonstrated attractive revenue growth rate (LFL +7.2%) for 2017**

# Financial Performance Summary

(RUBm, unless specified otherwise)<sup>1</sup>

	2013	2014	2015	2016	2017
<b>Number of stores</b>	<b>252</b>	<b>322</b>	<b>425</b>	<b>525</b>	<b>622</b>
Detsky Mir stores	224	278	381	480	578
ELC stores	27	43	44	45	44
<b>Selling space (k sqm)</b>	<b>320</b>	<b>390</b>	<b>491</b>	<b>596</b>	<b>688</b>
<b>Revenue</b>	<b>36,001</b>	<b>45,446</b>	<b>60,544</b>	<b>79,547</b>	<b>97,003</b>
% total sales growth	30.3%	26.2%	33.2%	31.4%	21.9%
% LFL sales growth <sup>2</sup>	15.3%	14.6%	13.7%	12.3%	7.2%
Revenue per sqm <sup>3</sup> (RUB thousand / sqm)	118	128	137	146	151
Online sales <sup>4</sup>	227	443	1,260	2,776	4,637
Share of online sales	0.6%	1.0%	2.1%	3.5%	4.8%
<b>Gross profit</b>	<b>13,908</b>	<b>17,263</b>	<b>21,904</b>	<b>27,108</b>	<b>32,798</b>
Margin, %	38.6%	38.0%	36.2%	34.1%	33.8%
<b>Gross profit per sqm<sup>3</sup></b> (RUB thousand / sqm)	<b>46</b>	<b>49</b>	<b>50</b>	<b>50</b>	<b>51</b>
Adjusted SG&A <sup>5</sup>	11,155	12,807	15,708	18,885	22,127
% of revenue	31.0%	28.2%	25.9%	23.7%	22.8%
<b>Adjusted EBITDA<sup>6</sup></b>	<b>2,771</b>	<b>4,463</b>	<b>6,185</b>	<b>8,203</b>	<b>10,663</b>
Margin, %	7.7%	9.8%	10.2%	10.3%	11.0%
<b>Adjusted Profit for the period<sup>7</sup></b>	<b>1,153</b>	<b>1,685</b>	<b>2,189</b>	<b>3,827</b>	<b>5,501</b>
Margin, %	3.2%	3.7%	3.6%	4.8%	5.7%
<b>Total Debt</b>	<b>5,922</b>	<b>9,716</b>	<b>18,359</b>	<b>14,638</b>	<b>13,592</b>
Cash and cash equivalents	(860)	(1,670)	(1,934)	(2,445)	(3,155)
<b>Adjusted Net Debt<sup>8</sup></b>	<b>5,062</b>	<b>2,806</b>	<b>10,618</b>	<b>11,133</b>	<b>10,436</b>
Adjusted Net Debt / Adjusted EBITDA	1.8x	0.6x	1.7x	1.4x	1.0x
<b>Capex</b>	<b>(772)</b>	<b>(1,945)</b>	<b>(5,308)</b>	<b>(1,747)</b>	<b>(2,468)</b>
% of revenue	2.1%	4.3%	8.8%	2.2%	2.5%
<b>Dividends paid</b>	<b>(420)</b>	<b>(1,856)</b>	<b>(2,973)</b>	<b>(4,427)</b>	<b>(4,767)</b>

Source: Company data

<sup>1</sup> The Group's consolidated financial statements for 2011-2013 under US GAAP and 2014-2017 under IFRS. For the line items and the years presented, there was no difference between the calculation of numbers or presentation under US GAAP and IFRS

<sup>2</sup> LFL growth in RUB terms. LFL growth includes only DM stores in Russia that have been in operation for at least 12 full calendar months

<sup>3</sup> Calculated per average space for the year

<sup>4</sup> Including in-store pickup

<sup>5</sup> Adjusted SG&A expenses are calculated excluding Depreciation and Amortisation, as well as additional bonus payments and Income received from partial termination of employees' right to receive shares under the LTI program

## Comments

### Sales growth

- Strong support from both network expansion and LFL
- Solid LFL Sales growth rates
- Accelerated rate of new openings in 2017 (+104 stores<sup>9</sup>)

### Improved operating efficiency

- Slightly declining gross margin due to investment in price leadership to support traffic and LFL growth
- Over 800bps improvement in SG&A as % of sales over five years (-93bps 2017 vs. 2016)

### Superior EBITDA margins

- Major SG&A optimisation measures implemented by the new management team since 2013
- Over 320bps margin increase over five years (+68bps 2017 vs. 2016)
- Double-digit EBITDA margin achieved in 2015 and maintained in 2016 - 2017, expected to be maintained in 2018

### Capex

- Asset-light business model allows to achieve superior cash flow generation

### Conservative financial policy

- Leverage<sup>8</sup> as of 31-December-2017 is 1.0x vs. 4.0x average leverage covenant level across the loan portfolio

### Attractive returns for shareholders

- Continuous dividend payout pattern
- Yearly dividend payments increased more than 10-fold from 2013

<sup>6</sup> Calculated as EBITDA, adjusted for the one-off effect relating to disposal of the building occupied by the Yakimanka Gallery in 2014, as well as additional share-based compensation expense and Income received from partial termination of employees' right to receive shares under the LTI program

<sup>7</sup> Adjusted for the one-off effect relating to disposal of the building occupied by the Yakimanka Gallery in 2014 (together with related tax effects), as well as additional bonus accruals and Income received from partial termination of employees' right to receive shares under the LTI program

<sup>8</sup> Adjusted Net Debt is calculated as Net Debt adjusted for amounts receivable under the loan issued to CJSC "DM-Finance" (Sistema's subsidiary), fully repaid on February 27, 2017.

<sup>9</sup> In 2017, Detsky Mir closed six stores as part of the Company's ongoing rationalisation programme



# Our Operating Performance vs Share Price Performance

## Share price performance since IPO

Share price performance	+6.2%
Dividends paid in 2017:	RUB4.8bn, average dividend yield <sup>1</sup> of 6.9%
<b>Total shareholders return</b>	<b>13.1%</b>

## Company's performance in 2017

Sales 2017	+21.9% yoy
Adjusted EBITDA 2017	+30.0% yoy
Adjusted Net income 2017	+43.8% yoy



Share price as of 5 March 2018

<sup>1</sup> Calculated as dividend per share paid in 2017 (based on total dividends of RUB4,767m, shares outstanding of 738.6m) divided by average share price since IPO