detsky mir

9 Months 2019
Unaudited Financial Results

#1 Russian specialized children's goods retailer

November 2019

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9M 2019 Financial Highlights

1 Store Openings

Continuous expansion, plans to open no less than new 100 stores in 2019 (incl. 10 in Belarus)

- 45[1] new Detsky Mir branded stores opened in 9M 2019 (+11.2% YoY of selling space)
- Majority of new stores will be opened in Q4

2 Like-For-Like[2] Growth

Accelerating LFL[2] sales growth due to low price competition as well as high traffic

- 17.3% total revenue growth in 9M 2019
- 8.2% LFL[2] sales growth in 9M 2019 with 8.8% LFL[2] traffic growth

3 Profitability

Significant improvement due to further declines in personnel[3] and rental costs as % of sales

- Adj. EBITDA[4] growth of 18.5%
- Adj. EBITDA margin improved by 10bps

4 Cash Generation

Continuously outstanding cash conversion metrics and free cash flow generation

- Cash conversion[5] of 73%
- Net debt[6] / adj. EBITDA LTM[6] of 1.4x despite capex in DC and double-digit dividend yield

5 Online

Continued rapid growth in online sales

- 69.2% YoY online sales growth
- Share of online in sales[7] grew by c.310bps YoY reaching 10.0% (September - 11,7%)

Source: Company data. Note: The Company's consolidated financial measures for 2018-2019 and related interim periods are based on proforma financial information prepared as if IFRS 16 'Leases' had not been adopted, and thus do not represent IFRS measures.

[1] In 9M 2019, Detsky Mir closed eight stores.

[2] Hereinafter, lfL growth includes only DM stores in Russia and Kazakhstan that have been in operation for at least 12 full calendar months. Revenue of each store included into like-for-like comparison represents retail revenue of the store (including VAT, excluding plastic bags and revenue from online orders delivered by couriers) for respective period but excludes store revenue for those months in which the store was not operating for 3 days or more.

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

[4] Hereinafter, adj. EBITDA is calculated as profit for the period before income tax expense, foreign exchange (loss)/gain, gain on acquisition of controlling interest in associate, finance expense, finance income, depreciation and amortization, adjusted for share-based compensation expense and cash bonuses under the LTI program;

[5] Hereinafter, calculated as (Adj. EBITDA – Capex) / Adj. EBITDA.

[6] Hereinafter, net debt is calculated as total borrowings (defined as long term loans and borrowings and short-term loans and borrowings and current portion of long-term loans and borrowings) less cash and cash equivalents. Lease liabilities are not included in the calculation of net debt. Adj. EBITDA LTM is calculated as adj. EBITDA (as defined above) for the last 12-months period.

[7] Online share in Detsky Mir revenue in Russia

Strategic Online Initiatives Introduced in 2019

Continuous Development of Our Online Platform

1 Full roll-out of last mile delivery in remote regions
same-day (**up to 6 hours**) and next-day deliveries

2 Pilot children fashion marketplace

3 Full roll-out of new website

4 Two-phase launch of mobile app
loyalty program app in Q4'18
full-feature mobile app in Q4'19

5 Launch of online store in Kazakhstan
in-store pickup

6 Hub stores introduction
Large-scale stores functioning as mini-DCs surrounded by small pick-up stores to improve assortment in remote regions

30%
Mid-term target share of online revenue[1]

Pilot marketplace focused on children fashion to diversify SKU and underpin future growth in online

Assortment
Local producers as well as famous European brands

Marketing
Full integration into DM marketing and promotions

Pricing
Price segments: medium to medium-high

Vendors interface
Marketing and data-analytics tools

Economics
Commission based 3PL model with all-in 25-30% take rate

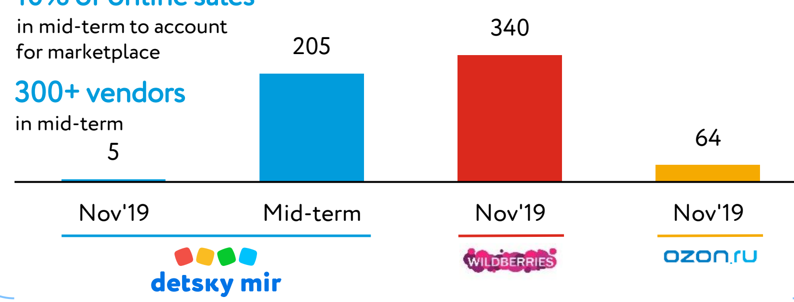
New verticals
to be launched in case of successful development of pilot

Marketplace to drive leadership in breadth of children's fashion assortment by leveraging existing infrastructure

Children fashion assortment (SKU ths, only color models)

10% of online sales
in mid-term to account for marketplace

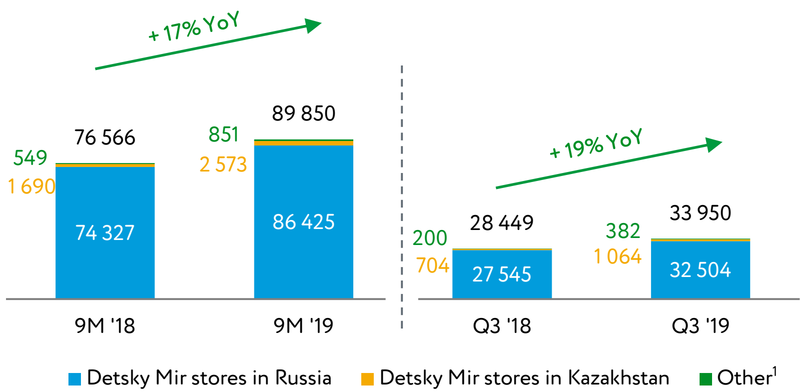
300+ vendors
in mid-term



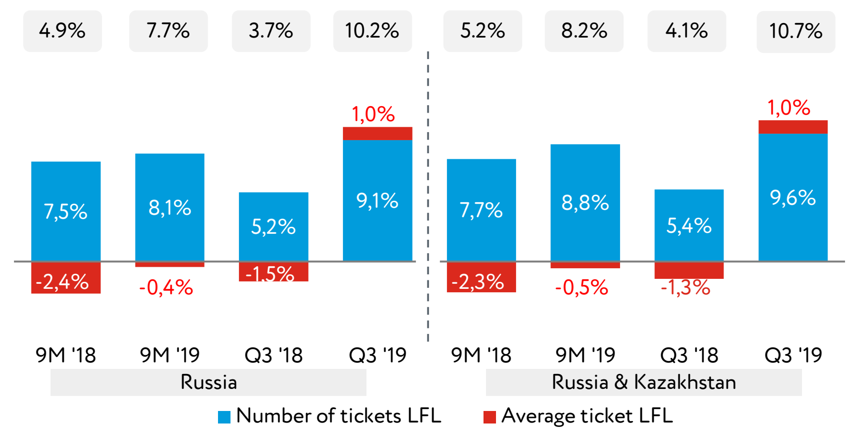
Source: Company data
[1] As % of total Detsky Mir revenue in Russia

Continued Solid Top-Line Growth

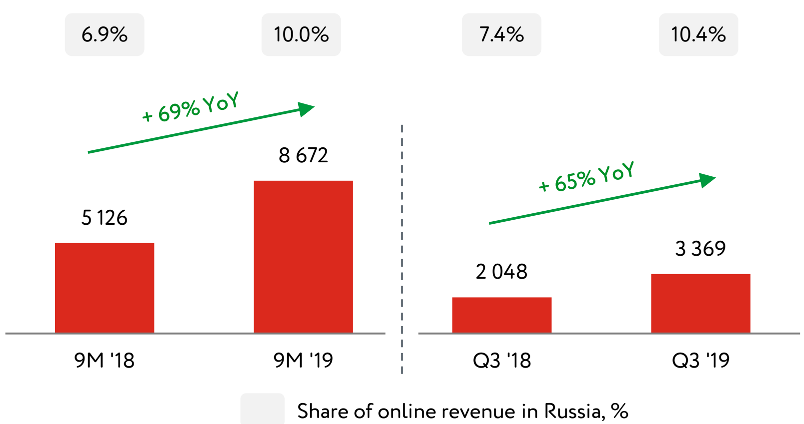
Total revenue (RUB m)



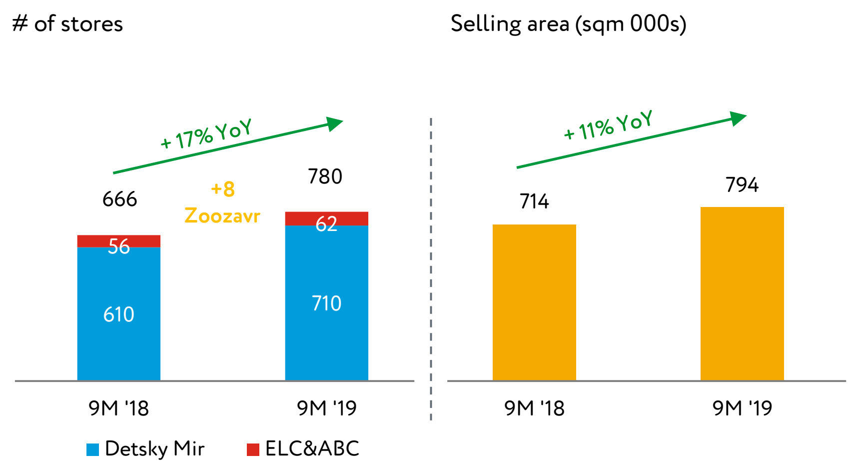
Like-for-like sales growth



E-commerce revenue (RUB m)



Store network



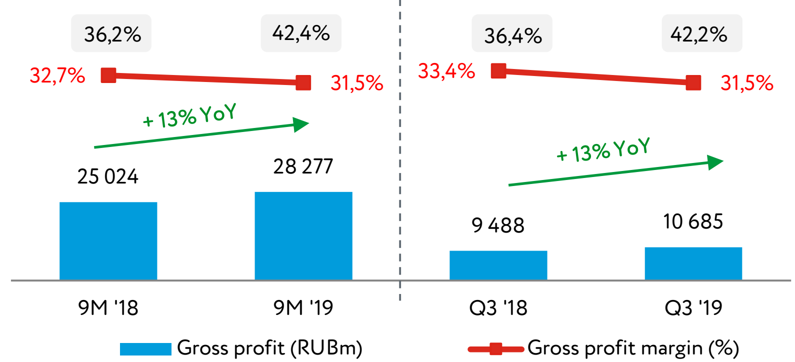
Source: Company data. The Company's consolidated financial measures for 2018-2019 and related interim periods are based on proforma financial information prepared as if IFRS 16 'Leases' had not been adopted, and thus do not represent IFRS measures.

[1] This segment includes performance of ELC, ABC, Zoozavr stores as well as Detsky Mir retail chain in Belarus

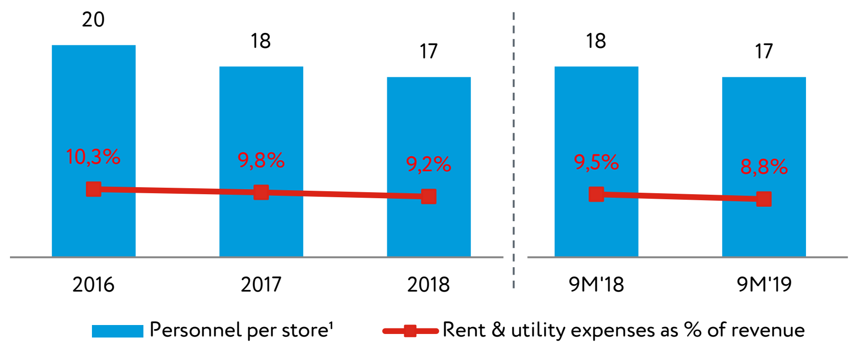
Consistently Strong Profitability

Strategic declining gross margin due to investment in price leadership …

Private label a& direct imports, % of Revenue

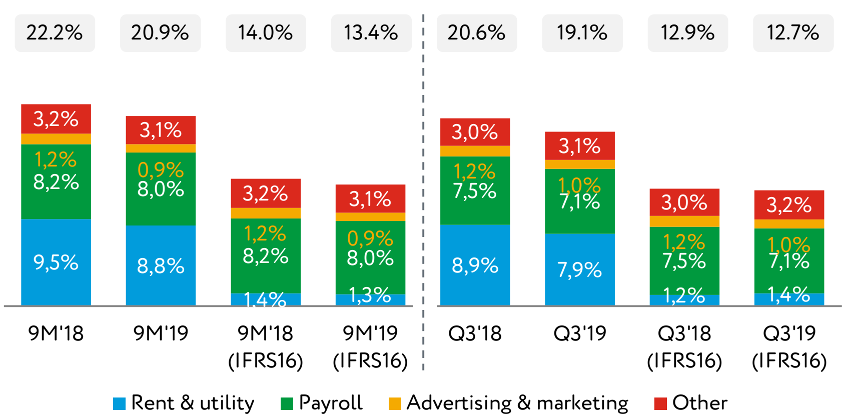


… is offset by gradual optimization of store personnel and reduction of rent costs …

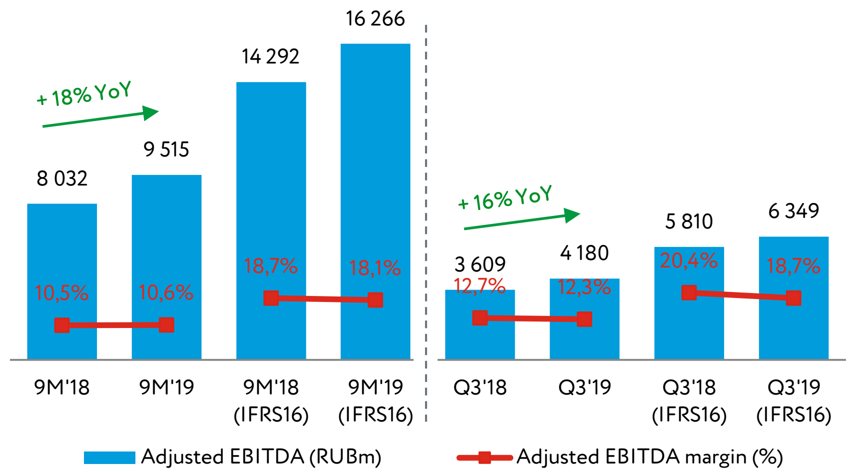


… along with consistently declining SG&A expenses (as % of revenue) …

Adjusted SG&A Expenses[2] as % of Revenue



… resulting in consistently strong and improving profitability



Source: Company data. The Company's consolidated financial measures for 2018-2019 and related interim periods are based on proforma financial information prepared as if IFRS 16 'Leases' had not been adopted, and thus do not represent IFRS measures.

[1] Excluding personnel in headquarters

[2] Hereinafter, adjusted selling, general and administrative expenses is calculated as selling, general and administrative expenses adjusted for depreciation and amortization expenses, additional share-based compensation expense and cash bonuses under the LTI program.

Strong Cash Flow Conversion

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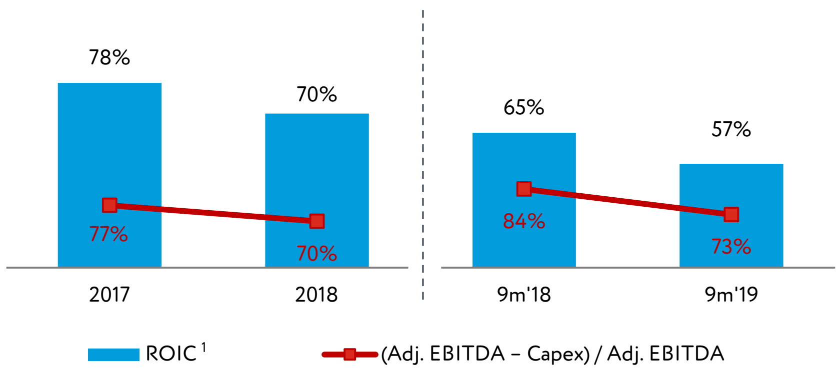
Comments

- Strong cash conversion (Adj. EBITDA- Capex/ Adj. EBITDA) driven by high level of ROIC
- Decrease of investment in NWC significantly affected the Operating Cash flow:
  - Improved inventories turnover on the back of stock optimization
  - Normalized receivables turnover thanks to collection of supplier bonuses
- 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



Cash flow (RUB m)

	2017	2018	9M '18	9M '19	9M '18 IFRS 16	9M '19 IFRS 16
Adjusted EBITDA	10,663	12,665	8,032	9,515	14,292	16,266
Changes in NWC	(1,123)	(7,156)	(6,958)	(3,815)	(6,670)	(3,752)
Cash income taxes paid	(1,523)	(1,083)	(618)	(957)	(618)	(957)
Net finance expense paid	(1,645)	(1,624)	(1,110)	(1,393)	(2,893)	(3,190)
Other operating cash flow	708	688	348	520	345	520
Operating cash flow	**7,080**	**3,489**	**(306)**	**3,870**	**4,456**	**8,887**
CAPEX	(2,468)	(3,793)	(1,283)	(2,567)	(1,283)	(2,567)
DC construction	-	(1,825)	-	(399)	-	(399)
Store openings, IT & maintenance[2]	(2,468)	(1,968)	(1,283)	(2,167)	(1,283)	(2,167)
Free cash flow	**4,612**	**(303)**	**(1,589)**	**1,303**	**3,173**	**6,321**
Investment cash flow	(1,370)	(3,793)	(1,283)	(2,545)	(1,283)	(2,545)
Financial cash flow	(5,001)	483	(88)	(3,943)	(4,850)	(8,961)
Change in cash	**710**	**180**	**(1,677)**	**(2,618)**	**(1,677)**	**(2,618)**

Source: Company data

Note: The Company's consolidated financial measures for 2018-2019 and related interim periods are based on proforma financial information prepared as if IFRS 16 'Leases' had not been adopted, and thus do not represent IFRS measures.

[1] Calculated as operating profit for the past 12-months period, divided by average capital invested (simple average of the balance of capital invested at the end of respective periods). Capital invested is calculated as net debt plus total equity/(equity deficit).

[2] In 9m 2019, the increase in capital expenses was driven by a RUB 844m payment (net of VAT) for the acquisition of premises for the Company's new flagship store in Moscow.

Conservative Financial Policy

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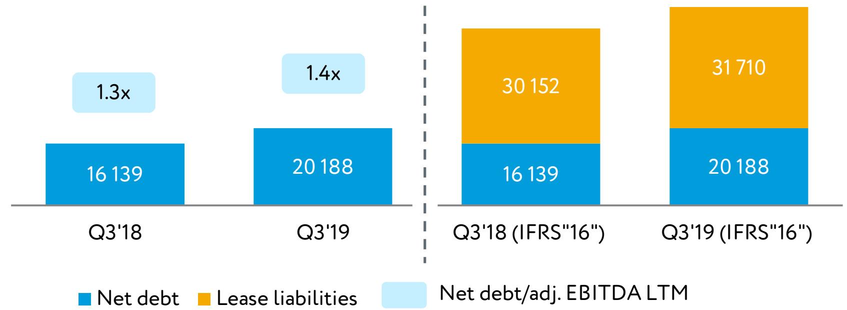
Comments

- Commitment to a conservative financial policy
  - Fully RUB-denominated debt to match RUB revenue
  - Relationships with multiple Russian and international banks
- Net debt / adj. EBITDA LTM ratio as of 30 September 2019 is 1.4x vs. 4.0x average covenant level across the loan portfolio (before IFRS16)
  - Increased due to investments in own DC and commercial premises for a flagship store in Moscow (RUB 3.1bn)
- Weighted average interest rate[1] – 8.4% (as of 9M 2019)
- Most of the debt has fixed interest rate
- No contingent off-balance sheet liabilities

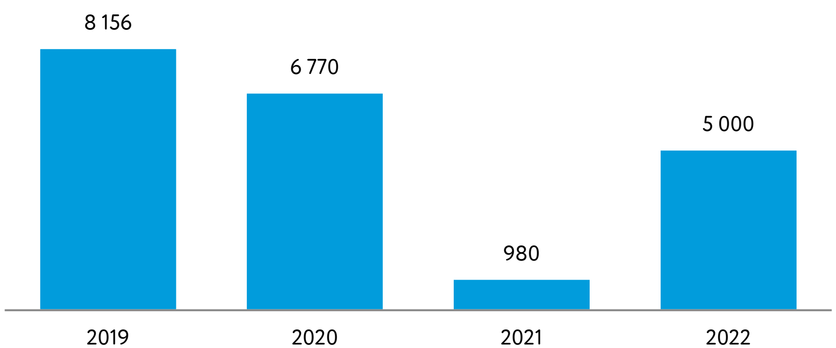
Leverage

- Q3 2019 total debt – RUB 20.9bn

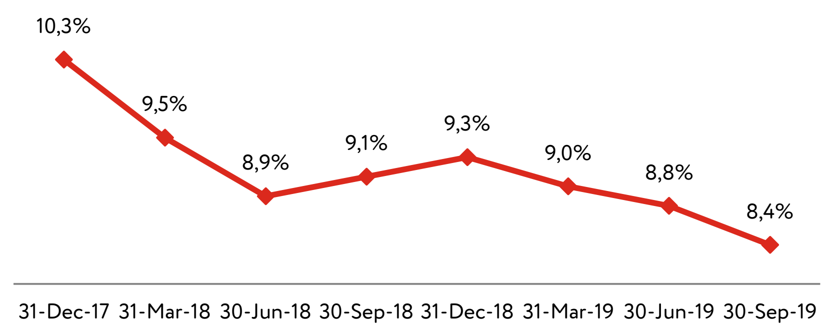


Debt maturities (30-September-19)

(RUB m)



Weighted average interest rate[1] (%)



Source: Company data

Note: The Company's consolidated financial measures for 2018-2019 and related interim periods are based on proforma financial information prepared as if IFRS 16 'Leases' had not been adopted, and thus do not represent IFRS measures.

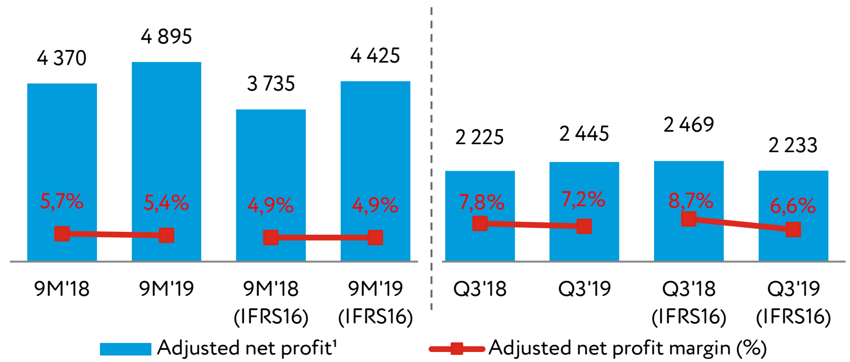
[1] Calculated on the basis of the weighted interest rates applying to the specified indebtedness (weighted by the principal amount of such indebtedness) as of the dates specified

Sustainably High Returns to Shareholders

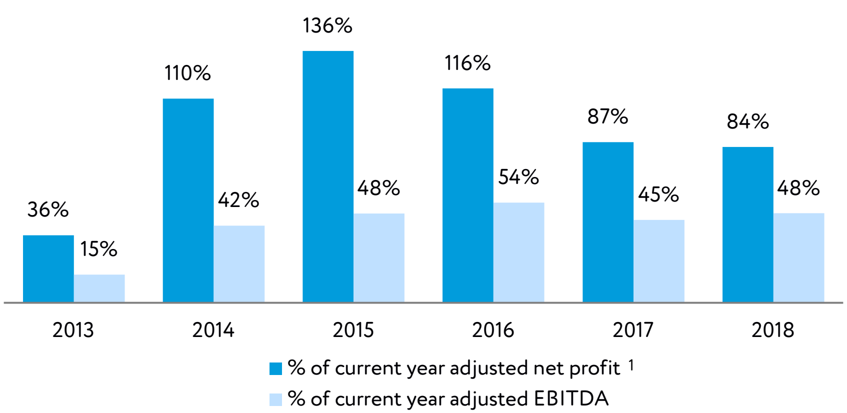
Comments

- 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
  - Historically 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
- BoD recommended to pay out a interim dividend for 9M 2019 of RUB 3.7bn

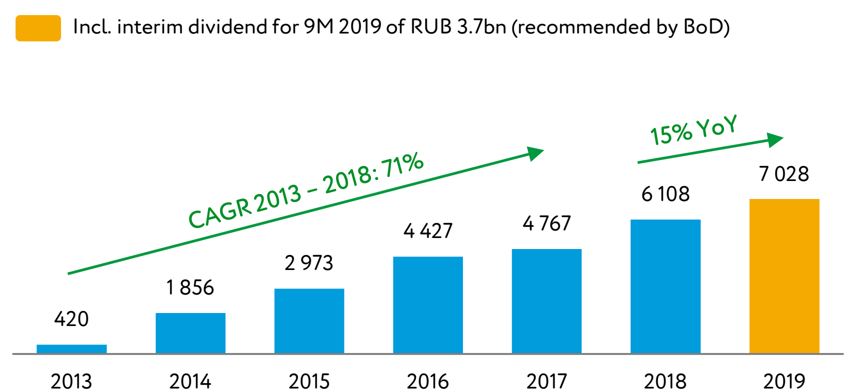
Adjusted net profit (RUB m)[1]



Dividends as % of adjusted EBITDA and adjusted net income



History of declared dividends (RUB m)



Source: Company data

Note: The Company's consolidated financial measures for 2018-2019 and related interim periods are based on proforma financial information prepared as if IFRS 16 'Leases' had not been adopted, and thus do not represent IFRS measures.

[1] Hereinafter. adjusted net profit is calculated as profit for the period adjusted for the share-based compensation expense and cash bonuses under the LTI program.

Guidance Update

	Near term previous guidance (5-March-2018)	2018 actual	Mid- to long-term previous guidance (5-March-2018)	Updated guidance (07-Novmber-2019)
Store count	• ~70 new stores in 2018	100 new stores opened[1]	• ~250 new stores in 2018-2021 (increased to 300 in Q3 2018)	>100 new stores in 2019 At least 300 new stores in 2019-2022
Revenue	• Driven by store openings, LFL & ramp ups of new stores	✓	• Driven by store openings, LFL & ramp ups of new stores	Former drivers enhanced by target 30% share of online revenue in Russia in mid-term
LFL revenue growth	• 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	• 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	• Stable	Continued investing in prices to attract traffic (-60 bps)	• Stable	Continued investing in prices to attract traffic , slightly declining to stable as % of revenue
Rent & utility expenses	• Rents/sqm rise initially slightly above inflation then in line with inflation, so stable as % of revenue	Continued decline as % of revenue (-60 bps)	• 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 expenses[2]	• Slightly declining to stable as % of revenue	Continued decline as % of revenue (-10 bps)	• Slightly declining to stable as % of revenue	No change in guidance
Adjusted EBITDA margin	• Double-digit	Improved by 40bps	• Double-digit	No change in guidance

Source: Company data

Note: 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

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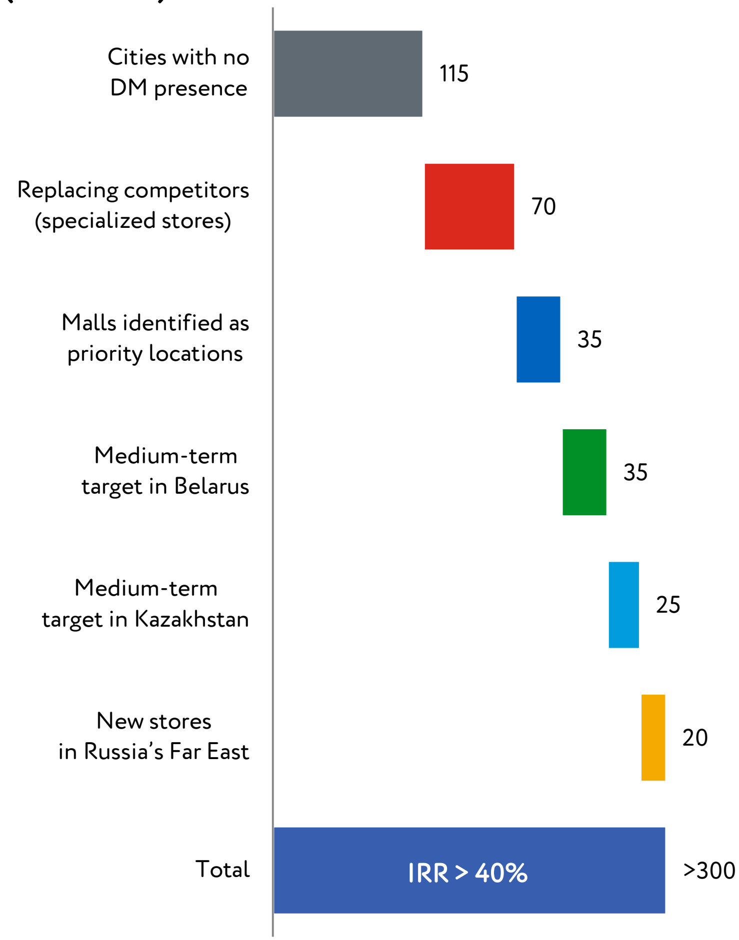
Appendix

Detsky Mir Stores Expansion Pipeline

Target store rollout (2019-2022)



Geographical location

- 673[1] Existing DM stores
- 115 Cities with no DM Presence (40k -100k inhabitants)
- 70 Replacing competitors (specialized stores)
- 35 Malls identified as priority locations for DM (in the large cities of presence)
- 35 Medium-term target stores in Belarus
- 25 Medium-term target stores in Kazakhstan
- 20 New stores in Russia's Far East Federal District

Source: Company data

1 Only Detsky Mir branded stores as of 31-Dec-18

Top Management Compensation Structure Overview

Annual compensation structure

		CEO	«CEO-1»	«CEO-2»
Fixed		50%	50% - 80%	70% - 85%
Variable	Total	50%	20% - 50%	15% - 30%
	incl. Financial[1]	25%	4% - 15%	3% - 9%
	Incl. Functional[2]	25%	14% - 40%	10.5% - 24%

Last LTI programme

At IPO

- %-based payment linked to valuation increase at IPO
- Amount calculated as 3% from the differential between new liquidity event (i.e. IPO) price and RCIF price in 2015
- 50%/50% cash and share based payments (via purchases of shares in the open market)

After IPO

- Approved by the Board of Directors in August 2017
- 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 cash payments from a pool equivalent in value to up to 4.6% of the increase in the Company's stock market value (including dividend payments) over the period.
- The LTIP also provides for additional cash payments expected to total around RUB 500m (plus any social taxes).

New equity-based compensation programme

The New 3-year LTIP

- Approved by the Board of Directors in October 2019
- Covers the 3-year period from the end date of the previous program (Feb 8, 2020) to February 7, 2023
- Senior management team in continuing employment by the Company and being program members upon the date of April 30, 2024 will be eligible for the Company's share grants and cash payments in the total size of the bonus fund in value to up to 4.6% of the increase in the Company's stock market value (including dividend payments) over the period. The new LTIP includes more than 20 key employees of the Company

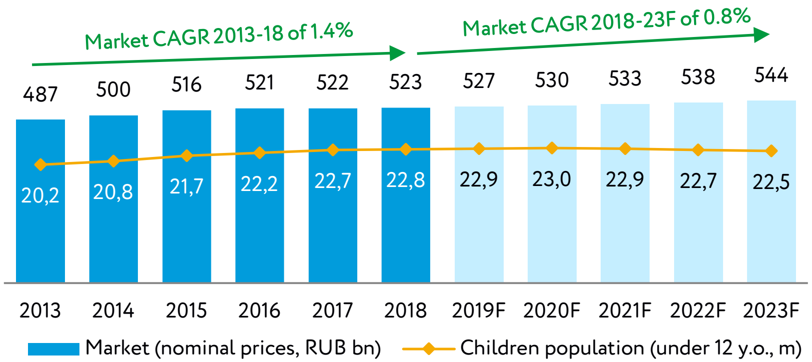
Incentive program to cement management long-term focus on shareholder value creation

[1] Financial KPIs – EBITDA, net income, revenues
[2] Functional KPIs – specific operational KPIs, individual for each role

#1 Player in a Large and Fragmented Market with Significant Growth Potential in Online

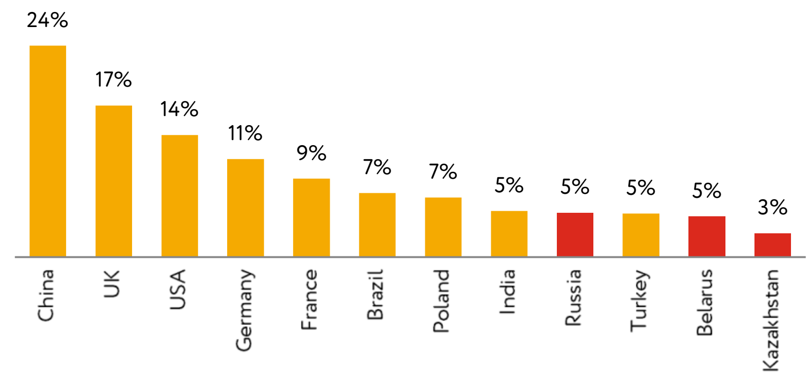
Large and stable market

Russian children's goods market and children population



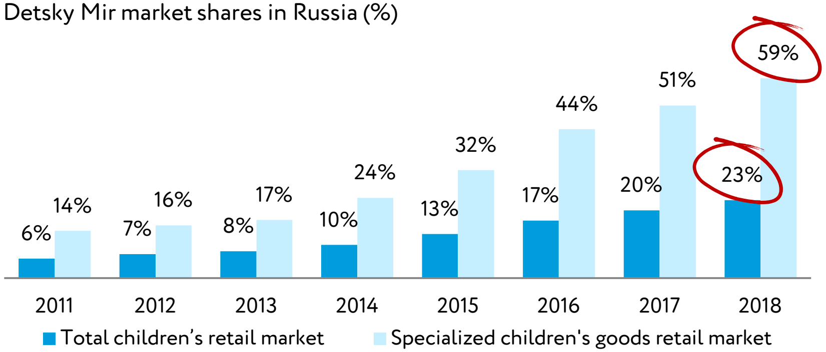
Low penetration of online retail driving future growth

Share of online sales in total retail market in 2018 (%)



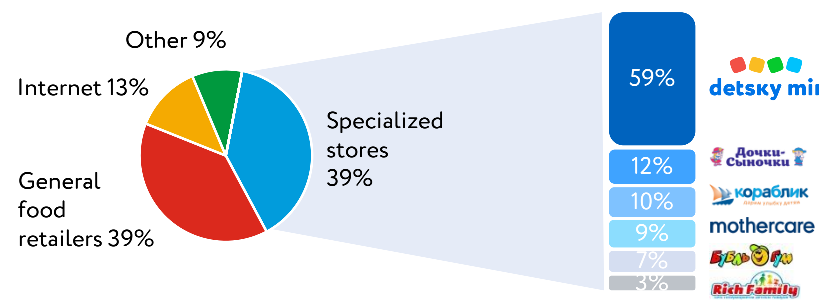
Detsky Mir has been building on its market leadership …

Detsky Mir market shares in Russia (%)



… and has potential to further consolidate this fragmented market

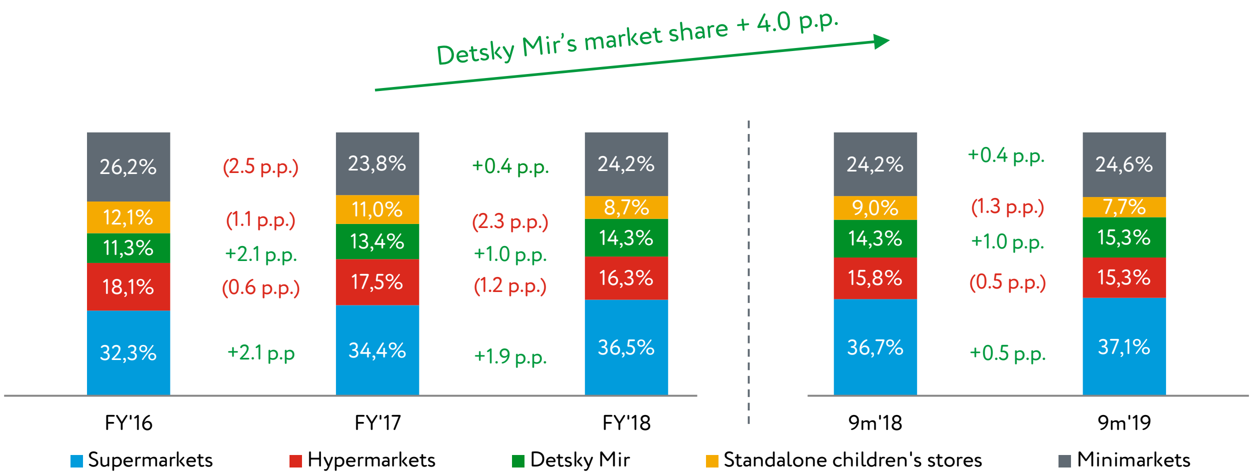
Structure of children's goods retail market in Russia in 2018 (%)



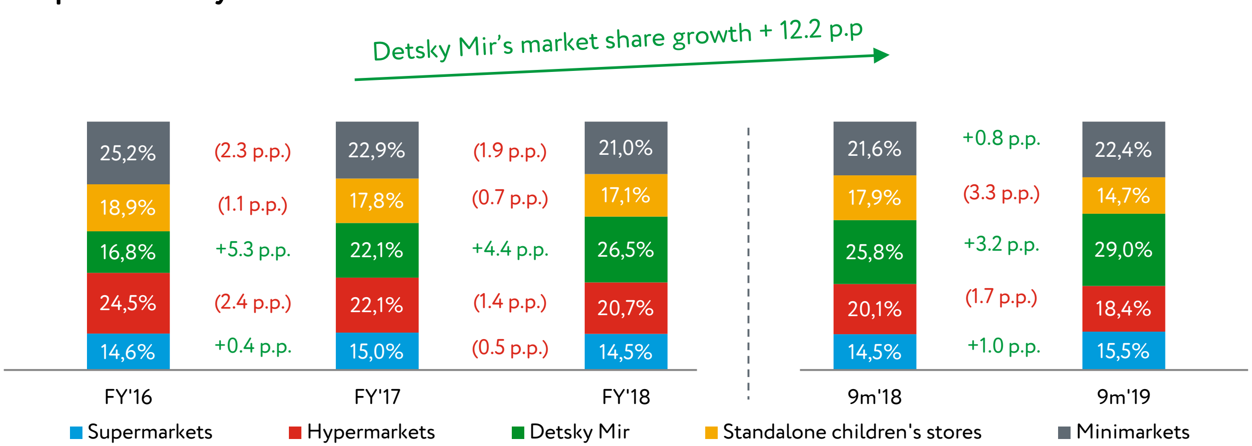
Source: Company data, Ipsos Comcon report, Euromonitor

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 "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 35% to 15.3% in H1 2019 (vs 2016)
- Detsky Mir's Diapers market share increased by 1.7x to 29.0% in H1 2019 (vs 2016)

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

Source: AC Nielsen

Exponential Online Growth Across All Key Metrics

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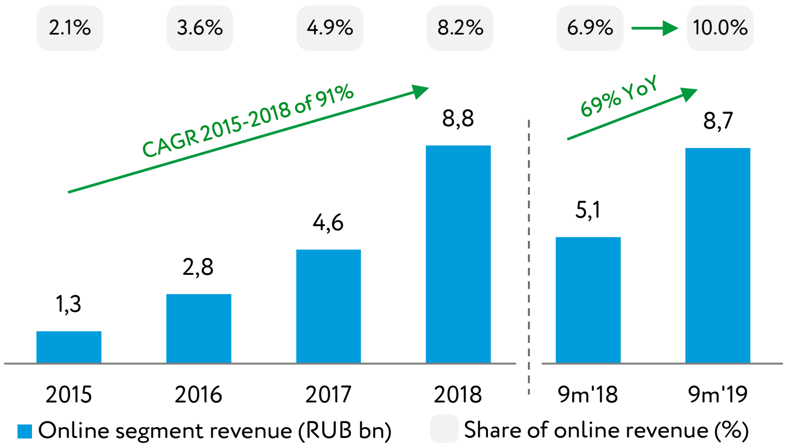
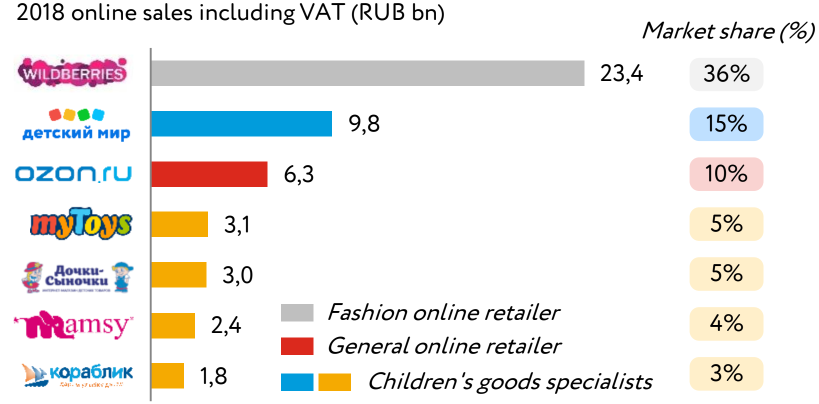
Accelerated online revenue growth

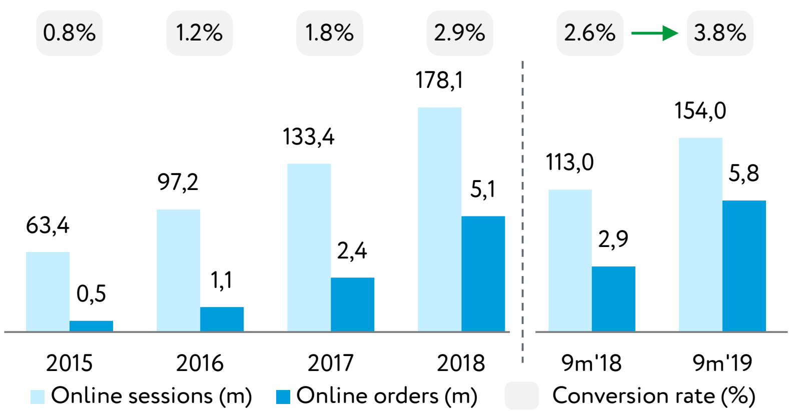


Top player in children's online retail

2018 online sales including VAT (RUB bn)

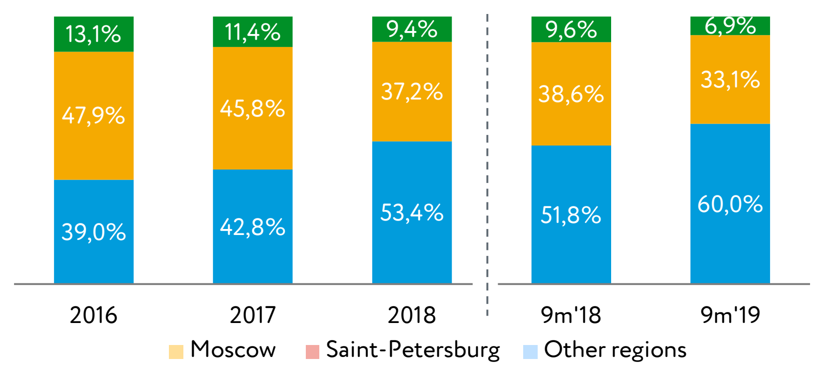


Continued growth in traffic and substantial improvement in conversion rates…



… driven by an increasing share of regional sales

Share of value in online orders (%)

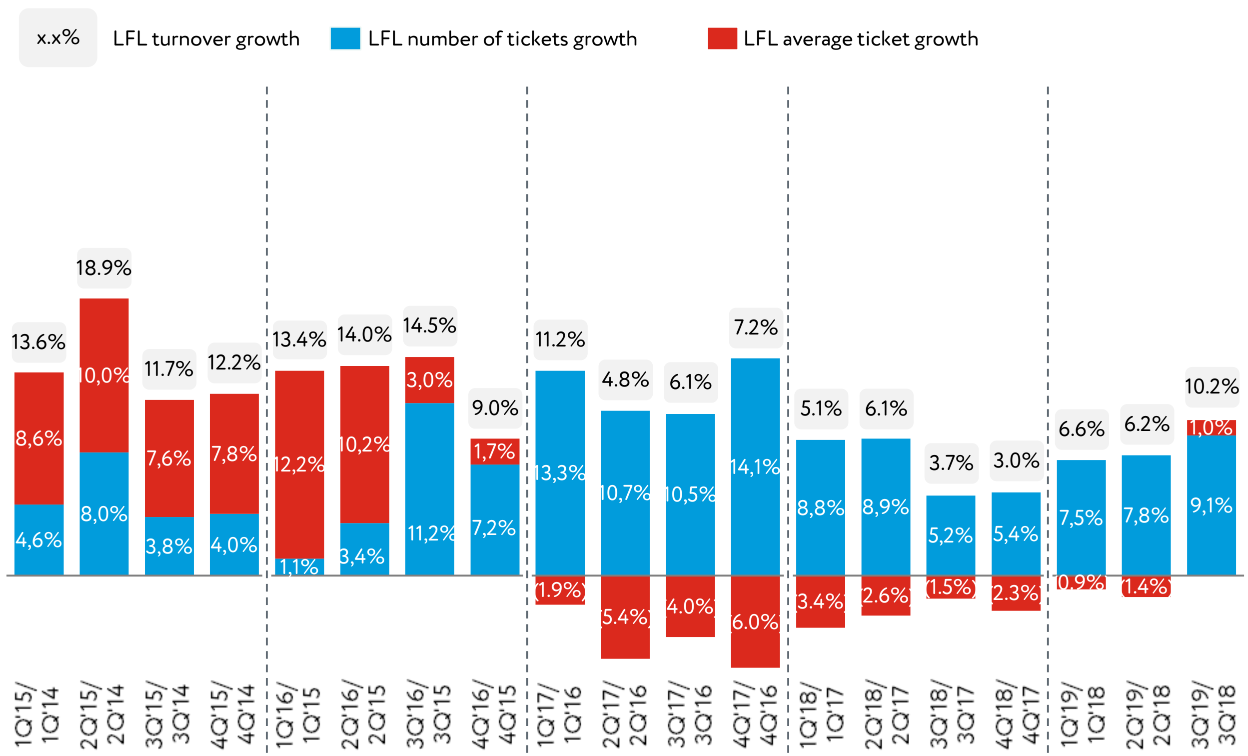


Source: Company data, Ipsos Comcon, Datainsight

Robust Like-for-Like Performance

detsky mir

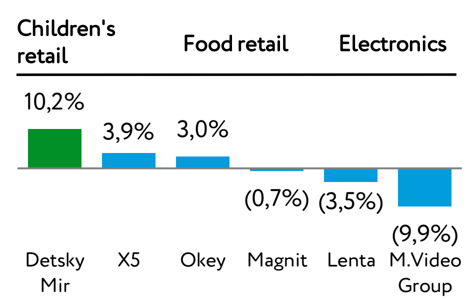
Like-for-like revenue (RUB)



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 Q3'19



LFL growth	LFL growth 2016	LFL growth 2017	LFL growth 2018	LFL growth 9m'19
Total	**12.3%**	**7.2%**	**4.3%**	**7.7%**
Average ticket	5.9%	(4.4%)	(2.4%)	(0.4%)
Number of tickets	6.0%	12.2%	6.9%	8.1%

Detsky Mir demonstrated attractive LFL revenue growth rate (+10.2%) in Q3 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

Financial Performance Summary

(RUB m, unless specified otherwise)[1]

	2016	2017	2018	9m'18	9m'19
Number of stores	**525**	**622**	**743**	**666**	**780**
Detsky Mir stores	480	578	673	610	710
ELC, ABC, Zoozavr stores	45	44	70	56	70
Selling space (k sqm)	**596**	**688**	**768**	**714**	**794**
Revenue	**79,547**	**97,003**	**110,874**	**76,566**	**89,850**
% total sales growth	*31.4%*	*21.9%*	*14.3%*	*14.9%*	*17.3%*
% LFL sales growth	*12.3%*	*7.2%*	*4.3%*	*4.9%*	*7.7%*
Revenue per sqm[2] (RUB thousand / sqm)	*146*	*151*	*152*	*109*	*115*
Online sales[3]	2,776	4,637	8,771	5,126	8,672
Share of online sales	*3.6%*	*4.9%*	*8.2%*	*6.9%*	*10.0%*
Gross profit	**27,108**	**32,798**	**36,829**	**25,024**	**28,277**
Margin, %	*34.1%*	*33.8%*	*33.2%*	*32.7%*	*31.5%*
Gross profit per sqm[2] (RUB thousand / sqm)	***50***	***51***	***51***	***36***	***36***
Adjusted SG&A	18,885	22,127	24,116	16,968	18,753
% of revenue	*23.7%*	*22.8%*	*21.8%*	*22.2%*	*20.9%*
Adjusted EBITDA	**8,203**	**10,663**	**12,665**	**8,032**	**9,515**
Margin, %	*10.3%*	*11.0%*	*11.4%*	*10.5%*	*10.6%*
Adjusted profit for the period	**3,827**	**5,501**	**7,229**	**4,370**	**4,895**
Margin, %	*4.8%*	*5.7%*	*6.5%*	*5.7%*	*5.4%*
Total debt	**14,638**	**13,592**	**21,470**	**17,617**	**20,906**
Cash and cash equivalents	(2,445)	(3,155)	(3,335)	1,479	717
Adjusted net debt[4]	**11,133**	**10,436**	**18,135**	**16,139**	**20,188**
Adjusted net debt / Adjusted EBITDA	*1.4x*	*1.0x*	*1.4x*	*1.3x*	*1.4x*
Capex	**(1,747)**	**(2,468)**	**(3,793)**	**(1,283)**	**(2,567)**
% of revenue	*2.2%*	*2.5%*	*3.4%*	*1.7%*	*2.9%*
Dividends declared[6]	**4,427**	**4,767**	**6,108**	**6,108**	**7,028**

Source: Company data

[1] The Company's consolidated financial measures for 2018-2019 and related interim periods are based on proforma financial information prepared as if IFRS 16 'Leases' had not been adopted, and thus do not represent IFRS measures.
[2] Calculated per average space for the period
[3] Online sales (including sales via "in-store pickup" service)

Comments

Sales Growth

- Strong support from both network expansion and LFL
- Solid LFL Sales growth rates
- High rate of new openings in 9m 2019 (45 stores[5])

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 (-130bps 9m'19 vs 9m'18)

Superior EBITDA Margin

- Major SG&A optimisation measures implemented by the new management team since 2013
- Over 120bps margin increase over four years (+10bps 9m'19 vs 9m'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

- Net debt / adj. EBITDA LTM ratio as of 30-September-2019 is 1.4x 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

[4] 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.
[5] In 9m 2019, Detsky Mir closed eight stores
[6] Dividends declared in 9m 2019 and 9m 2018 included interim dividends recommended by BoD in Q4.

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