detsky mir

FY 2019
Audited Financial Results

#1 Russian specialized children's goods retailer

March 2020

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FY 2019 Financial Highlights

detsky mir

1 Store Openings

Continuous expansion, exceeding initial openings guidance by 26% (incl. 8 in Belarus)

- 101[1] new Detsky Mir branded stores opened in 2019 (+9.7% YoY of selling space)
- 10 pet supplies stores / 4 Detmir.ru stores

2 Like-For-Like[2] Growth

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

- 16.1% total revenue growth in 2019
- 7.2% LFL[2] sales growth in 2019 with 8.5% LFL[2] traffic growth

3 Profitability

Sustainable profitability with double-digit EBITDA[3] margin due to further declines in SG&A costs as % of sales

- Adj. EBITDA[4] growth of 16.3%
- Adj. EBITDA margin of 11.4% (flat YoY)

4 Cash Generation

Continuously outstanding cash conversion metrics and free cash flow generation

- Cash conversion[5] of 76%
- Decline in Net debt[6] / adj. EBITDA to 1.2x

5 Online

Continued rapid growth in online sales

- 65.2% YoY online sales growth in 2019
- Share of online in sales[7] grew by c.470bps YoY reaching 15.7% in Q4 2019

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 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.

[7] Online share in Detsky Mir revenue in Russia

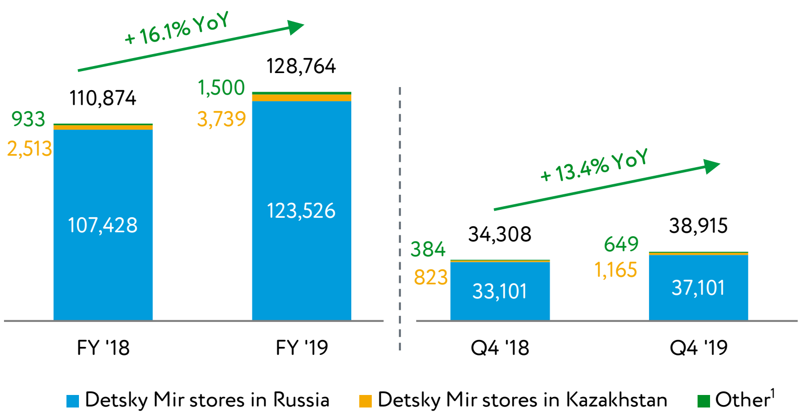
Unlocking new growth horizons

2019 key achievements and significant future upside

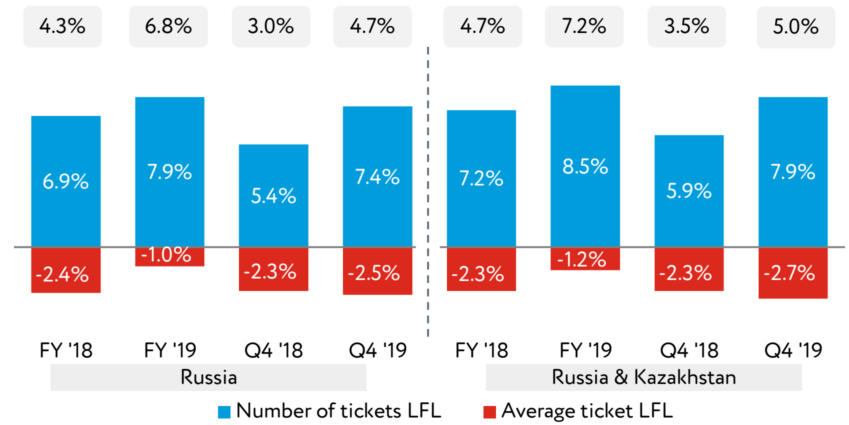
	2019 highlights	Drivers of future upside
eCommerce Development	• Last mile delivery with same-day and next-day options • Ideal in store service with 95% online pickup orders ready within 60 min • New integrated mobile app • Successfully piloting marketplace (+5,000 SKU)	• Last mile delivery promotion and development (New Regional DCs) • "Mobile first concept" • Full scale rollout of children's goods marketplace – Fashion and FMCG
White Space Expansion	• 101 Detsky Mir stores opened • Continued growth in Kazakhstan with 38 stores (1.5x sales growth) • Entry in Belarus with 8 stores (achieved breakeven on EBITDA level)	• ~300 more Detsky Mir core format stores in 2020-23 (Russia, Kazakhstan and Belarus) • New Detmir.ru format (~2,000 stores) • CIS expansion (entry in Kyrgyzstan in 2020)
Customer Traffic Generation	• Increased share of private label / direct imports by 570bps YoY to 41.6% in 2019 • Loyalty program promotion – 24m loyalty cards holders, generating 78% of revenue in 2019 • New CRM platform	• Mid-term target share of private label / direct imports of 60% • Launching of private label Manu diapers (affordable premium Japanese quality) • CRM personalization and segmentation
New Categories	• Pilot Zoozavr pet supplies stores	• Full rollout of Zoozavr concept

Continued Solid Top-Line Growth

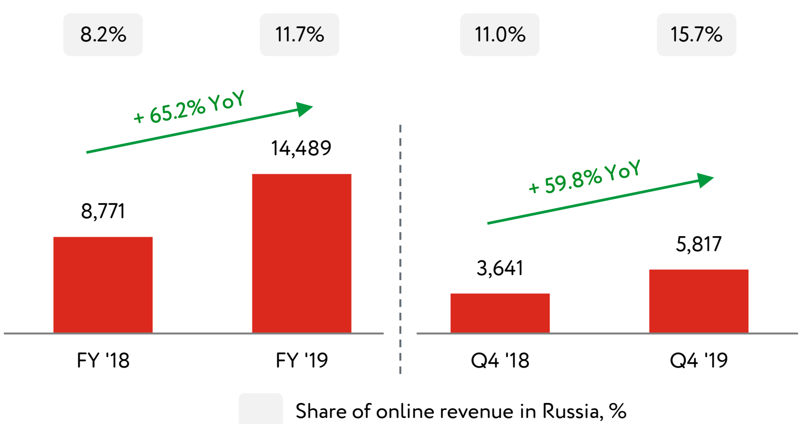
Total revenue (RUB m)



Like-for-like sales growth



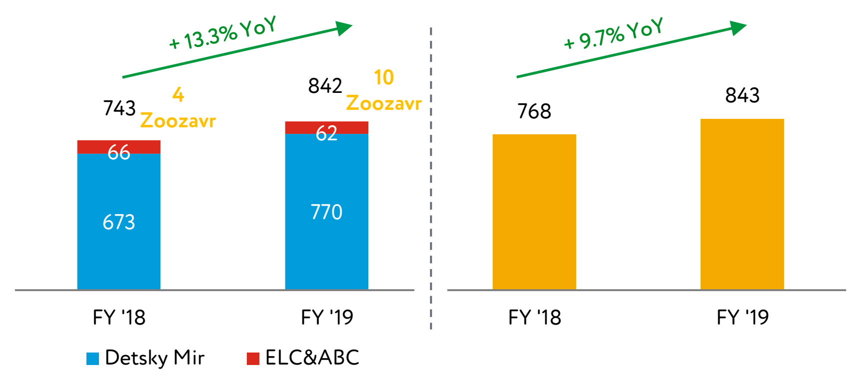
E-commerce revenue (RUB m)



Retail chain

\# of stores

Selling area (sqm 000s)



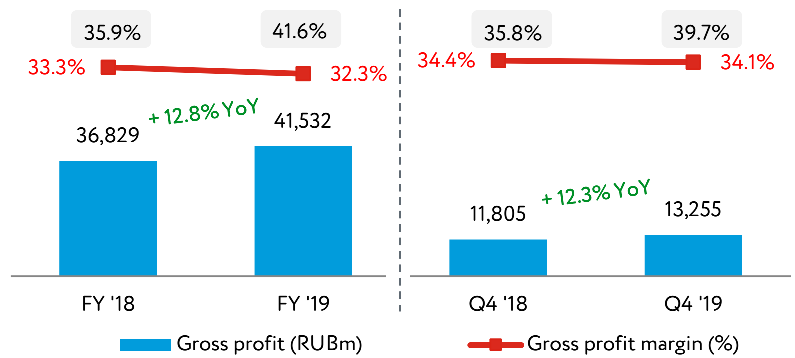
Source: Company data. The Company's consolidated financial measures for 2018-2019 and related interim periods are based on proforma financial information prepared as if IFRS 16 'Leases' had not been adopted, and thus do not represent IFRS measures.

[1] This segment includes performance of ELC, ABC, Zoozavr stores as well as Detsky Mir retail chain in Belarus (8 stores)

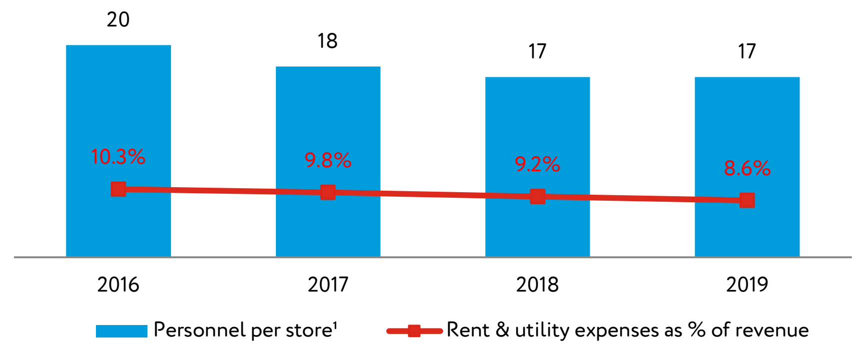
Consistently Strong Profitability

Strategic investment of margin in price leadership …

Private label a& direct imports, % of Revenue

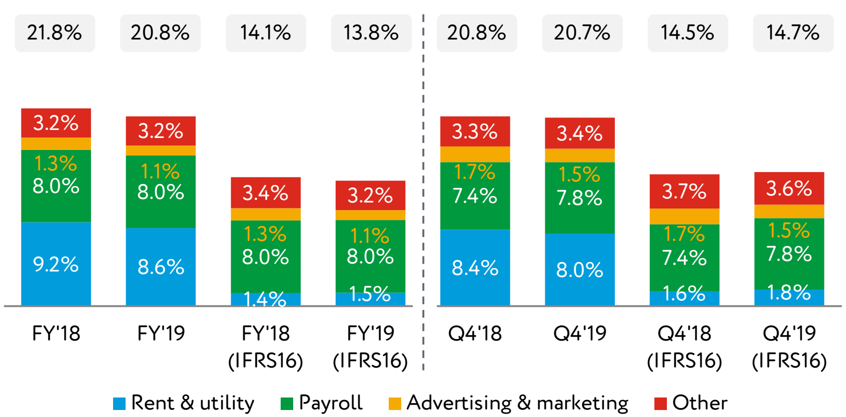


… is offset by gradual optimization of store personnel and reduction of rent costs …

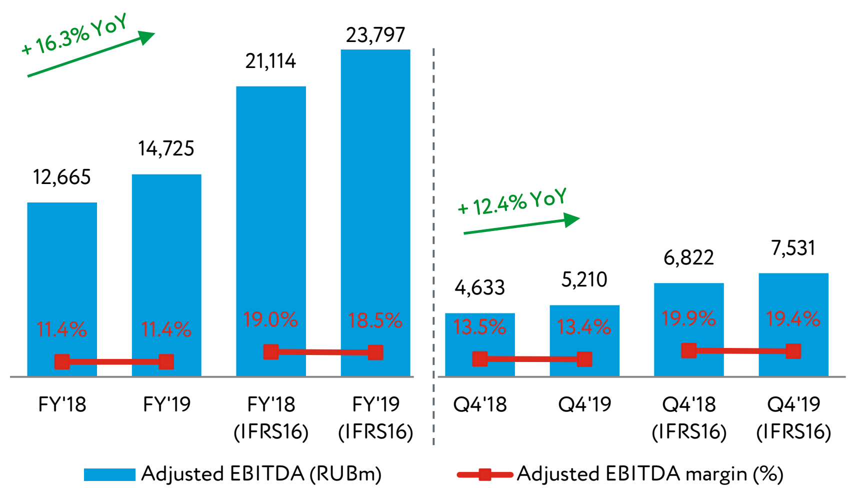


… along with consistently declining SG&A expenses (as % of revenue) …

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



… resulting in consistently strong 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

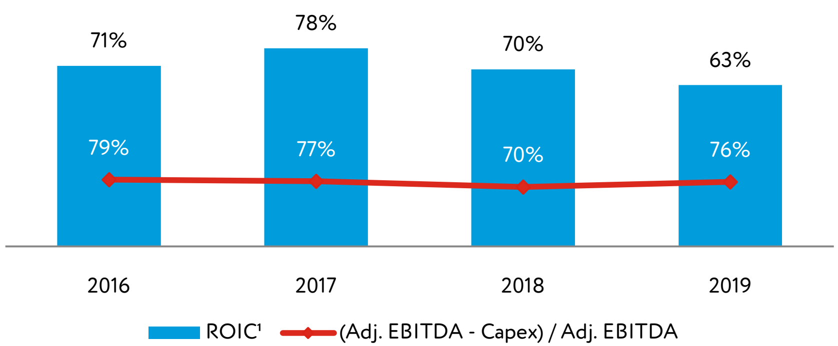
[2] Hereinafter, adjusted selling, general and administrative expenses is calculated as selling, general and administrative expenses adjusted for depreciation and amortization expenses, additional share-based compensation expense and cash bonuses under the LTI program.

Strong cash flow conversion

Comments

- Strong cash conversion (Adj. EBITDA- Capex/ Adj. EBITDA) driven by high level of ROIC
- Decrease of investment in NWC significantly affecting 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 high debt at the beginning of the year 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)

	2016	2017	2018	2019	FY'18 IFRS 16	FY'19 IFRS 16
Adjusted EBITDA	8,203	10,663	12,666	14,725	21,114	23,797
Changes in NWC	(405)	(1,123)	(7,156)	(132)	(7,021)	(107)
Cash income taxes paid	(1,468)	(1,523)	(1,083)	(1,696)	(1,083)	(1,696)
Net finance expense paid	(1,813)	(1,645)	(1,624)	(2,023)	(4,228)	(4,596)
Other operating cash flow	1,285	708	688	348	830	413
Operating cash flow	**5,801**	**7,080**	**3,489**	**11,222**	**9,613**	**17,812**
CAPEX	(1,747)	(2,468)	(3,793)	(3,507)	(3,793)	(3,507)
DC construction	-	-	(1,825)	(449)	(1,825)	(449)
Store openings, IT & maintenance[2]	(1,747)	(2,468)	(1,968)	(3,058)	(1,968)	(3,058)
Free cash flow	**4,054**	**4,612**	**(303)**	**7,715**	**5,820**	**14,305**
Investment cash flow	3,165	(1,370)	(3,794)	(3,467)	(3,794)	(3,467)
Financial cash flow	(8,455)	(5,000)	483	(9,322)	(5,640)	(15,911)
Change in cash	**512**	**710**	**180**	**(1,567)**	**180**	**(1,567)**

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); adjusted for amounts receivable under the loan issued to CJSC "DM-Finance" in 2015-16, as well as for net book value of the building occupied by the Bekasovo distribution center in 2015

[2] In 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

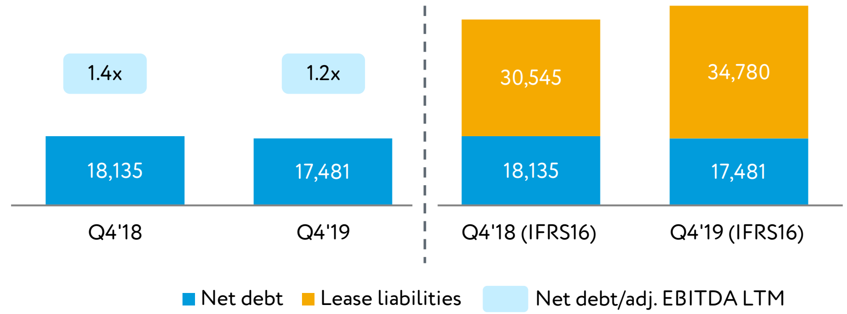
Conservative financial policy

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 ratio as of 31 December 2019 is 1.2 vs. 4.0x average covenant level across the loan portfolio (before IFRS16)
  - Decreased YoY thanks to NWC optimization
- Weighted average interest rate[1] – 8.0% (as of 2019)
- Most of the debt has fixed interest rate
- No contingent off-balance sheet liabilities
- Available undrawn credit limit of RUB 34.4bn for refinancing of the current credit portfolio aiming at its further diversification and cost reduction

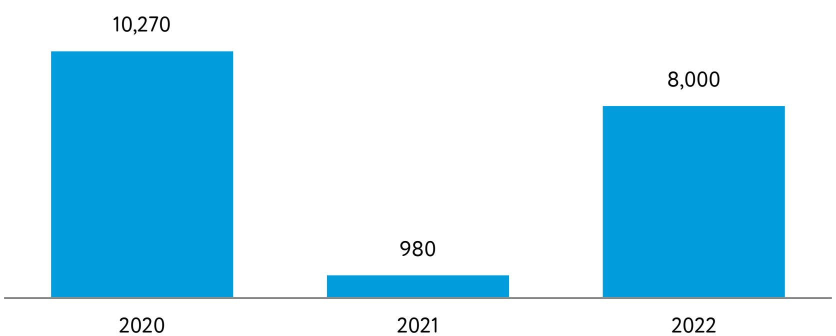
Leverage

- Q4 2019 total debt – RUB 19.3bn

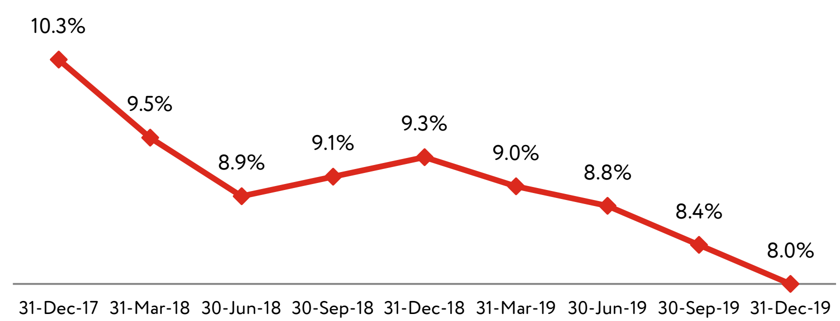


Debt maturities (31 December 2019)

(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

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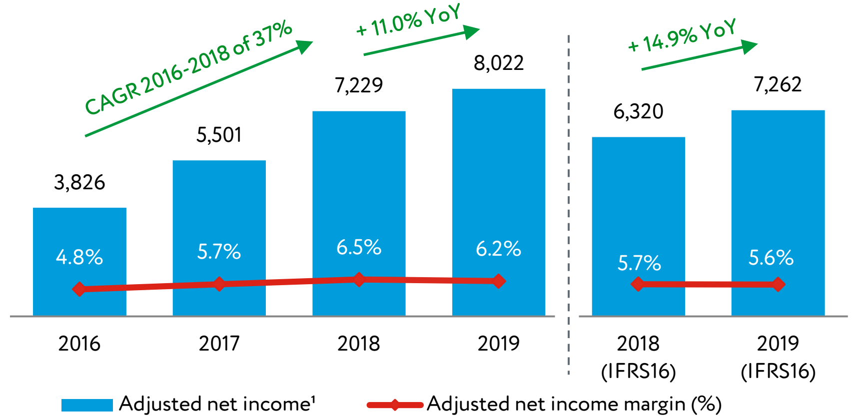
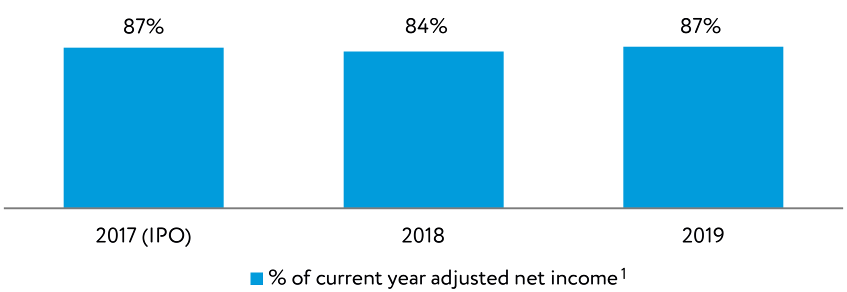
Comments

- 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 2019 of RUB 3.7bn in Q4 2019
- Executive Team will recommend to pay out final dividend for Q4 2019 of **c.RUB 4.1bn (+23% YoY) in 2020**

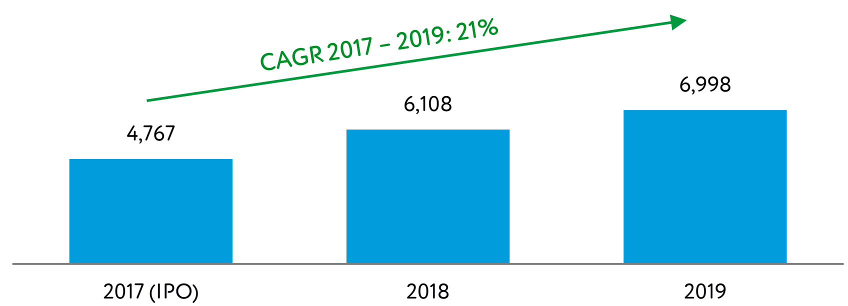
Adjusted net income (RUB m)[1]



Dividends as % of adjusted net income



History of declared dividends (RUB m)



Source: Company data

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[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

	Previous guidance (5 March 2018, updated 7 November 2019)	2019 actual	New guidance
Store count	• At least 100 new stores in 2019 • At least 300 stores in 2020-23	• 101 new stores	• 80 stores in 2020 • At least 300 stores in 2020-23
Revenue	• Single-digit LFL growth ahead of the market, positive traffic, below inflation ticket, puts new store ramp-up effects • Online revenue to increase to 30% of total revenue	• 7.2% total LFL growth, 8.5% ticket • 16.1% total revenue growth • Share of online sales at 15.5% in Q4	• Same guidance
Gross margin	• Slightly declining to stable reflecting investment in prices to drive traffic	• 32.3% vs 33.2% in 2018	• Same guidance
Rent, utility & personnel expenses	• Slightly declining to stable as % of revenue	• Rent & utility expenses of 8.6% vs 9.2% in 2018 under IAS17 • Personnel expenses margin of 8.0% vs 8.0% in 2018	• Same guidance
Adjusted EBITDA margin	• Double-digit under IAS17	• 11.4% vs 11.4% in 2018 under IAS17 • 18.5% vs 19.0% in 2018 under IFRS16	• Double-digit under IAS17 • Upper-teens under IFRS16

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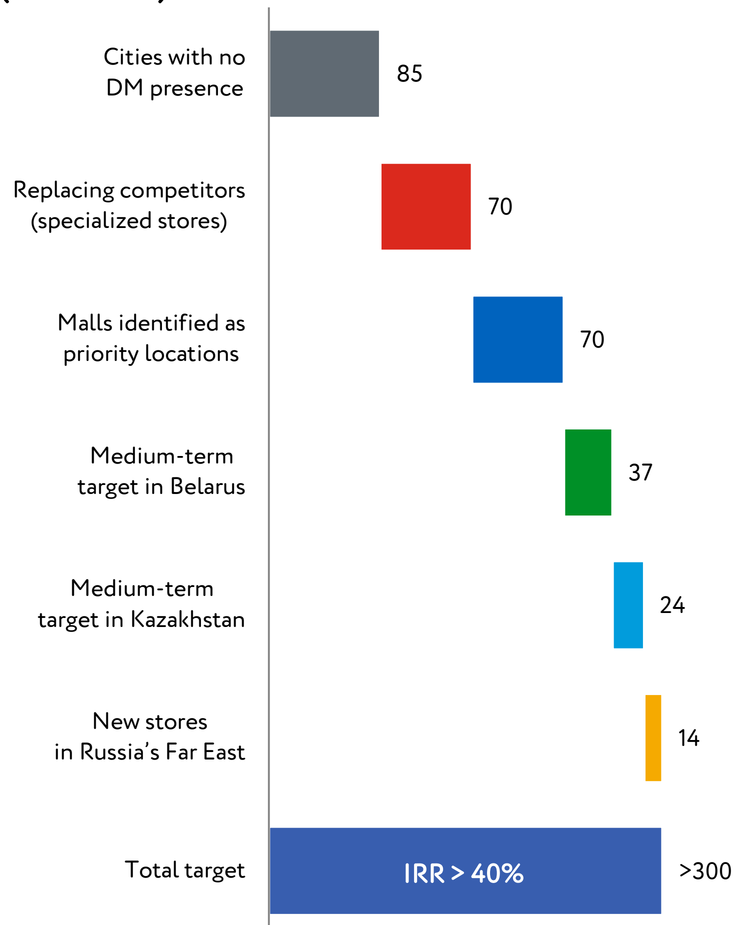
Appendix

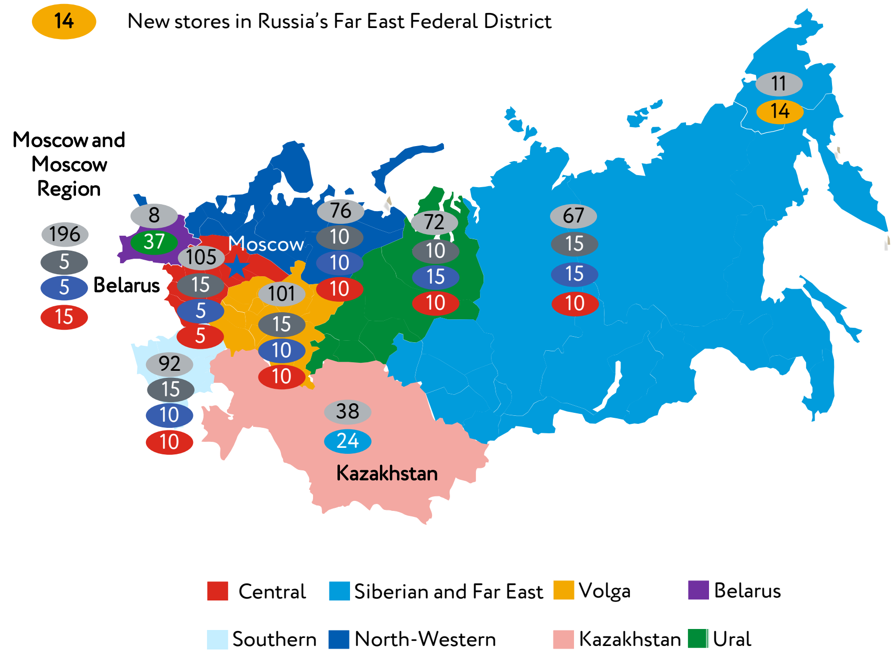
Detsky Mir stores expansion pipeline

Target store rollout (2020-2023)



Geographical location

- 766[1] Existing DM stores
- 85 Cities with no DM Presence (40k -100k inhabitants)
- 70 Replacing competitors (specialized stores)
- 70 Cities with DM Presence (>100k inhabitants)
- 37 Medium-term target stores in Belarus
- 24 Medium-term target stores in Kazakhstan
- 14 New stores in Russia's Far East Federal District



Source: Company data

1 Only Detsky Mir branded stores as of 31-Dec-19

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%	16% - 35%	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

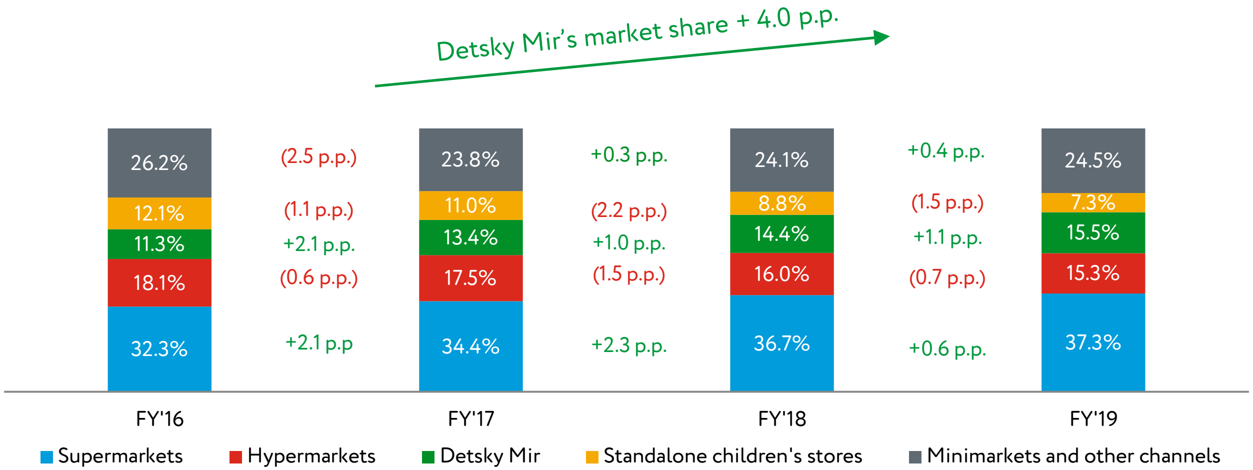
- Approved by the Board of Directors in October 2019
- Covers the 3-year period from the end date of the previous program (Feb 8, 2020) to February 7, 2023
- Senior management team in continuing employment by the Company and in program membership as of April 30, 2024 will be eligible for the Company's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

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

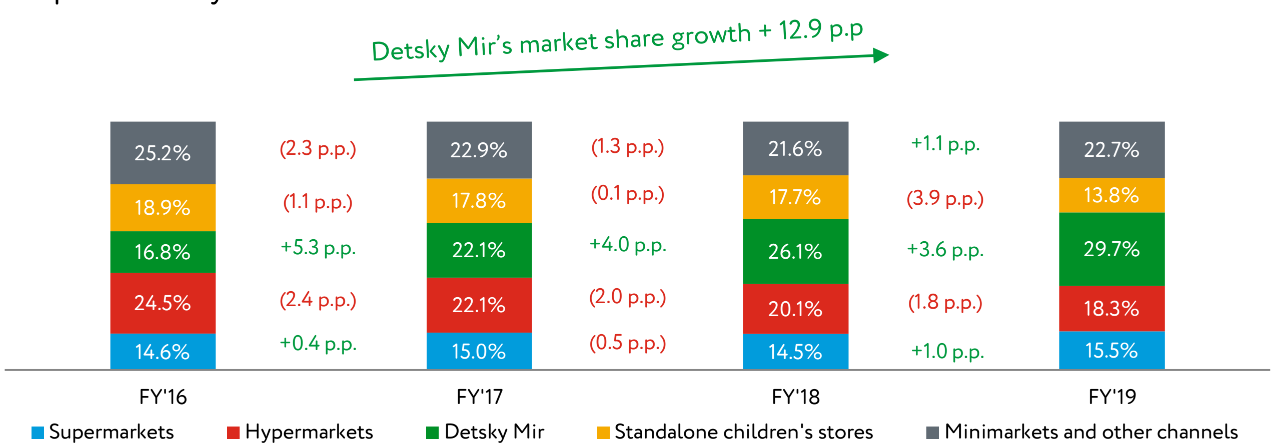
[1] Financial KPIs – EBITDA, net income, revenues
[2] Functional KPIs – specific operational KPIs, individual for each role

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

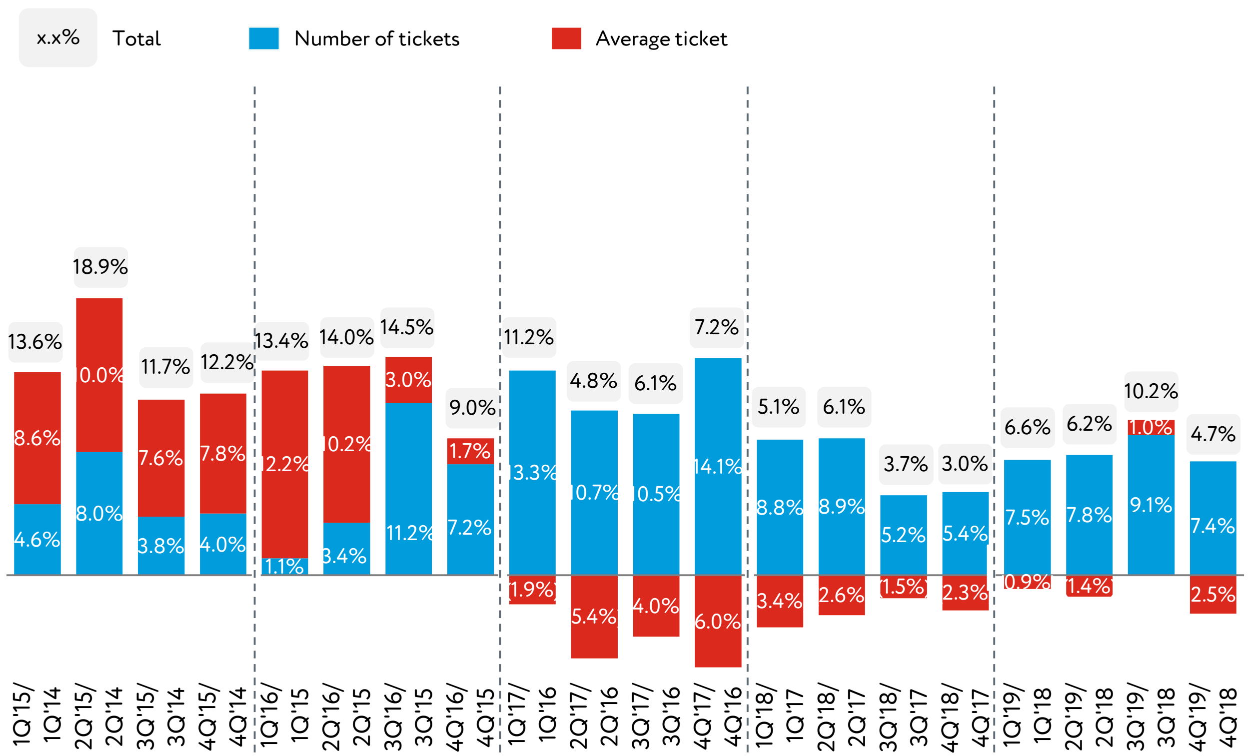
- Baby food and diapers remain key traffic-generating categories for children's goods stores
- Only stores specialized in children's goods offer a full range of baby food and diapers products unlike hypermarkets, which are focused on "bestseller" SKUs
- Detsky Mir took market share away from other channels in these categories
- 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 110bps YoY to 15.5% in 2019
- Detsky Mir's diapers market share increased by 360bps YoY to 29.7% in 2019

Detsky Mir's share of the diapers market increased by 1.8x over several years

Source: Nielsen

Robust like-for-like performance

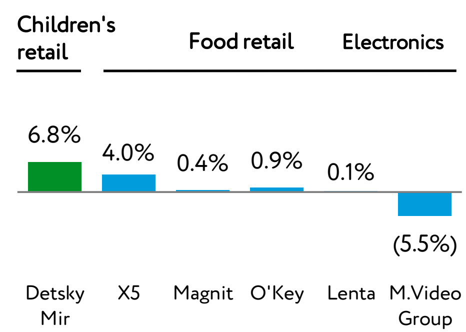
Like-for-like revenue growth



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 2019



LFL growth	LFL growth 2016	LFL growth 2017	LFL growth 2018	LFL growth 2019
Total	**12.3%**	**7.2%**	**4.3%**	**6.8%**
Average ticket	5.9%	(4.4%)	(2.4%)	(1.0%)
Number of tickets	6.0%	12.2%	6.9%	7.9%

Detsky Mir (Russia) demonstrated attractive LFL revenue growth rate (+6.8%) in 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	2019
Number of stores	**525**	**622**	**743**	**842**
Detsky Mir and Detmir.ru stores	480	578	673	770
ELC, ABC, Zoozavr stores	45	44	70	72
Selling space (k sqm)	**596**	**688**	**768**	**843**
Revenue	**79,547**	**97,003**	**110,874**	**128,764**
% total sales growth	*31.4%*	*21.9%*	*14.3%*	*16.1%*
% LFL sales growth	*12.3%*	*7.2%*	*4.9%*	*7.2%*
Revenue per sqm[2] (RUB thousand / sqm)	*146*	*151*	*152*	*160*
Online sales[4]	2,776	4,637	8,771	14,489
Share of online sales in Russia	*3.6%*	*4.9%*	*8.2%*	*11.7%*
Gross profit	**27,108**	**32,798**	**36,829**	**41,532**
Margin, %	*34.1%*	*33.8%*	*33.2%*	*32.3%*
Gross profit per sqm[2] (RUB thousand / sqm)	***50***	***51***	***51***	***52***
Adjusted SG&A	18,884	22,127	24,116	26,799
% of revenue	*23.7%*	*22.8%*	*21.8%*	*20.8%*
Adjusted EBITDA	**8,203**	**10,663**	**12,666**	**14,725**
Margin, %	*10.3%*	*11.0%*	*11.4%*	*11.4%*
Adjusted profit for the period	**3,826**	**5,501**	**7,229**	**8,022**
Margin, %	*4.8%*	*5.7%*	*6.5%*	*6.2%*
Total debt	**14,638**	**13,591**	**21,470**	**19,250**
Cash and cash equivalents	(2,445)	(3,155)	(3,335)	(1,769)
Adjusted net debt[4]	**11,133**	**10,436**	**18,135**	**17,481**
Adjusted net debt / LTM Adjusted EBITDA	*1.4x*	*1.0x*	*1.4x*	*1.2x*
Capex	**(1,747)**	**(2,468)**	**(3,794)**	**(3,507)**
% of revenue	*2.2%*	*2.5%*	*3.4%*	*2.7%*
Dividends declared	**4,427**	**4,767**	**6,108**	**6,998**

Comments

Sales Growth
- Strong support from both network expansion and LFL
- Solid LFL Sales growth rates
- High rate of new openings in 2019 (101 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 from 2015 to 2019 (-100bps 2019 vs 2018)

Superior EBITDA Margin
- Major SG&A optimisation measures implemented by the new management team since 2013
- Over 120bps margin increase from 2015 to 2019
- 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 as of 31-December-2019 is 1.2x 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

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)

[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 2019, Detsky Mir closed eight stores

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