



detsky mir

H1 2019 Unaudited Financial Results

#1 Russian specialized children's goods retailer

August 2019

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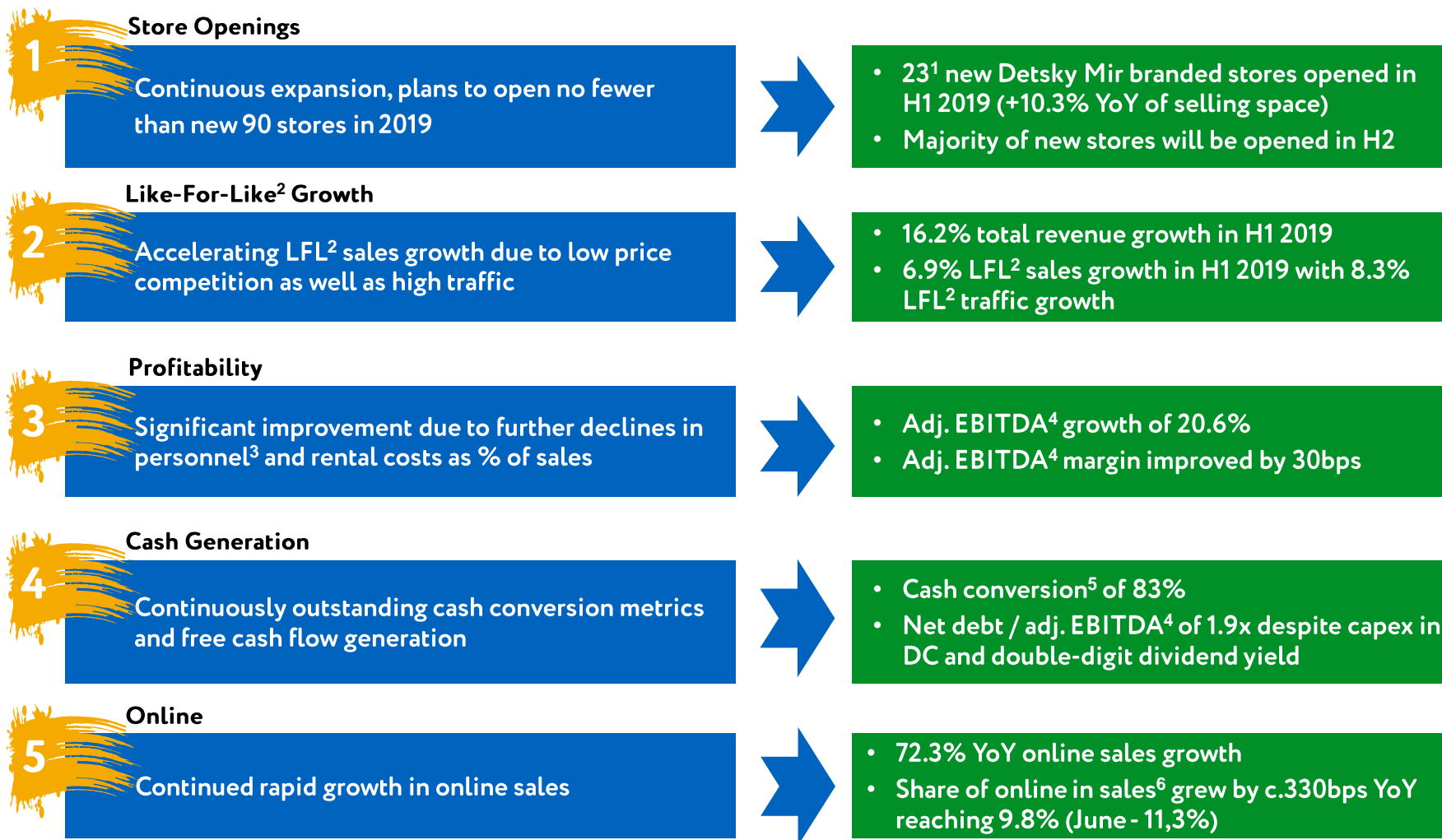
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H1 2019 Financial Highlights



Source: Company data. Note: The Company's consolidated financial statements for 2017-2019 under IFRS are presented without reference to the application of IFRS 16, unless specified otherwise.

¹ In H1 2019, Detsky Mir closed eight stores.

² LFL growth includes only DM stores in Russia and Kazakhstan that have been in operation for at least 12 full calendar months

³ Excluding share-based compensation and cash bonuses under the LTI program

⁴ 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, as well as share-based compensation and cash bonuses under the LTI program

⁵ Calculated as (Adjusted EBITDA - Adjusted Capex) / Adjusted EBITDA

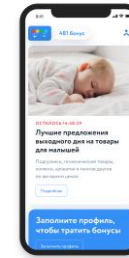
⁶ Online share in DM revenue in Russia

Key 2019 Business Initiatives

Continued Upgrades to e-Commerce Platform and Customer Offering

- Full roll-out of last mile delivery (same-day and next-day deliveries):
 - Cheap and fast delivery (\$1.5 / up to 6 h.) launched in 17 largest cities (250 stores)
 - Launching next-day delivery (~30 stores) covering nearby cities and regions (Q3 '19)
- Launching of full-feature mobile app store / in-store pickup in Kazakhstan
- Improve functionality and customer service KPIs of in-store pickups to reach 85% of online sales in H1 2019, drive overall LFL sales growth and stimulate cross sales (~30% of online sales)
- Research phase of launching a Marketplace (TBU in 2020)

Mobile App



Last mile delivery (~6 hours)



Geographical Expansion

- Active international expansion in CIS countries:
 - Successfully entered Belarus with four stores opened (35 new stores in mid-term)
 - Expand to new cities in Kazakhstan (+37% LFL & 1.5x sales growth)
- Continued regional expansion:
 - Opened eight stores in Russia's Far East (20 new stores in mid-term)

Key Strengths for Belarus Expansion (RUB 40bn children's goods market)



- ✓ Strong brand awareness in CIS
- ✓ Aggressive price positioning
- ✓ Biggest purchasing power in CIS
- ✓ Effective business model (>40% IRR)
- ✓ Efficient supply chain: no customs barriers, adjacent infrastructure, short 2-4 day logistics leg

Increase Share of Private Labels and Direct Imports

- Growing the share of private labels and direct imports across our four main product categories
- Share in total sales increased from 33.3% to 36.1% in 2018 (39.9% in H1 '19)
- Main focus on toys as our key margin- and traffic-driving category, with medium term private label/direct imports share target of 30%
- Signed a direct contract with the world's top-4 toy producer MGAE (L.O.L and Poopsie)
- Successfully rolled out our BabyGo private label line of affordable diapers 5% of diapers sales in 2019 with target of 15% in mid-term

Share of Private Labels & Direct Imports, by Sales Category

	H1'19	H1'18
Toys	27.5%	19.8%
Newborns	5.2%	2.3%
Fashion	96.2%	95.9%
Large Items	69.3%	66.8%
Other Goods	40.3%	33.1%



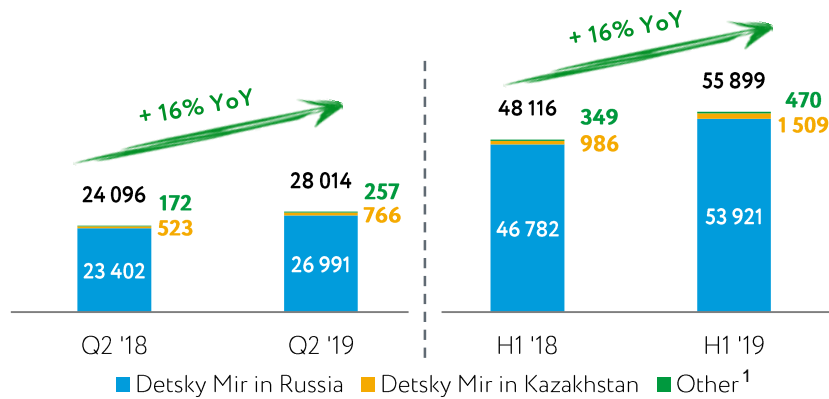
Launch of New Business Line - Pet Supplies

- Opened eight Zoozavr branded stores: ~200 sqm stores (continued piloting in 2019)
- Full-feature high-touch online pet goods store linked to "Detmir.ru", with a combined shopping cart and pickups at both retail chains
- Leverage our experience in a comparable, but highly fragmented >RUB 200bn market, as well as synergies in combined logistics and high omni-channel traffic

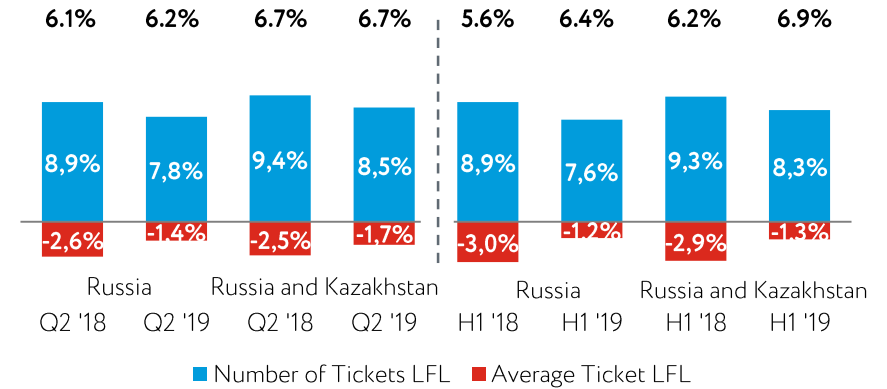


Continued Solid Top-Line Growth

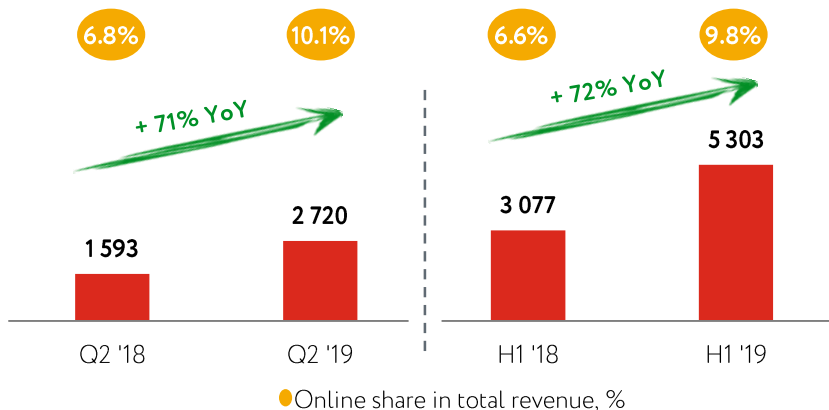
Total Revenue (RUBm)



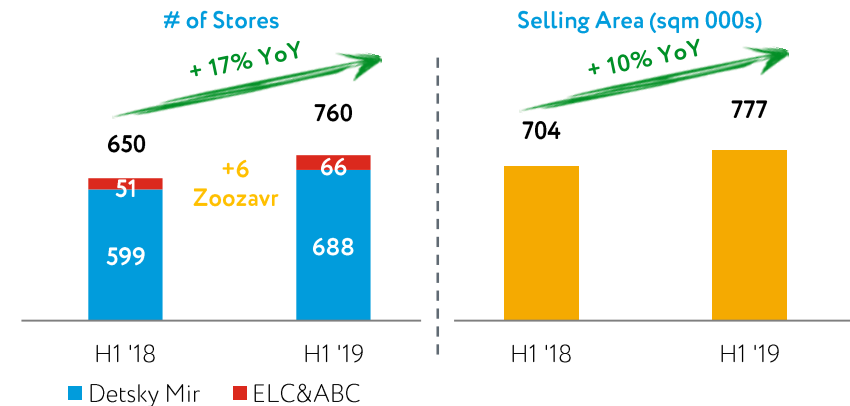
Like For Like Sales Growth²



E-Commerce Revenue (RUBm)



Store Network



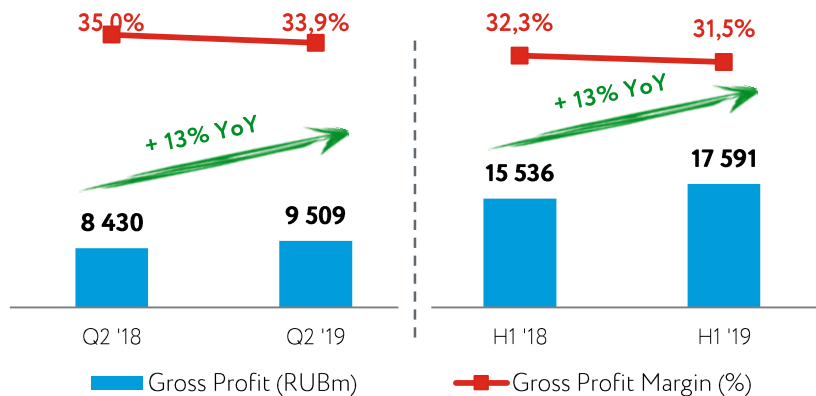
Note: Company's consolidated financial statements for 2017-2019 under IFRS are presented without reference to the application of IFRS 16, unless specified otherwise.

¹ This segment includes performance of ELC, ABC, Zoozavr stores as well as Detmir retail chain in Belarus

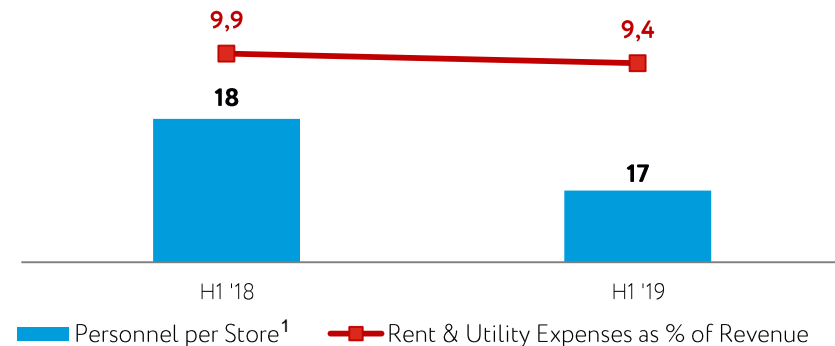
² Includes only Detsky Mir branded stores LFL growth includes only DM stores that have been in operation for at least 12 full calendar months

Growing Profitability

Growing Gross Profit

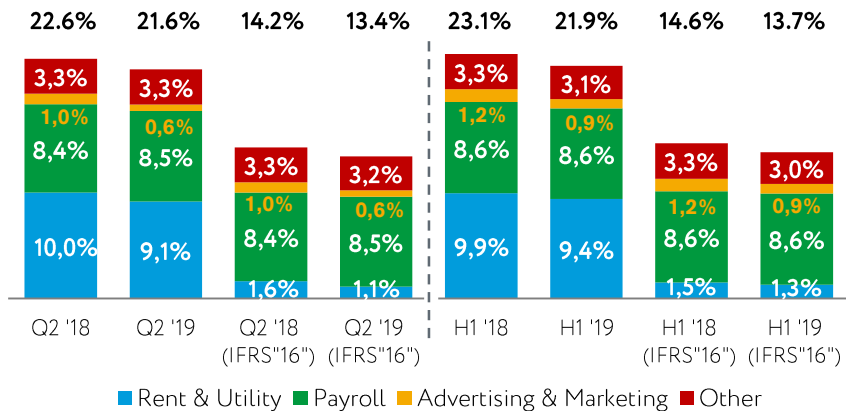


Personnel per Store and Reduction of Rent Costs

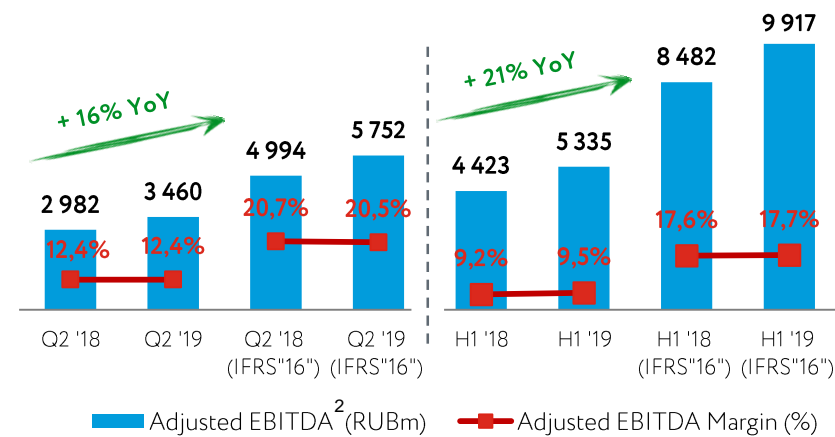


Strong Operating Leverage Effect³

Adjusted SG&A Expenses³ as % of Revenue



Significant Margin Expansion with Scale Benefits



Source: The Company's consolidated financial statements for 2017-2019 under IFRS are presented without reference to the application of IFRS 16, unless specified otherwise.

¹ Excluding personnel in headquarters

² 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, as well as share-based compensation and cash bonuses under the LTI program

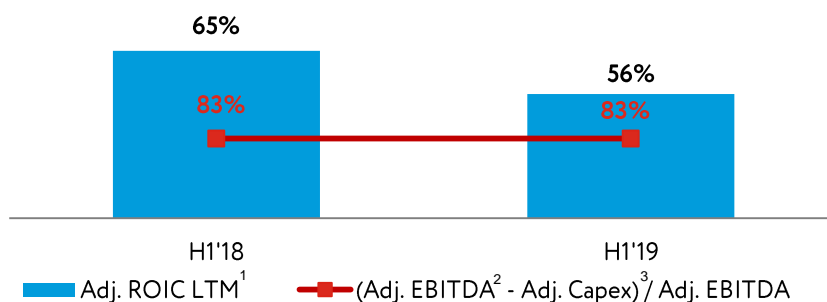
³ SG&A expenses exclude D&A expenses and adjusted for LTI bonuses, as well as Income received from partial termination of employees' right to receive shares under the LTI program

Strong Cash Flow Conversion

Comments

- Cash conversion (Adj. EBITDA- Adj. Capex/ Adj. EBITDA) improved with high level of ROIC
- Investment in NWC (primarily decline in payables) significantly affected the Operating Cash flow:
 - Q4 is high season and most of the goods purchased in Q4 are paid for in H1 of the following year, which had a significant impact on NWC
 - Rescheduling of payments was affected by the reduction of local suppliers with terms of payment after sales, due to the growth in the share of private labels and direct imports in inventories
- Increase in financing expense on the back of increased leverage and the seasonality of the business
- Disciplined capex focused on store openings and selective investments in IT and infrastructure; limited maintenance capex requirements

Strong Cash Conversion and Financial Returns



Source: The Company's consolidated financial statements for 2016-2019 under IFRS are presented without reference to the application of IFRS16, unless specified otherwise.

¹ Calculated as operating profit LTM, LTI bonus payments, including, 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 2018, the net book value of the building occupied by the "Bekasovo-2" distribution centre and its equipment (which was completed in Q4 2018, but was not operational for most of 2018).

Cash Flow (RUBm)

	2017	2018	H1 '17	H1 '18	H1 '19	H1 '18 IFRS 16	H1 '19 IFRS 16
Adjusted EBITDA²	10,663	12,665	3,328	4,423	5,335	8,482	9,917
Changes in NWC	(1,123)	(7,156)	(5,620)	(7,134)	(6,893)	(6,754)	(6,681)
Cash Income Taxes Paid	(1,523)	(1,083)	(679)	(394)	(659)	(394)	(659)
Net Finance Expense Paid	(1,645)	(1,624)	(820)	(754)	(988)	(2,246)	(2,245)
Other Operating Cash Flow	708	688	368	179	143	179	95
Operating Cash Flow	7,080	3,489	(3,424)	(3,680)	(3,062)	(732)	427
CAPEX	(2,468)	(3,793)	(563)	(730)	(1,616)	(730)	(1,616)
DC Construction	-	(1,825)	-	-	(378)	-	(378)
Store Openings, IT & Maintenance ⁴	(2,468)	(1,968)	(563)	(730)	(1,238)	(730)	(1,238)
Free Cash Flow	4,612	(303)	(3,987)	(4,410)	(4,678)	(1,462)	(1,189)
Investment cash flow	(1,370)	(3,793)	511	(730)	(1,596)	(730)	(1,596)
Financial cash flow	(5,001)	483	1,011	2,039	2,641	(908)	(848)
Change in Cash	710	180	(1,901)	(2,370)	(2,017)	(2,370)	(2,017)

² 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, as well as share-based compensation and cash bonuses under the LTI program

³ Adjusted on investment in DC "Bekasovo-2" and commercial premises for a flagship store in Moscow (opened in May 2019)

⁴ Including acquiring commercial premises for a flagship store in Moscow (Valdai shopping mall - RUB 306 m)

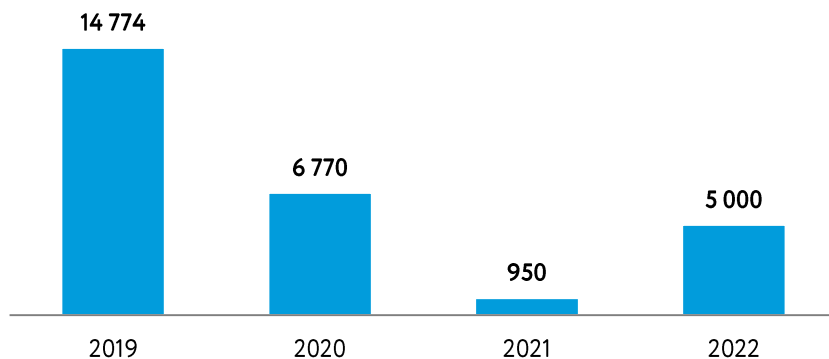
Conservative Financial Policy

Comments

- Commitment to a conservative financial policy
 - Fully RUB-denominated debt to match RUB revenue
 - Relationships with multiple Russian and international banks
- Leverage^{1,2} as of 30 June 2019 is 1.9x vs. 4.0x average covenant level across the loan portfolio
 - Increased due to investments in own DC and commercial premises for a flagship store in Moscow (RUB 2.5bn)
- Weighted average interest rate³ – 8.82% (as of H1 2019)
- Most of the debt has fixed interest rate
- No contingent off-balance sheet liabilities

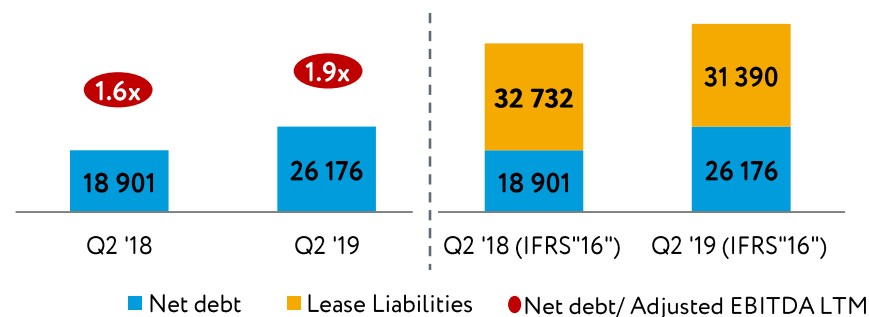
30-June-19 Debt Repayment Schedule

(RUBm)

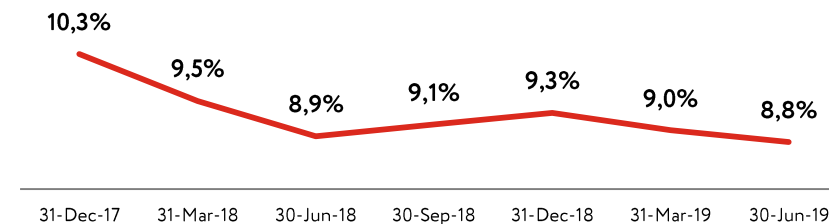


Leverage^{1,2} dynamics

- Q2 2019 total debt – RUB 27.5bn



Weighted average interest rate³ dynamics (%)



Source: The Company's consolidated financial statements for 2017-2019 under IFRS are presented without reference to the application of IFRS 16, unless specified otherwise..

¹ Net debt is calculated as total borrowings less cash and cash equivalent

² 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, as well as share-based compensation and cash bonuses under the LTI program

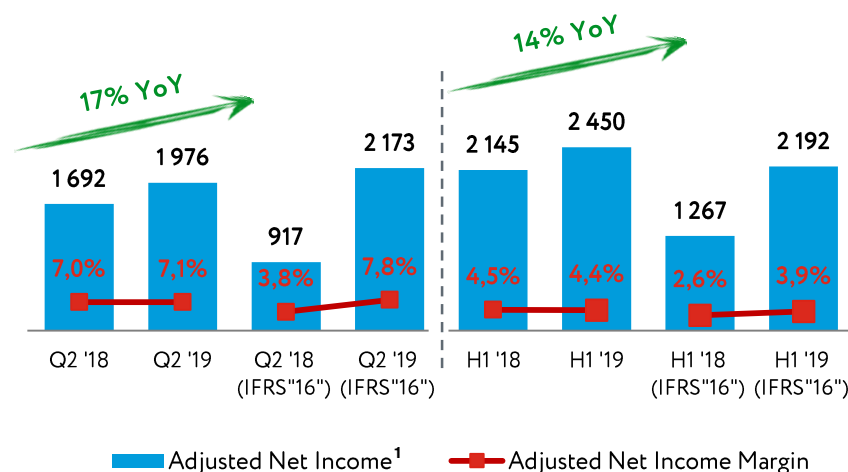
³ Calculated on the basis of the weighted interest rates applying to the specified indebtedness (weighted by the principal amount of such indebtedness) as of the dates specified.

Sustainably High Returns to Shareholders

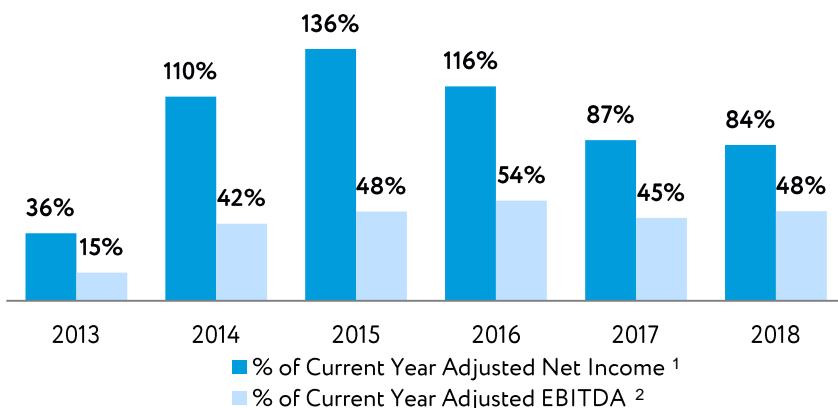
Comments

- Asset-light cash generative model underpins 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 ratio of *at least* 50% of consolidated IFRS net income for 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)
- Detsky Mir paid out the final dividend for FY2018 of RUB 3.3bn in Q2 2019, as well as interim dividends for 9M 2018 of RUB 3.2bn in Q4 2018

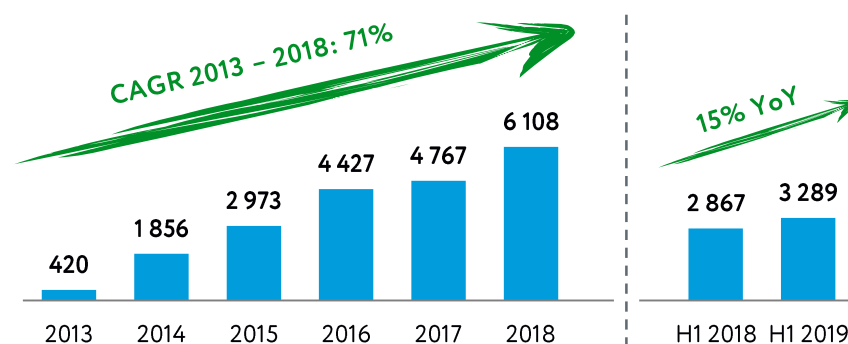
Adjusted Net Income (RUBm)¹



Dividends as % of Adjusted EBITDA and Adjusted Net Income



History of Declared Dividends (RUBm)



Source: Company's consolidated financial statements for 2017-2019 under IFRS are presented without reference to the application of IFRS 16, unless specified otherwise.

¹ Adjusted for the one-off effect relating to additional bonus accruals and Income received from partial termination of employees' right to receive shares under the LTI program

² 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

Guidance Update

	Near Term guidance after IPO (5-March-2018)	2018 Actual	Mid- to Long-Term guidance after IPO (5-March-2018)	Updated guidance (1-March-2019)
Store Count	<ul style="list-style-type: none"> ~70 new stores 	100 new stores opened ¹	<ul style="list-style-type: none"> ~250 new stores in 2018-2021 (increased to 300 in Q3 2018) 	<p>>90 new stores in 2019 (26-August-2019)</p> <p>At least 300 new stores in 2019-2022</p>
Revenue	<ul style="list-style-type: none"> Driven by store openings, LFL & ramp ups 	✓	<ul style="list-style-type: none"> Driven by store openings, LFL & ramp ups 	No change in guidance
LFL Revenue Growth	<ul style="list-style-type: none"> Single-digit growth outperforming the market, positive traffic growth, below inflation ticket growth, plus effect of new store ramp ups 	4.3% LFL growth, outperforming the market	<ul style="list-style-type: none"> Single-digit growth outperforming the market, positive traffic growth, below inflation ticket growth, plus effect of new store ramp ups 	No change in guidance
Gross Margin	<ul style="list-style-type: none"> Stable 	Continued investing in prices to attract traffic (-60 bps)	<ul style="list-style-type: none"> Stable 	Continued investing in prices to attract traffic, slightly declining to stable as % of revenue
Rent & Utility Expenses	<ul style="list-style-type: none"> Rents/sqm rise initially slightly above inflation then in line with inflation, so stable as % of revenue 	Continued decline as % of revenue (-60 bps)	<ul style="list-style-type: none"> Rents/sqm rise initially slightly above inflation then in line with inflation, so stable as % of revenue 	Slightly declining to stable as % of revenue
Personnel Expenses²	<ul style="list-style-type: none"> Slightly declining to stable as % of revenue 	Continued decline as % of revenue (-10 bps)	<ul style="list-style-type: none"> Slightly declining to stable as % of revenue 	No change in guidance
Adjusted EBITDA Margin	<ul style="list-style-type: none"> Double-digit 	Improved by 40bps	<ul style="list-style-type: none"> Double-digit 	No change in guidance

Source: Company data

The guidance presented do not account for the new IFRS 16 "Lease" accounting standards.

¹ In 2018, Detsky Mir closed five stores

² Adjusted for share-based compensation and cash bonuses under the LTI program



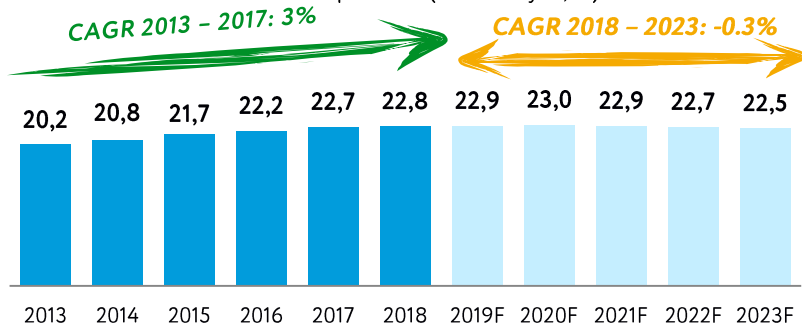
detsky mir

Appendix

#1 Player in a Large and Fragmented Market

Stable Children Population

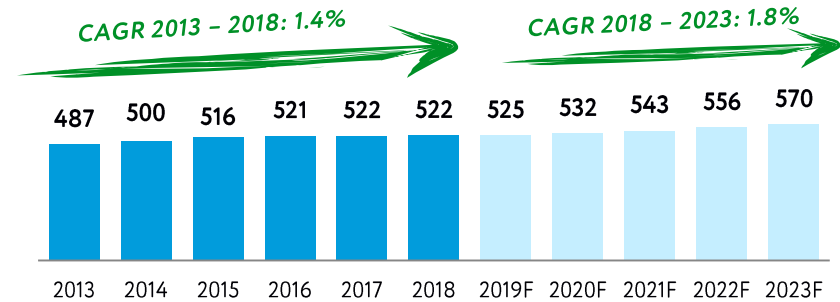
2013–2023F Russian Children Population (under 12 y.o., m)



Source: Ipsos Comcon report

Large and Stable Market

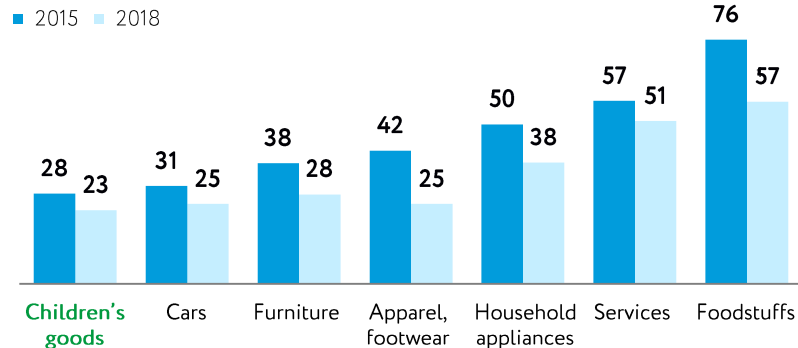
2013–2023F Russian Children’s Goods Market (Nominal Prices, RUBbn)



Source: Ipsos Comcon report

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

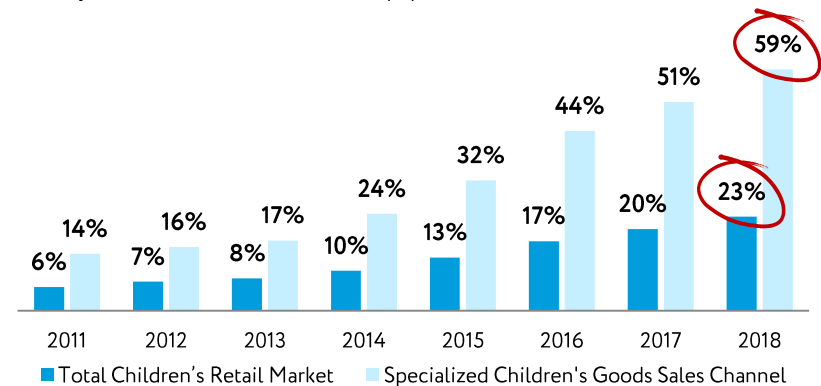
stopped or postponed purchasing, started to purchase less or started to purchase less expensive goods in this category (%)



Source: Russian Target Group Index, 2015 - 2018 Ipsos Comcon

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

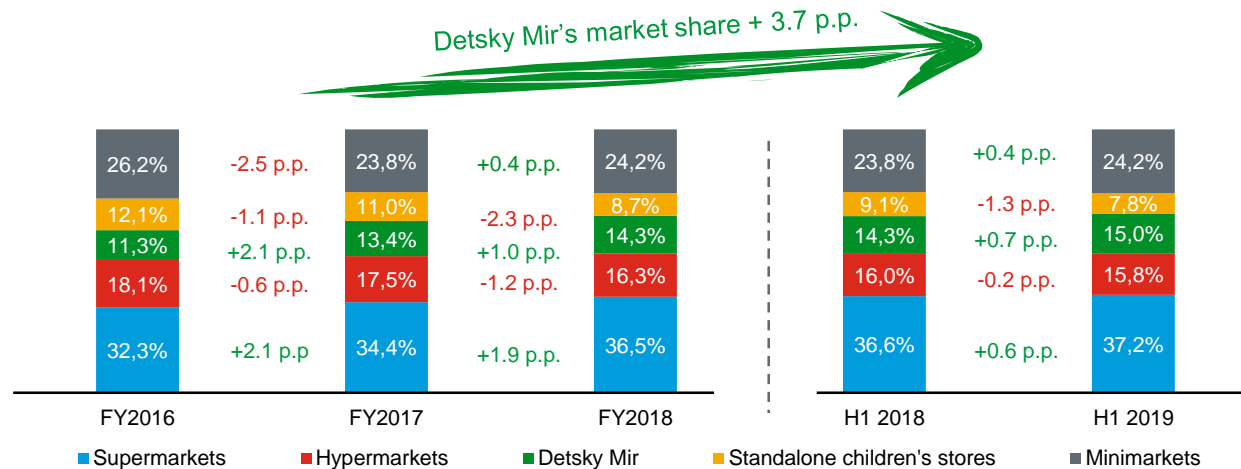
Detsky Mir Market Shares in Russia (%)



Source: Company data, Ipsos Comcon report

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

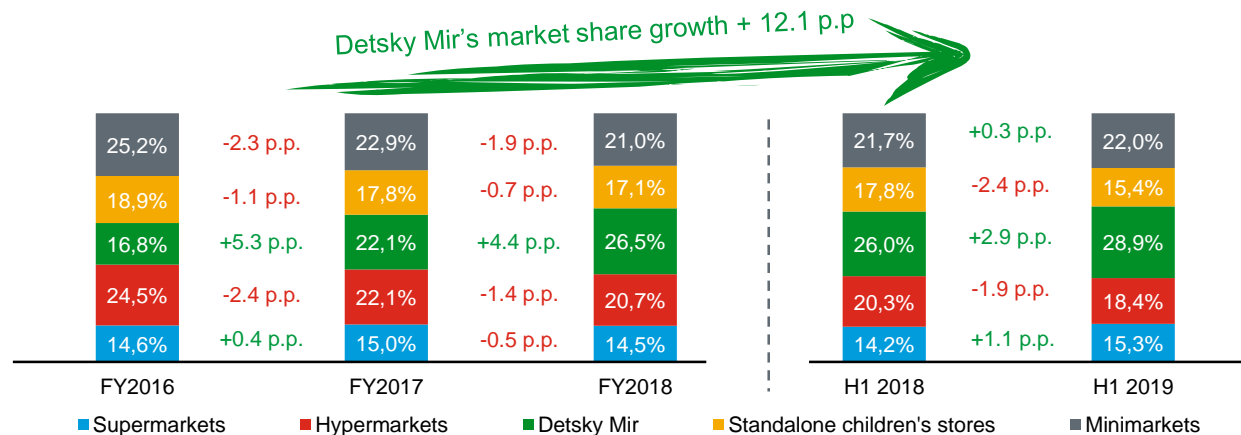
Baby Food Sales by Channel in Russia



Comments

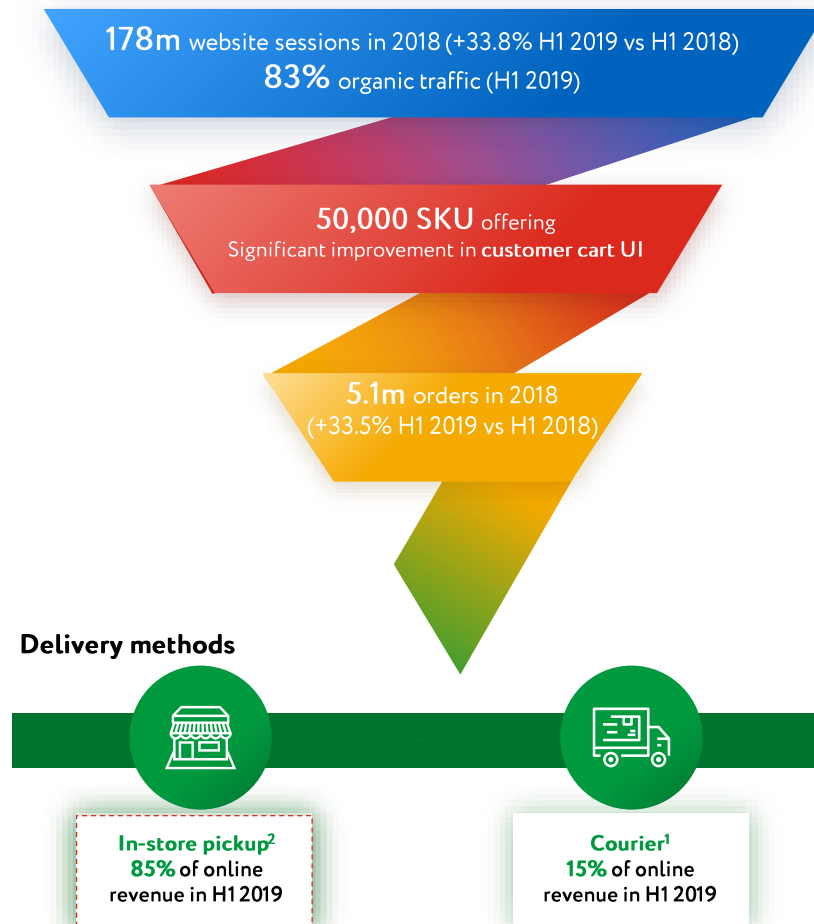
- Baby food and Diapers remain key categories for children's goods stores as traffic generators
- Only children's goods specialized stores offer a full range of Baby Food and Diapers products unlike hypermarkets which are focused on "bestseller" SKUs
- Detsky Mir took market share away from other channels
- Notably, Detsky Mir has outperformed food retailers which have been the largest sales channel for baby food historically
- Detsky Mir's Baby Food market share increased by 33% to 15.0% in H1 2019 (vs 2016)
- Detsky Mir's Diapers market share increased by 1.7x to 28.9% in H1 2019 (vs 2016)

Diapers Sales by Channel in Russia



Detsky Mir's share of the diapers market increased by 1.7x over several years

Continuous Development of Our Online Platform



Key achievements in 2018

- Increased focus on **UI/UX** – full re-design of website interface, incl. product listing (pilot launch)
- Exceeding **“Ideal Instore”** target (91% in 4Q’18) of online orders to be ready for collection within 1 hour of order being placed (vs 45% in 4Q’17)
- Last mile delivery** in remote regions (pilot launch with delivery on next day)
- Number of **“Cyber Mondays”** increased to 18



Desktop



Tablet



Mobile

Key initiatives for 2019

- Full roll-out of new website** (100% traffic)
- Launch online store in Kazakhstan** (In-store pickup)
- Two-phase launch of mobile app**: i) loyalty program app in Q4 2018, ii) full-feature mobile app store in 2019
- Full roll-out of last mile delivery** in remote regions (with same-day and next-day deliveries)
- Improvement in SEO traffic** through the upgraded functionality of filters in product listing (growth landing pages, as well as web usability)
- Implementation CRM-system** (expanded marketing coverage, as well as lengthen LTV)

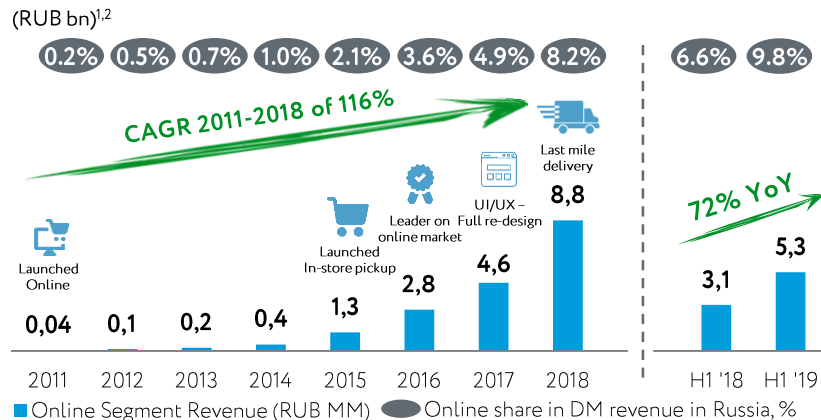
Source: Company data

¹ Includes delivery to specified address and to pick-up point

² 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

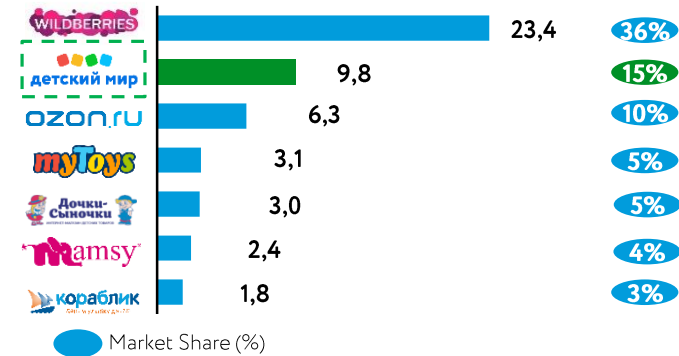
Resulting in Exponential Growth Across All Key Metrics

Accelerated Online Revenue Growth



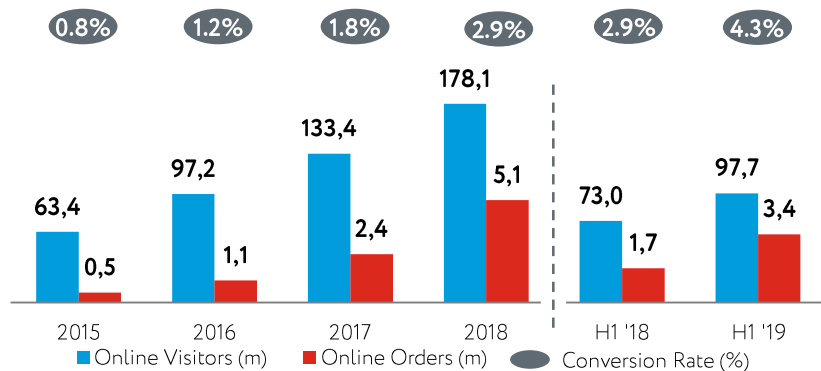
Top online players in children's retail

2018 Online Sales Including VAT (RUB bn)



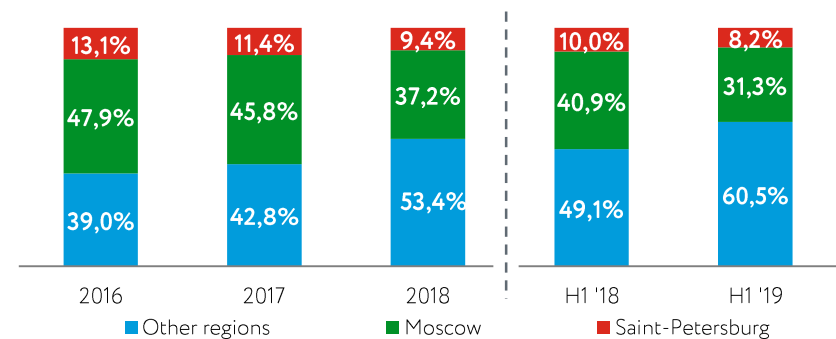
Source: Ipsos Comcon, Datainsight

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



... driven by the increasing share of sales in the regions

Share of Value of Online Orders (%)



Company data

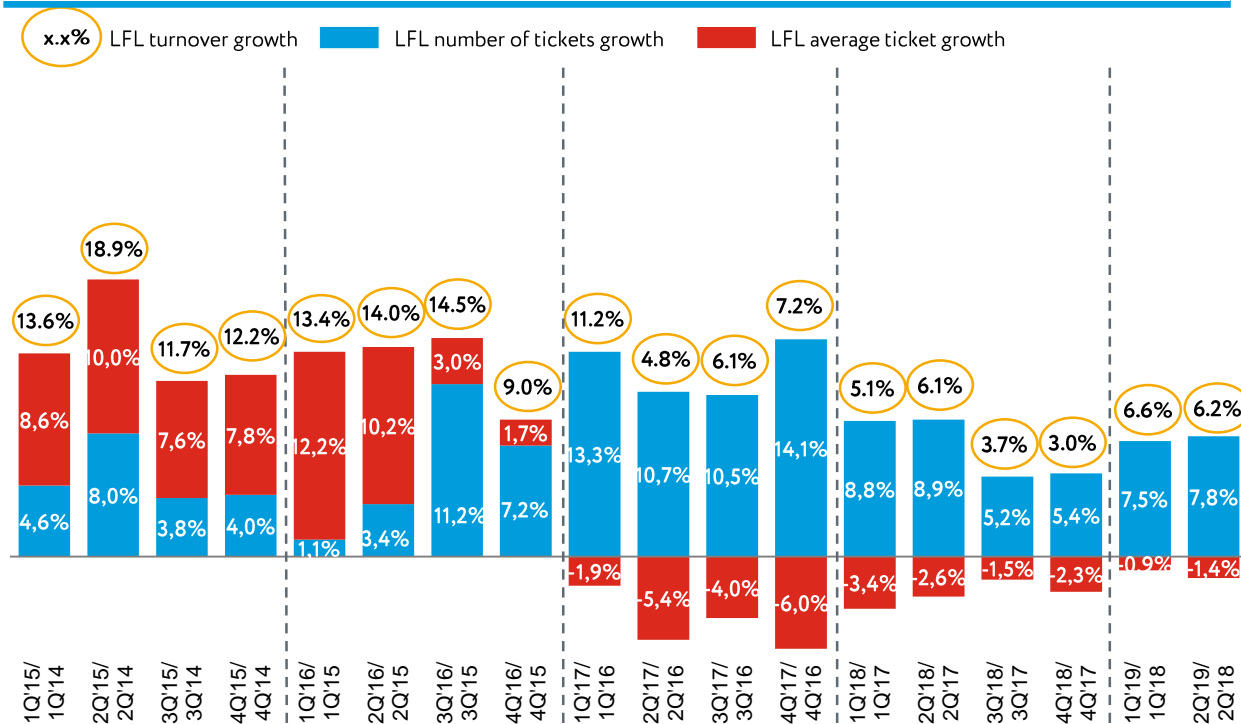
¹ The Group's consolidated financial statements for 2011-2013 under US GAAP, 2014-2019 under IFRS. For the line items and the years presented, there was no difference between the calculation of numbers or presentation under US GAAP and IFRS

² Including in-store pickup

³ Based on preliminarily Detsky Mir sales in Russia

Robust Like-for-Like Performance

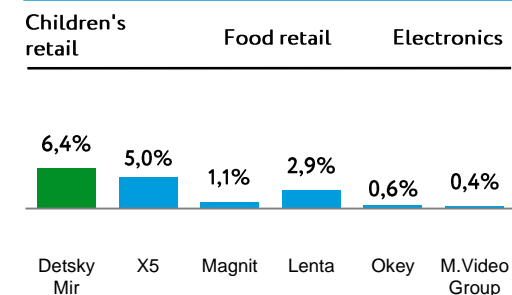
Like-for-like revenue (in RUB)



Comments

- Strong growth of like-for-like sales was a result of a competitive pricing policy, marketing activities and improvements in merchandising
- Focus on attracting new customers, resulting in high single digit LFL number of tickets growth
- 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 in H1 '19



LFL growth

Total
Average ticket
Number of tickets

LFL growth 2016

12.3%
5.9%
6.0%

LFL growth 2017

7.2%
(4.4%)
12.2%

LFL growth 2018

4.3%
(2.4%)
6.9%

LFL growth H1 2019

6.4%
(1.2%)
7.6%

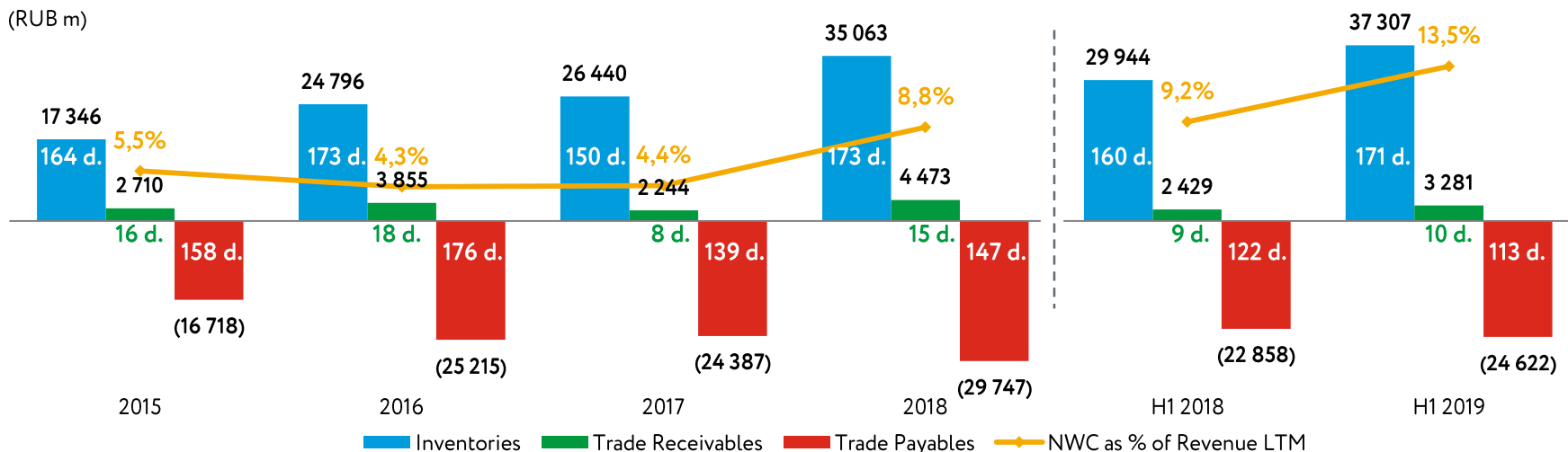
Detsky Mir demonstrated an attractive revenue growth rate (LFL +6.4%) in H1 2019

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.

Net Trade Working Capital Overview

Focus on Constant Improvement & Optimization of NWC^{1,2}



- 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
- Increase in trade working capital in 2018 mainly driven by
 - Increase in receivables was affected by shift in marketing activities vs 2017, as well as a significant increase in the share of suppliers bonuses in December (21.0% in 2018 vs 12.7% in 2017), with net effect of RUB 2.0bn on NWC
 - Additional goods purchased to mitigate potential FX risks with net effect of RUB 1.6 bn on NWC
- Increase in trade working capital in H1 '19 mainly driven by
 - Increase in inventory turnover ratio, as well as decrease in payables turnover was affected by growth in share of private label and direct imports. As results, rescheduling of purchases and payments between quarters.
 - Receivables turnover ratio (suppliers bonuses) was normalized

Source: Company data.

Note: The Company's consolidated financial statements 2015-2019 under IFRS are presented without reference to the application of IFRS 16. In the transition to the new standard, the comparative figures were not reconciled for 2017.

¹ Net trade working capital calculated as Receivables + Inventories - Payables

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

Financial Performance Summary

(RUBm, unless specified otherwise)¹

	2016	2017	2018	H1 '18	H1 '19
Number of stores	525	622	743	650	760
Detsky Mir stores	480	578	673	599	688
ELC, ABC, Zoozavr stores	45	44	70	51	72
Selling space (k sqm)	596	688	768	704	777
Revenue	79,547	97,003	110,874	48,116	55,899
% total sales growth	31.4%	21.9%	14.3%	14.3%	16.2%
% LFL sales growth ²	12.3%	7.2%	4.3%	5.6%	6.4%
Revenue per sqm ³ (RUB thousand / sqm)	146	151	152	69	72
Online sales ⁴	2,776	4,637	8,771	3,077	5,303
Share of online sales ⁴	3.6%	4.9%	8.2%	6.6%	9.8%
Gross profit	27,108	32,798	36,829	15,536	17,591
Margin, %	34.1%	33.8%	33.2%	32.3%	31.5%
Gross profit per sqm³ (RUB thousand / sqm)	50	51	51	22	23
Adjusted SG&A ⁵	18,885	22,127	24,116	(1,100)	(12,259)
% of revenue	23.7%	22.8%	21.8%	23.1%	21.9%
Adjusted EBITDA⁶	8,203	10,663	12,665	4,423	5,335
Margin, %	10.3%	11.0%	11.4%	9.2%	9.5%
Adjusted Profit for the period⁷	3,827	5,501	7,229	2,145	2,450
Margin, %	4.8%	5.7%	6.5%	4.5%	4.4%
Total Debt	14,638	13,592	21,470	19,686	27,494
Cash and cash equivalents	(2,445)	(3,155)	(3,335)	(785)	1,318
Adjusted Net Debt⁸	11,133	10,436	18,135	18,901	26,176
Adjusted Net Debt / Adjusted EBITDA	1.4x	1.0x	1.4x	1.6x	1.9x
Capex	(1,747)	(2,468)	(3,793)	(730)	(1,616)
% of revenue	2.2%	2.5%	3.4%	1.5%	2.9%
Dividends declared	(4,427)	(4,767)	(6,108)	(2,864)	(3,289)

Source: Company data

¹ The Group's consolidated financial statements for 2015–2019 under IFRS are presented without reference to the application of IFRS 16. In the transition to the new standard, the comparative figures were not reconciled for 2017.

² 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

³ Calculated per average space for the period

⁴ Online share in DM revenue in Russia (including in-store pickup)

⁵ 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
- High rate of new openings in 2018 (100 stores⁹)

Improved Operating Efficiency

- Slightly declining gross margin due to investment in price leadership to support traffic and LFL growth
- Over 400bps improvement in SG&A as % of sales over four years (-110bps H1 '19 vs H1 '18)

Superior EBITDA Margin

- Major SG&A optimisation measures implemented by the new management team since 2013
- Over 120bps margin increase over four years (+30bps H1 '19 vs H1 '18)
- Double-digit EBITDA margin achieved in 2015 and improved in 2016 - 2019, expected to be maintained in mid-term

Capex

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

Conservative Financial Policy

- Leverage⁸ as of 30-June-2019 is 1.9x vs. 4.0x average leverage covenant level across the loan portfolio

Attractive Returns for Shareholders

- Continuous dividend payout track record
- Yearly dividend payments increased more than 14-fold from 2013

⁶ Calculated as EBITDA, as well as additional share-based compensation expense and Income received from partial termination of employees' right to receive shares under the LTI program

⁷ Adjusted for the one-off effect relating to additional bonus accruals and Income received from partial termination of employees' right to receive shares under the LTI program

⁸ 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.

⁹ In 2018, Detsky Mir closed five stores

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