



# Investor Presentation

#1 Russian specialized children's goods retailer

March 2019

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# Agenda

**1** Overview and Key Updates

**2** Our Investment Story

**3** Recent Financial Performance

**4** Appendix

**1**

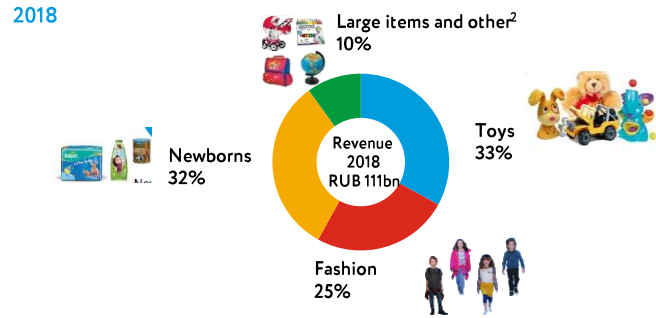
## **Overview and Key Updates**

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

## Key Facts

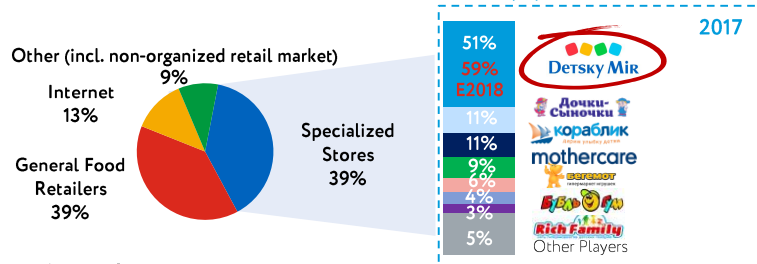
- #1** Detsky Mir is the undisputed #1 player in the specialized children's goods market in Russia
- 99%** "Detsky Mir" is an iconic brand with 99% prompted awareness<sup>1</sup>
- 643** Detsky Mir branded stores in 237 Russian cities, 30 stores in 15 cities in Kazakhstan, as well as 66 ELC & ABC stores and four Zozzavr stores as of 31 December 2018
- 1,100 sqm** Average store selling space of c.1,100 sqm, located in modern shopping malls with product range of 20,000–30,000 SKUs
- Detmir.ru** "Detmir.ru" is the leading online children's goods retailer and a top online retailer in Russia

## Diversified Product Portfolio<sup>3</sup>

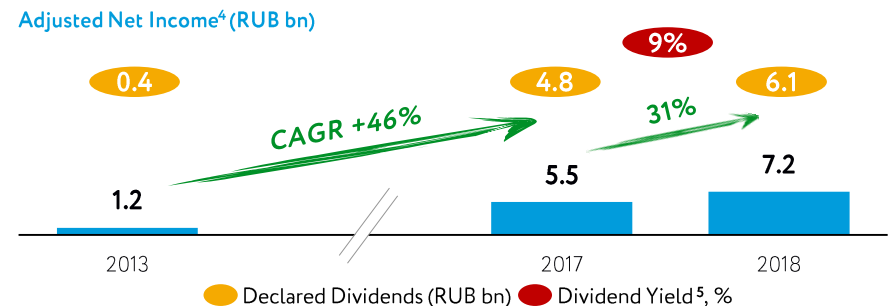
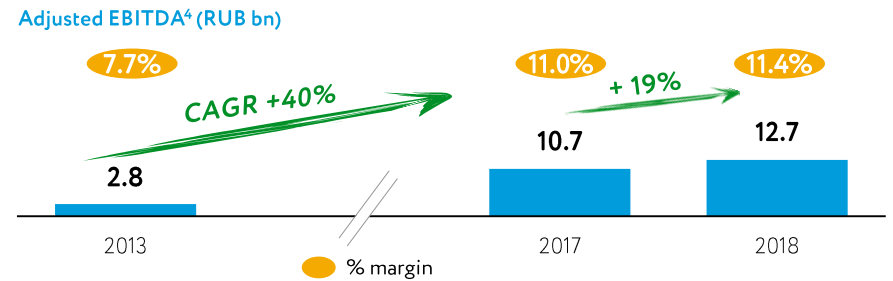
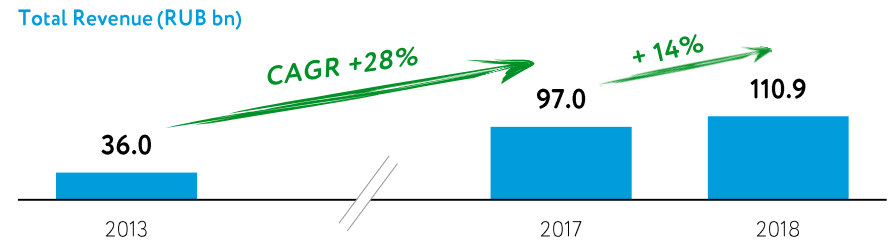
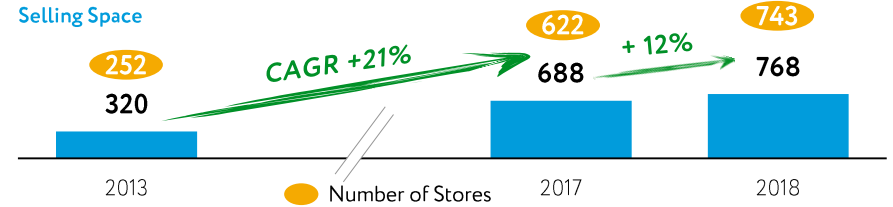


## Leading Market Position

### 2018 Structure of Children's Goods Retail Market in Russia (%)



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



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, 2014–2018 under IFRS presented without taking into account the new accounting standards IFRS 16 – Leases, if it is not specified. 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> 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




<sup>5</sup> Calculated as dividend per share (RUB 8.27 declared in 2018) divided by average share price for at least 12 full calendar months

# Key 2018-2019 Business Initiatives

## 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 revenue increased from 33.3% to 36.1% in 2018
- Main focus on toys as our key margin- and traffic-driving category, with medium term private label/direct imports share target of 30%
- Successfully rolled out our BabyGo private label line of affordable diapers (5% of sales in 2018 ) with share target of 15% in mid-term
- Introducing fashion private brand with fully in-house design to gain expertise in manufacturing and improve quality via tendering

## Share of Private Labels & Direct Imports in Sales by Category

	2017	2018	
Toys	18.1%	22.9%	 Mobicaro
Newborns	1.6%	2.9%	 Baby Go
Fashion	91.2%	93.7%	 Tombi
Large Items	64.5%	64.5%	
Other Goods	31.7%	33.4%	

## Geographical Expansion

- Entering in Belarus, with first opened store in February 2019 and long-term goal to gain 20% share of this RUB 40bn children's goods market (35 new stores in mid-term)
- Continued regional expansion:
  - Opened five stores in Russia's Far East Federal District in 2018 (20 new stores in mid-term)
  - Expand to new cities in Kazakhstan (+30% LFL & 2x sales growth)

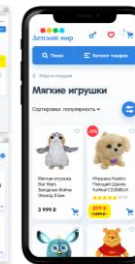
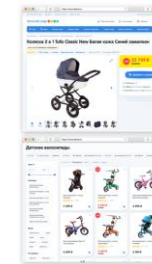
## Our Key Strengths for Belarus Expansion

- ✓ 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

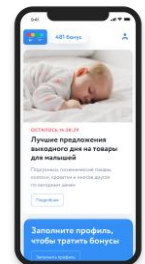
## Continued Upgrades to e-Commerce Platform and Customer Offering

- Improve functionality and customer service KPIs of in-store pickups to reach 77% of online sales in 2018, drive overall LFL sales growth and stimulate cross sales (~20% of online sales)
- Home deliveries out of stores in remoted cities (mid-term target 2-3 hours): piloting in 15 locations in 2018, full rollout in 2019
- Full website redesign: mobile friendly product listings (+10% in CR)
- Two-phase launch of mobile app: i) loyalty program app launched in Q4 2018, ii) full-feature mobile app store in 2019

## Website Redesign



## Mobile App



## Launch of New Business Line - Pet Supplies

- Begin opening Zoozavr branded stores in 4Q 2018: ~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



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## Our Investment Story

# Detsky Mir - Leading the Solid Russian Children's Goods Retailing Sector

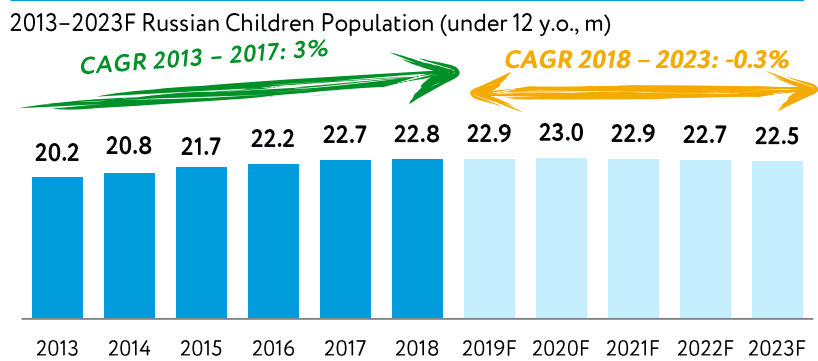




# 1 #1 Player in a Large and Fragmented Market

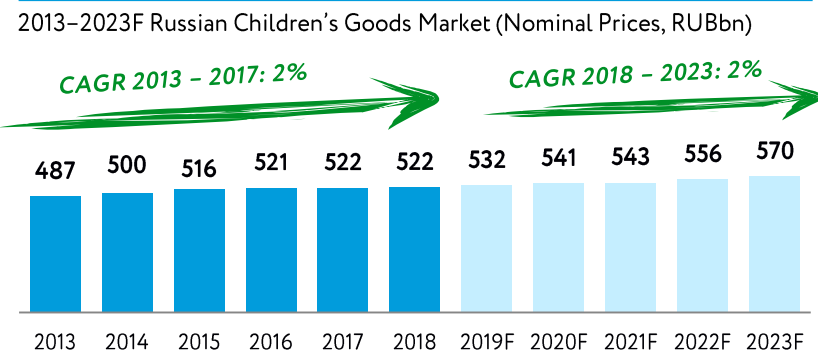


## Stable Children Population



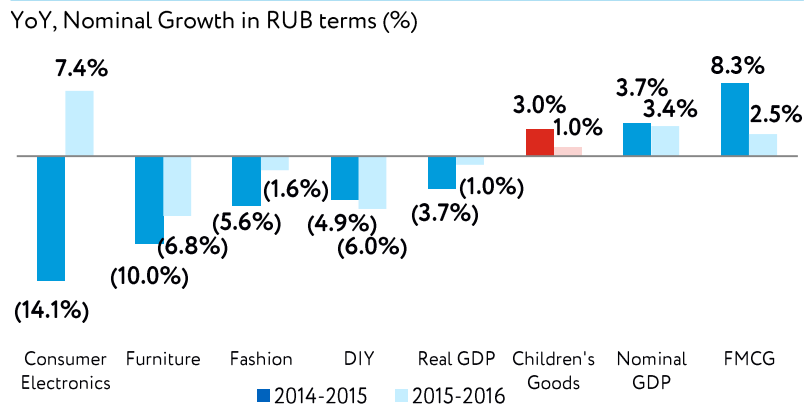
Source: Ipsos Comcon report

## Large and Growing Addressable Market



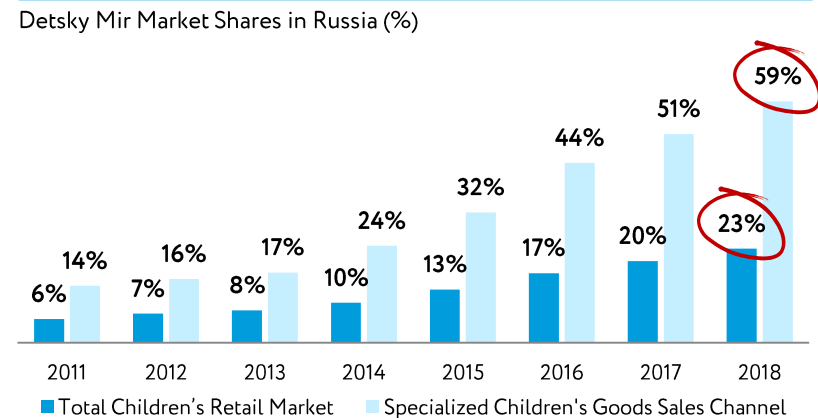
Source: Ipsos Comcon report

## 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, Better and More Recognizable Than the Competition

	Total Number of Stores (FY 2018)	Net Store Openings (FY 2018)	Stores in Moscow and Moscow Region (FY 2018)	Stores in Other Regions (FY 2018)	Average Selling Space per Store (ths. sqm)	Poll: Unaided Brand Awareness (Dec-17)
	643	#1 92 <sup>1,2</sup>	#1 185 <sup>2</sup>	#1 458 <sup>1,2</sup>	1.1 <sup>3</sup>	92%
	215	11	151	64	0.7	39%
	188	27	61	127	1.2	64%
	121	12	59	62	0.5	9%
	4	-52	1	3	1.0	8%

Source: Company data, Ipsos Comcon report

<sup>1</sup> Excluding Kazakhstan

<sup>2</sup> Excluding ELC stores

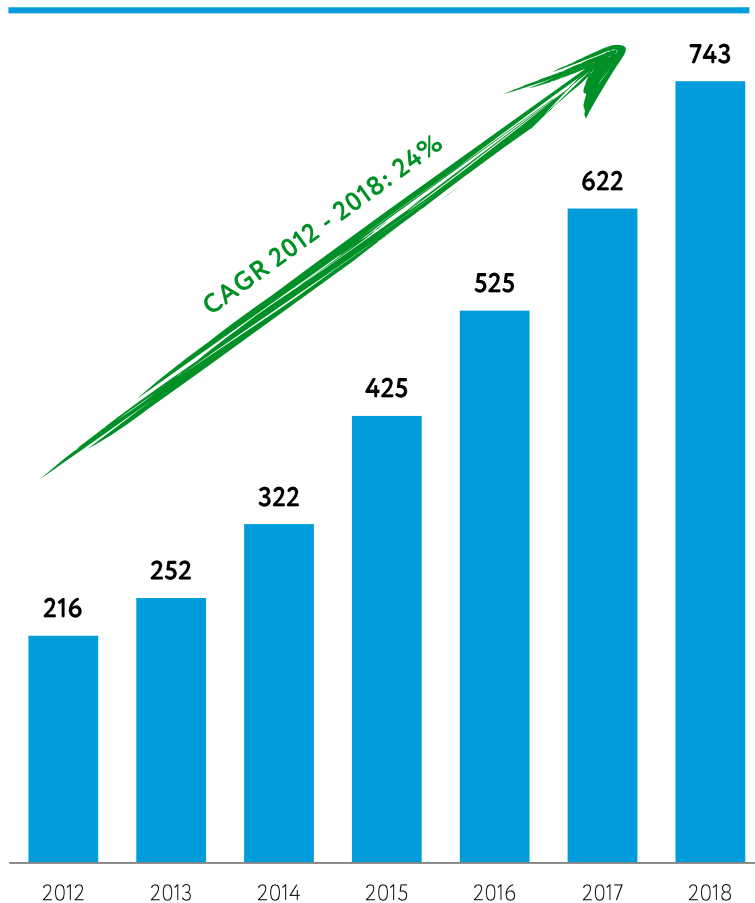
<sup>3</sup> New store roll-out: gross space

<sup>4</sup> Cardholders who made at least one purchases at Detsky Mir during the last 12 months to 30 September 2018 are considered active

# 3 Well-Defined Four-Pillar Growth Strategy

## A Taking over Whitespace in Large and Small Cities, as Well as International Markets

Number of Stores (incl. ELC, ABC and Zoozavr)



Source: Company data

Visible Expansion Pipeline

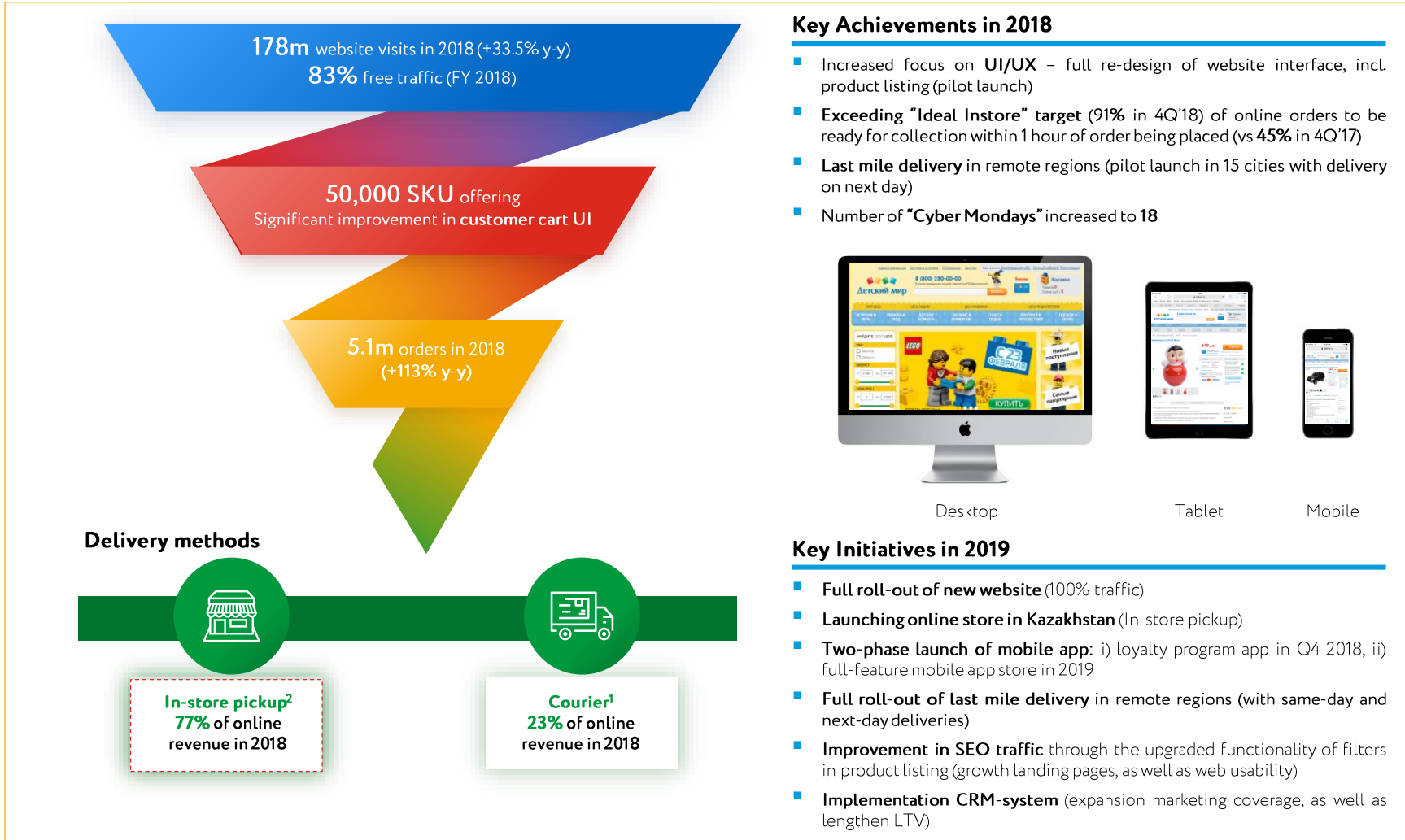
- 673<sup>1</sup> DM stores
- 115 Cities with no DM Presence (40k -100k inhabitants)
- 20 New stores in Russia's Far East Federal District
- 35 Malls identified as priority locations for DM (in the large cities of presence)
- 70 Replacing competitors (specialized stores)
- 25 Medium-term target stores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

At least 300 new stores in 2019-2022



<sup>1</sup>Only Detsky Mir branded stores as of 31-Dec-18

## B Continuous Development of Our e-Commerce Platform...



Source: Company data

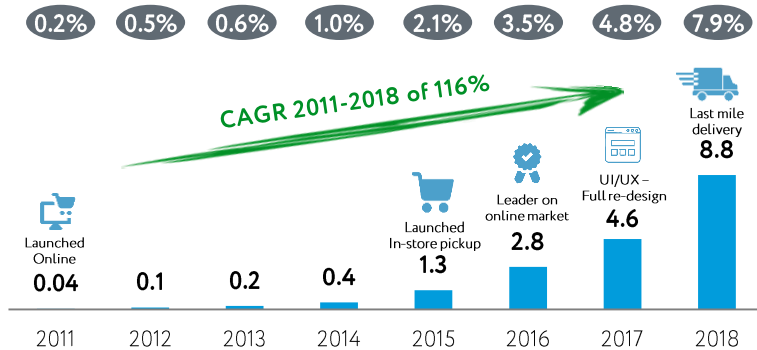
<sup>1</sup> Includes delivery to specified address and to pick-up point

<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

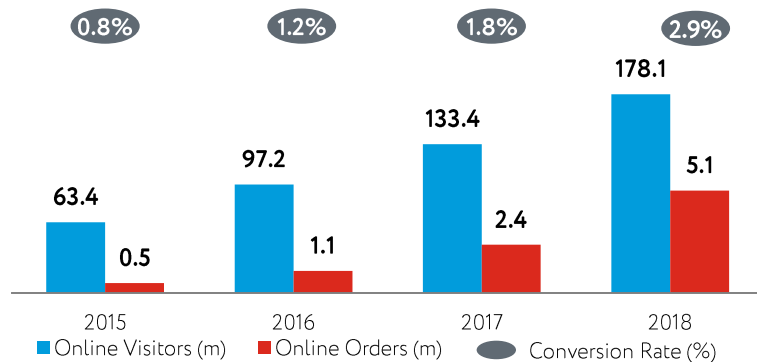
# 3 Well-Defined Four-Pillar Growth Strategy

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

### Accelerated Online Revenue Growth

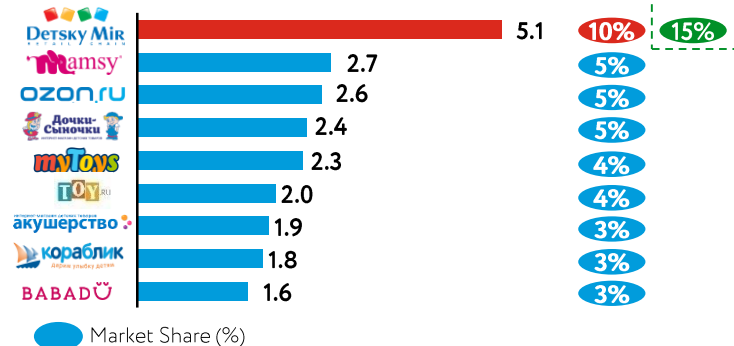


### Continued Growth in Traffic and, in Particular, Improvement in Conversion Rates...



### We Are Now Double the Size of Our Nearest Online Competitor

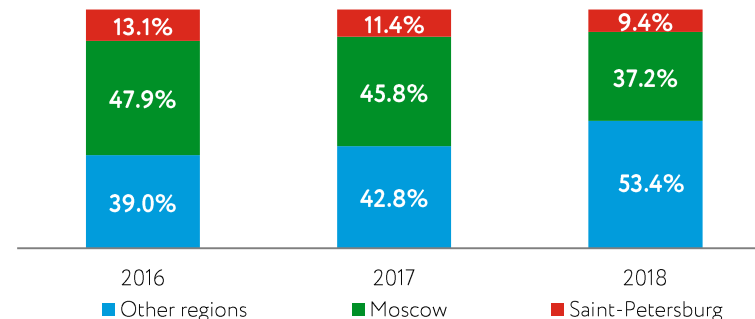
2017 Online Sales Including VAT (RUB bn)



Source: Ipsos Comcon, Datainsight

### ... Driven by an Increasing Share of Regional Sales

Share of Value of Online Orders (%)



Company data

<sup>1</sup> The Group's consolidated financial statements for 2011-2013 under US GAAP, 2014-2018 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

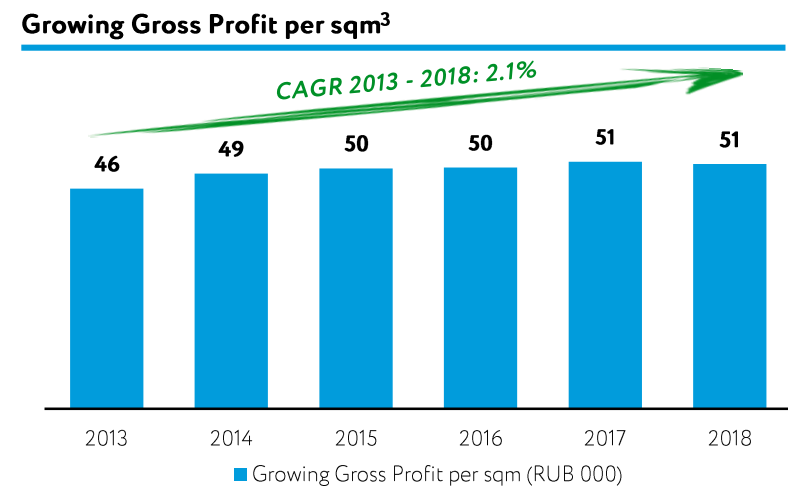
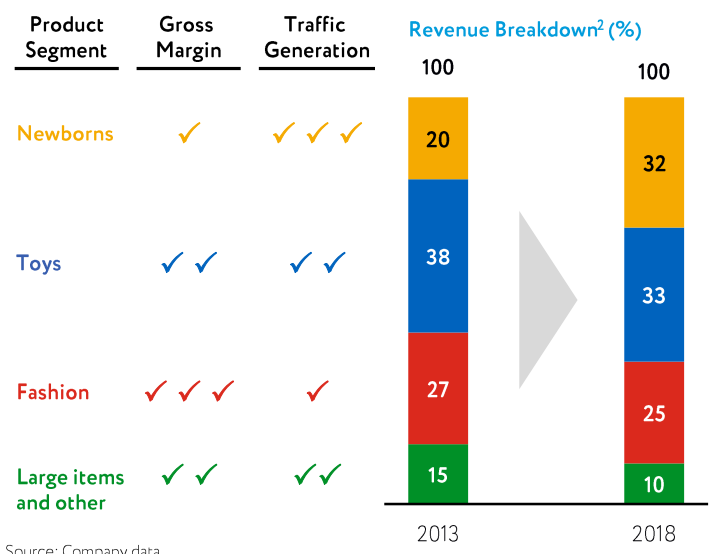
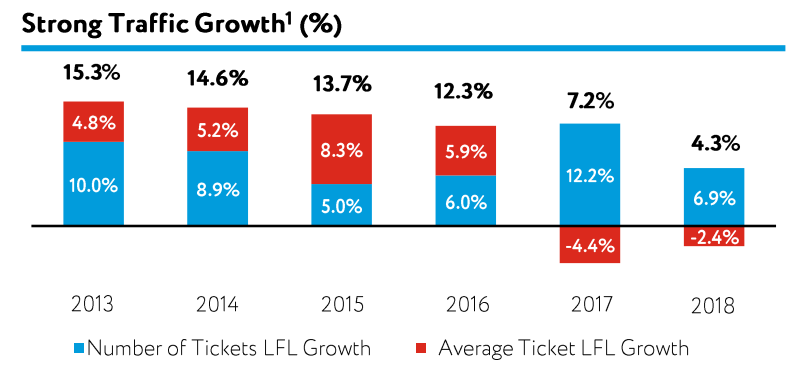
## C Competitive Pricing and Effective Merchandising with Focus on Traffic Generating Categories Drive Strong LFL Sales Growth and Growing Gross Profit per sqm

### 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



Source: Company data

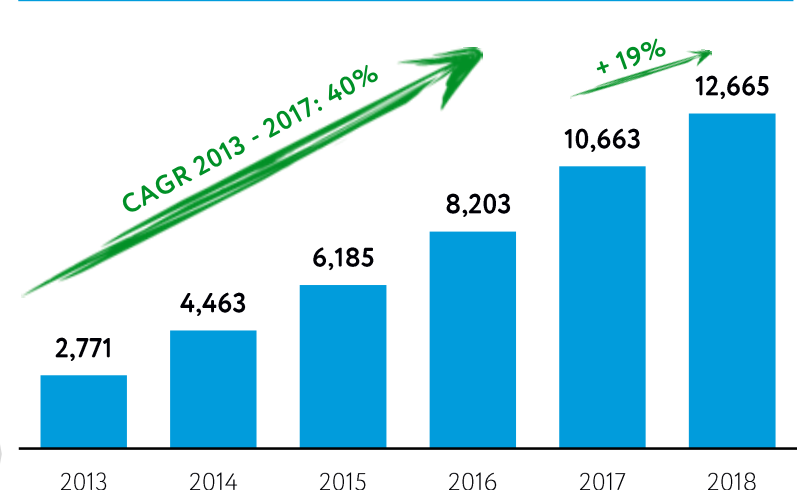
<sup>1</sup> LFL growth includes only DM stores in Russia that have been in operations for at least 12 full calendar months. Revenue of each store included in LFL comparison represents retail revenue of the store (incl. VAT, excluding plastic bags) for respective period but excludes store revenue for 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)

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

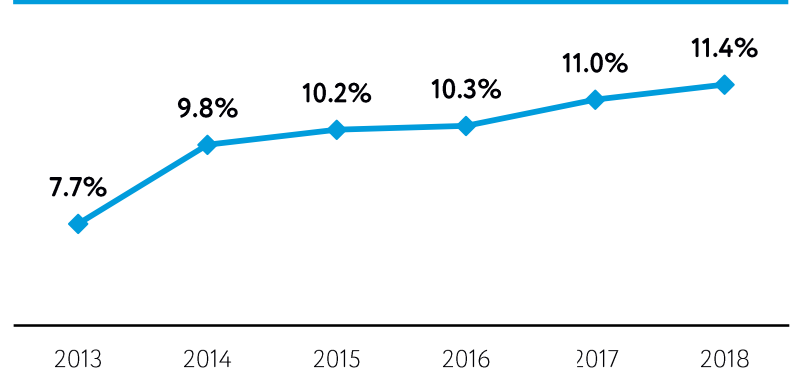
Improvement of 370bps in adj. EBITDA<sup>1</sup> margin since 2013 driven by:

- ✓ Store operation improvements
- ✓ Optimization of IT platforms and personnel
- ✓ Reduction in adjusted SG&A<sup>2</sup> as % of revenue by over 920bps over 2013-2018

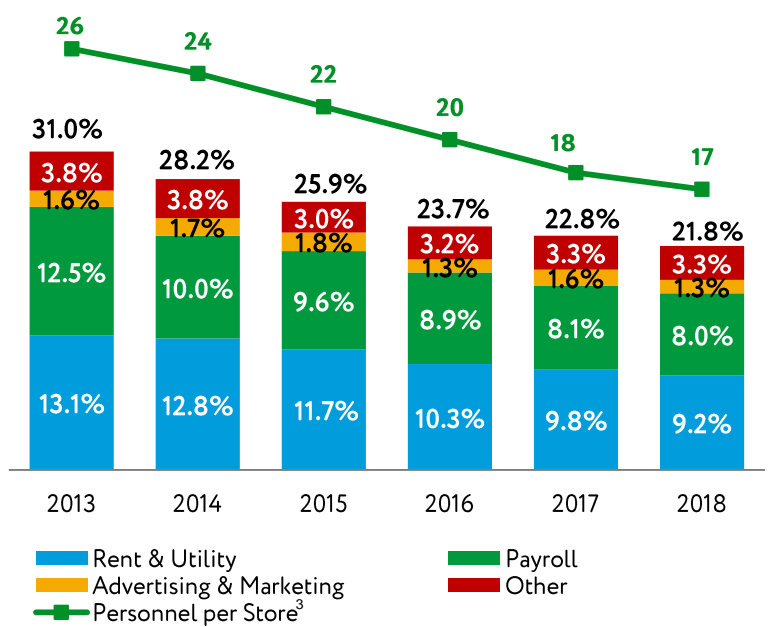
Adjusted EBITDA<sup>1</sup> (RUBm)



Adjusted EBITDA Margin (%)



Adjusted SG&A Expenses as % of Sales<sup>2</sup> and Personnel per Store<sup>3</sup>



Source: Group consolidated financial statements for 2013 under US GAAP and 2014-2018 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> Adjusted SG&A expenses are calculated excluding Depreciation and Amortisation and additional bonus payments under the LTI program  
<sup>3</sup> Excluding personnel in headquarters

## 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 Q4 2018 new DC was launched at PNK Park Bekasovo, in the Naro-Fominsk district of the Moscow region. Total investment in the DC amounted to RUB 2.5bn, while the total area of the facility is 62,000 sq m.

### 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 Network of 743 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 2018 (incl. ELC, ABC and Zoozavr stores)



# Sustainable Asset-Light Business Model Generating Attractive Shareholder Returns

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

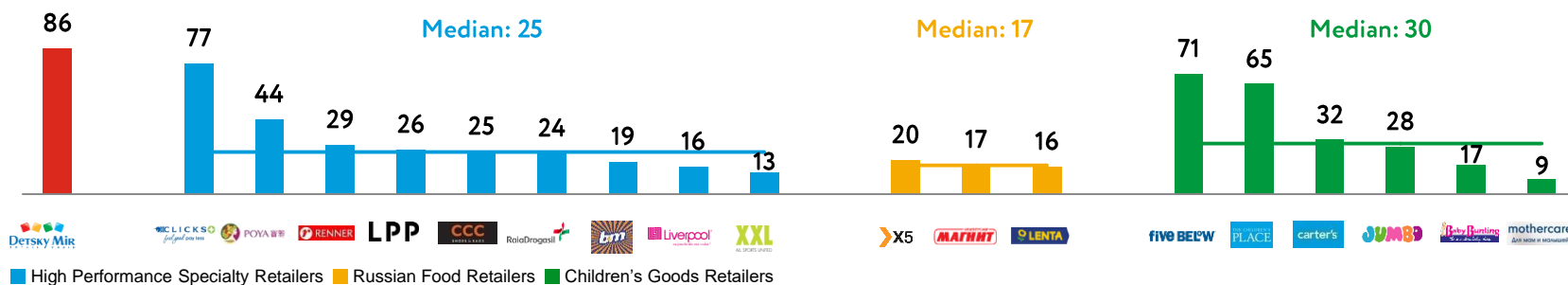
- Capex of c. RUB 13m per 1 standard DM store
- Strict investment criteria
  - IRR hurdle rate of 40% on 7-year cash flows (not accounting for terminal value)
- Total maturity period – 18-24 months
- Targeted EBITDA breakeven in 4 months after a store opening
- Payback period of 2.5-3.0 years

## 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

CY2017 (%)



Source: Companies disclosures and reporting

<sup>1</sup> The Group's consolidated financial statements for 2013 under US GAAP and 2014–2018 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"

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

	2013	2014	2015	2016	2017	2018
Revenue Growth	30%	26%	33%	31%	22%	14%
Selling Space Growth	10%	22%	26%	21%	15%	12%
Adj. EBITDA <sup>2</sup> , RUBbn	2.8	4.5	6.2	8.2	10.7	12.7
Capex, RUBbn	(0.8)	(1.9)	(5.3)	(1.7)	(2.5)	(4.1)
Dividends, RUBbn	(0.4)	(1.9)	(3.0)	(4.4)	(4.8)	(6.1)
Adj. Net Debt <sup>3</sup> / Adj. EBITDA LTM <sup>2</sup>	1.8x	0.6x	1.7x	1.4x	1.0x	1.4x
Adjusted ROIC LTM <sup>4,5</sup>	56%	88%	78%	61%	86%	80%

<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 center and its equipment (which was completed in 2015, but was not operational for most of 2015), 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). Operating profit is adjusted for LTI expense

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

# Experienced Management Team With Well-Established Governance

## Highly Experienced Management...



**Vladimir Chirakhov**  
Chief Executive Officer

- Joined in 2012
- Held senior positions at Korablik, 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, Korablik, 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

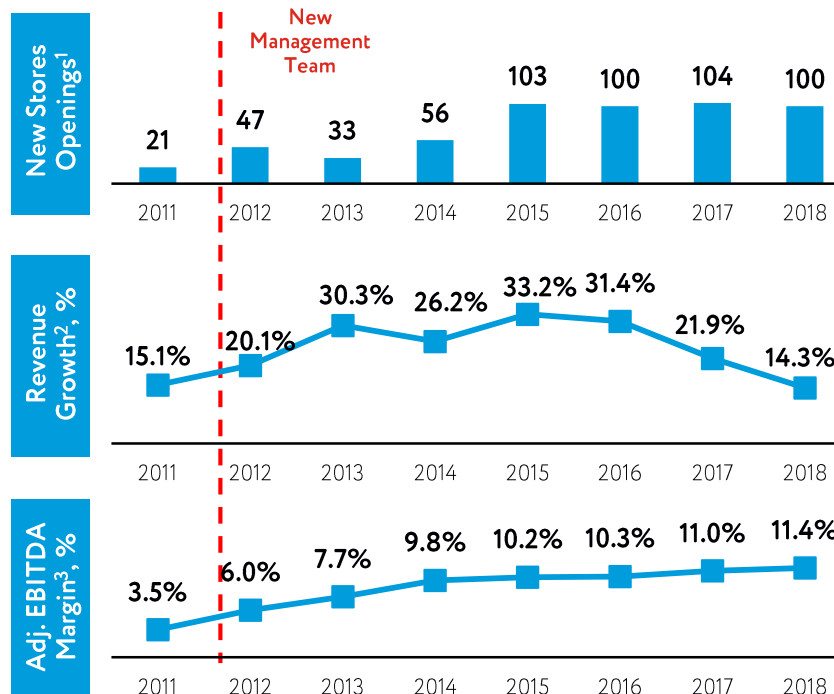
- Joined in 2014
- Held senior positions at Osnova Telecom, Beeline, DDB and Publicis



**Vyacheslav Mikhnenko**  
Head of Logistics

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

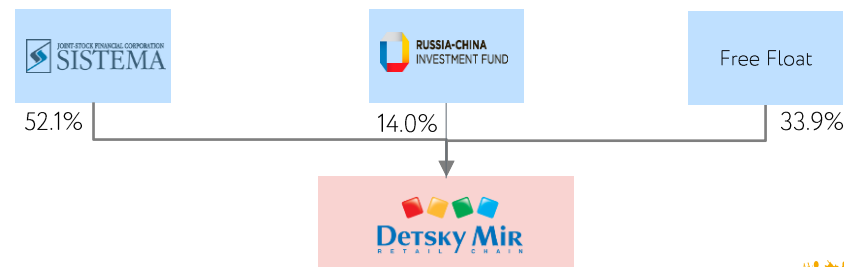
## ...With a Strong Track Record...



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

- BoD of 10 members including 3 INEDs
- Established Audit, Strategy and Nomination and Remuneration committees
  - at least 2 INEDs are members of each of the key committees

## ...and a Prominent Shareholder Base



<sup>1</sup> Doesn't include ELC, ABC and Zozavr stores

<sup>2</sup> The Group's consolidated financial statements for 2011 – 2013 under US GAAP, 2014–2018 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

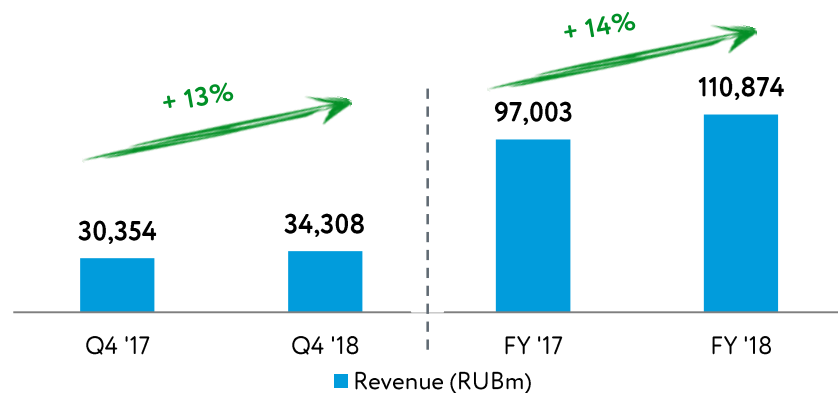
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### **3 Recent Financial Performance**

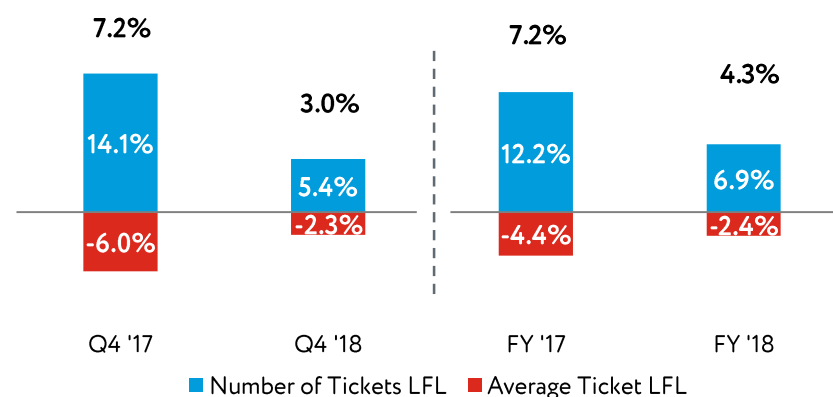


## Continued Solid Top-Line Growth

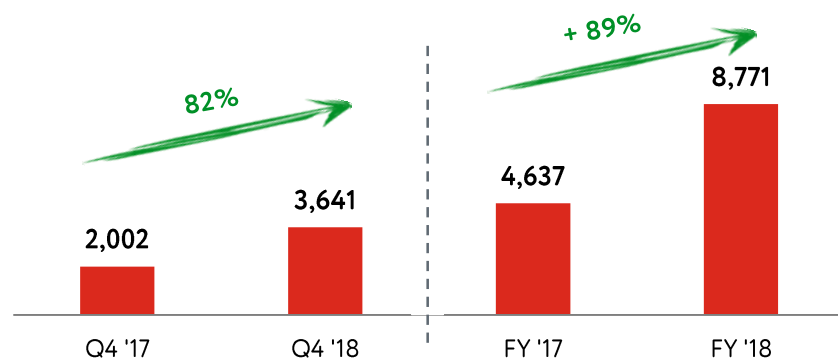
### Total Revenue (RUBm)



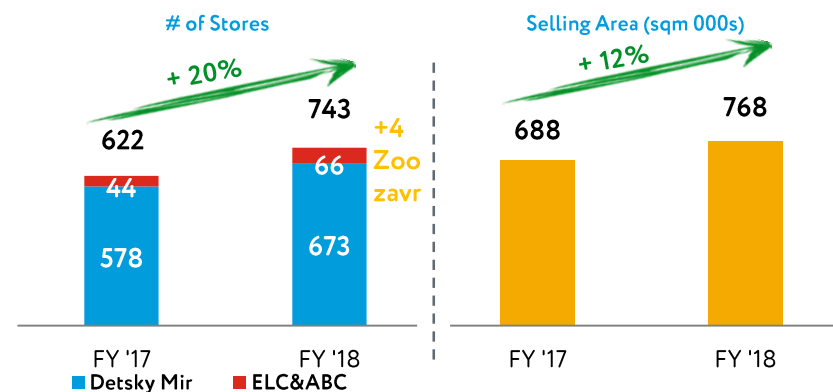
### Like For Like Growth<sup>1</sup>



### E-Commerce Revenue (RUBm)



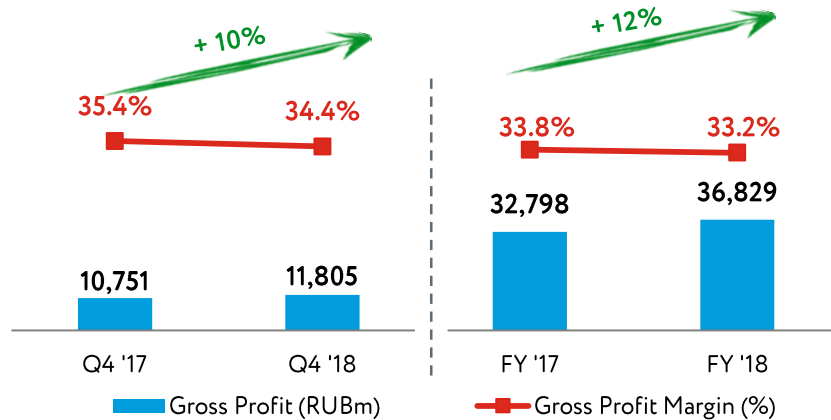
### Store Network



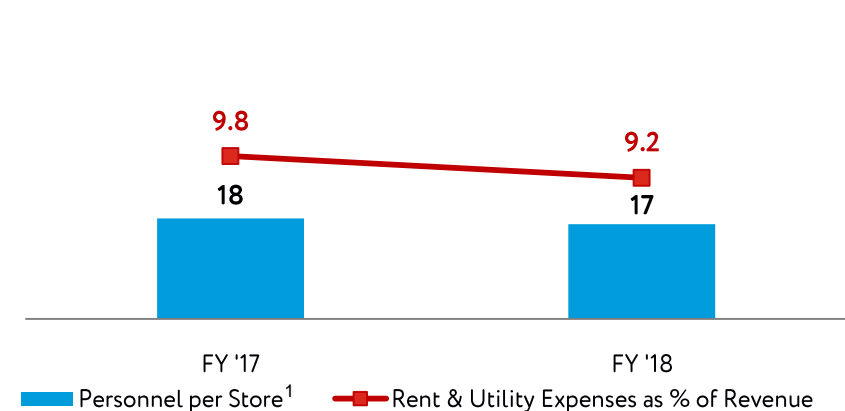
Note: Company's consolidated financial statements for 2017-2018 under IFRS are presented without reference to the application of IFRS 16, unless specified otherwise.  
<sup>1</sup> Includes only Detsky Mir branded stores in Russia. LFL growth includes only DM stores in Russia that have been in operation for at least 12 full calendar months

# Growing Profitability

## Growing Gross Profit

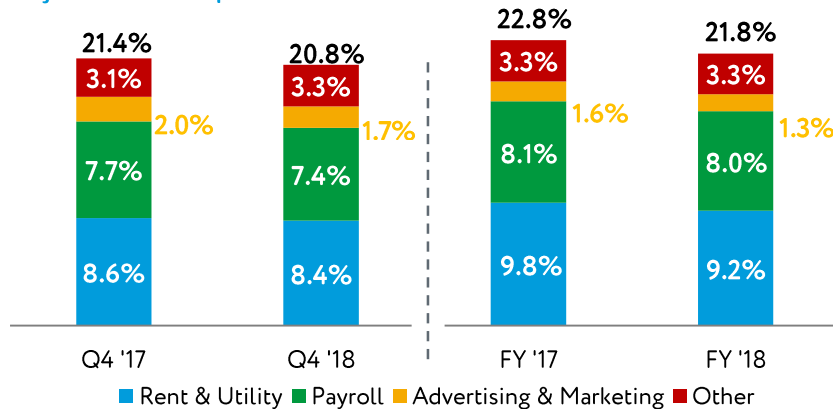


## Personnel per Store and Reduction of Rent Costs

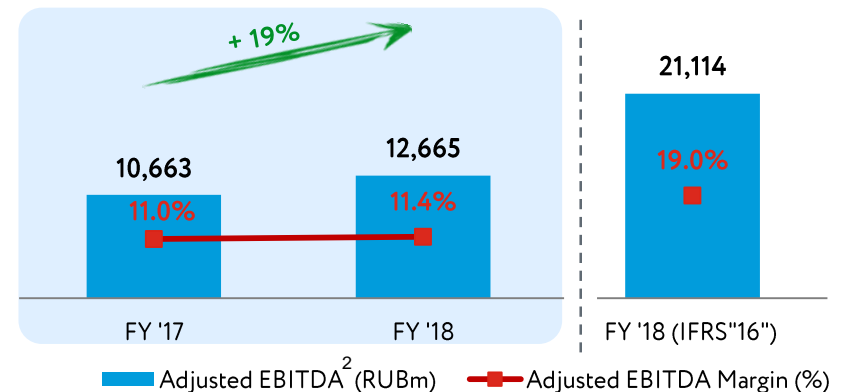


## Strong Operating Leverage Effect<sup>3</sup>

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



## Significant Margin Expansion with Scale Benefits



Source: The Company's consolidated financial statements for 2017-2018 under IFRS are presented without reference to the application of IFRS 16, unless specified otherwise.

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

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

<sup>3</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



## Strong Cash Flow Conversion

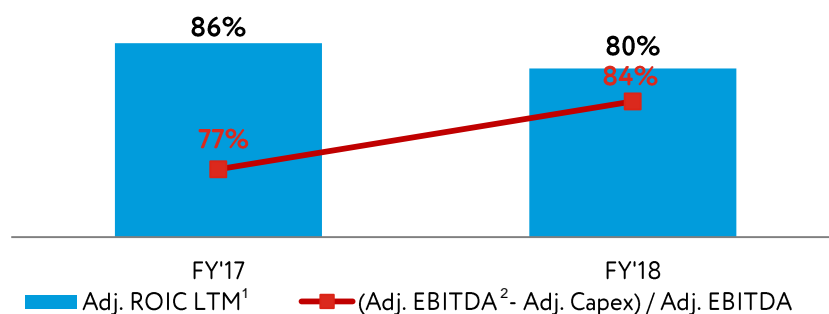
### Comments

- Cash conversion (Adj. EBITDA- Adj. Capex/ Adj. EBITDA) improved with high level of ROIC
- Increase in NWC significantly affected the decline in the Operating Cash flow (normalized changes in NWC amounted to RUB 2.4 bn):
  - 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
  - Net effect of postponement of the payment of interim dividends for 9M 2017 to our majority shareholder Sistema PJSC on other current liabilities was RUB 1.1bn
  - Additional goods purchased to mitigate potential FX risks with net effect of RUB 1.6 bn on NWC
- Disciplined capex focused on store openings and selective investments in IT and infrastructure; limited maintenance capex requirements

### Cash Flow (RUBm)

	2015	2016	2017	2018	2018 IFRS 16
<b>Adjusted EBITDA<sup>2</sup></b>	<b>6,185</b>	<b>8,203</b>	<b>10,663</b>	<b>12,665</b>	<b>21,114</b>
Changes in NWC	(4,300)	(405)	(1,123)	(7,156)	(7,021)
Cash Income Taxes Paid	(1,190)	(1,468)	(1,523)	(1,083)	(1,083)
Net Finance Expense Paid	(1,879)	(1,813)	(1,645)	(1,624)	(4,228)
Other Operating Cash Flow	505	1,285	708	688	830
<b>Operating Cash Flow</b>	<b>(679)<sup>5</sup></b>	<b>5,801</b>	<b>7,080</b>	<b>3,489</b>	<b>9,613</b>
CAPEX	(5,308)	(1,747)	(2,468)	(3,793)	(3,793)
DC Construction	(2,842)	-	-	(1,825)	(1,825)
Store Openings, IT & Maintenance	(2,465)	(1,747)	(2,468)	(1,968)	(1,968)
<b>Free Cash Flow</b>	<b>(5,987)</b>	<b>4,054</b>	<b>4,612</b>	<b>(303)</b>	<b>5,820</b>
<b>Investment cash flow</b>	<b>(5,218)</b>	<b>3,165</b>	<b>(1,370)</b>	<b>(3,793)</b>	<b>(3,793)</b>
<b>Financial cash flow</b>	<b>6,160</b>	<b>(8,455)</b>	<b>(5,001)</b>	<b>483</b>	<b>(5,640)</b>
<b>Change in Cash</b>	<b>264</b>	<b>512</b>	<b>710</b>	<b>180</b>	<b>180</b>

### Strong Cash Conversion and Financial Returns



Source: The Company's consolidated financial statements for 2016-2018 under IFRS are presented without reference to the application of IFRS 16, unless specified otherwise.

<sup>1</sup> 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).

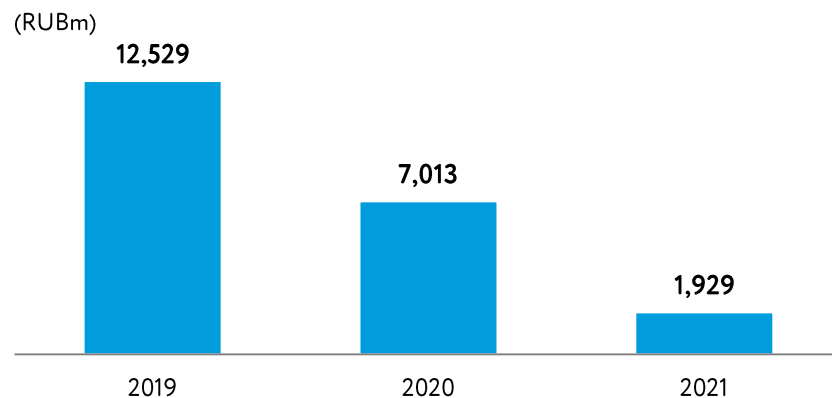
<sup>2</sup> Adj. EBITDA is calculated as profit for the year before income tax, FX gain/loss, gain on acquisition of controlling interest in associate, impairment of goodwill, net finance expense, D&A, as well as share-based compensation and cash bonuses under the LTI program

# Conservative Financial Policy

## Comments

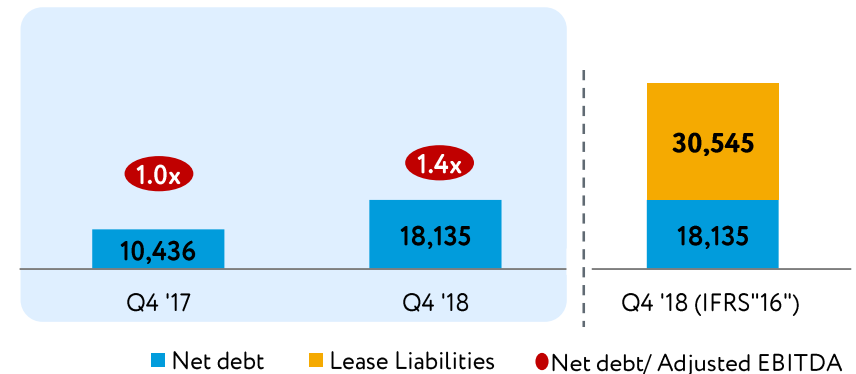
- Commitment to a conservative financial policy
  - Fully RUB-denominated debt to match RUB revenue
  - Relationships with multiple Russian and international banks
- Leverage<sup>1,2</sup> as of 31 December 2018 is 1.4x of vs. 4.0x average covenant level across the loan portfolio
  - Increased due to investments in own DC Bekasovo-2 (RUB 1.8bn), as well as due to a shift in the date of payment of interim dividends to Sistema for 9M 2017 in the amount of RUB 1.1bn
- Weighted average interest rate<sup>3</sup> – 9.3% (as of Q4 2018)
- Most of the debt has fixed interest rate
- No contingent off-balance sheet liabilities

## 31-December-18 Debt Repayment Schedule

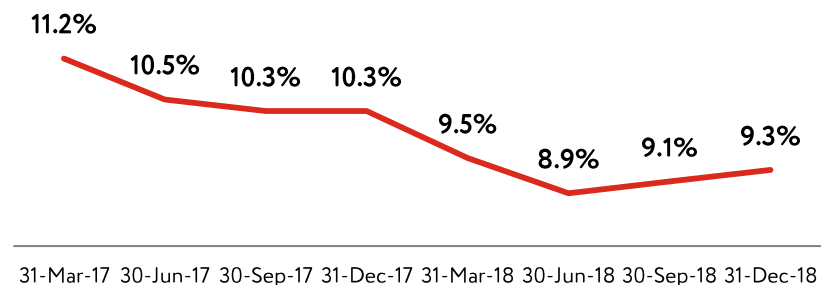


## Leverage<sup>1,2</sup> dynamics

- Total debt – RUB 24.5bn



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



Source: The Company's consolidated financial statements for 2017-2018 under IFRS are presented without reference to the application of IFRS 16, unless specified otherwise.

<sup>1</sup> Net debt is calculated as total borrowings less cash and cash equivalent

<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, 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.

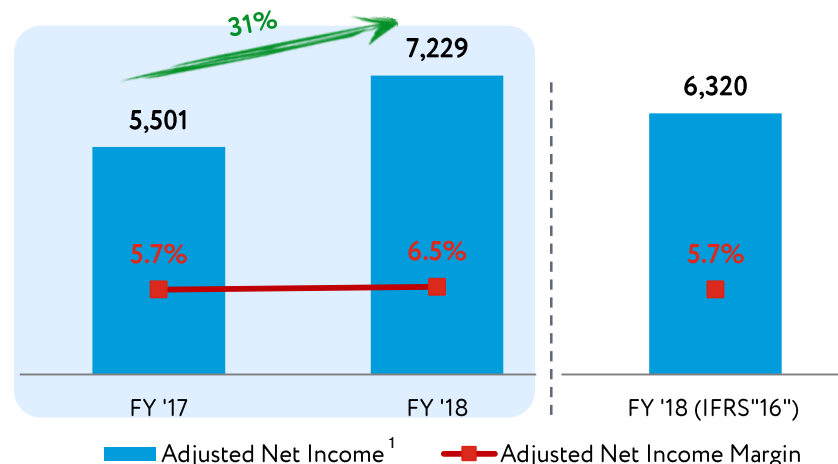


## Sustainably High Returns to Shareholders

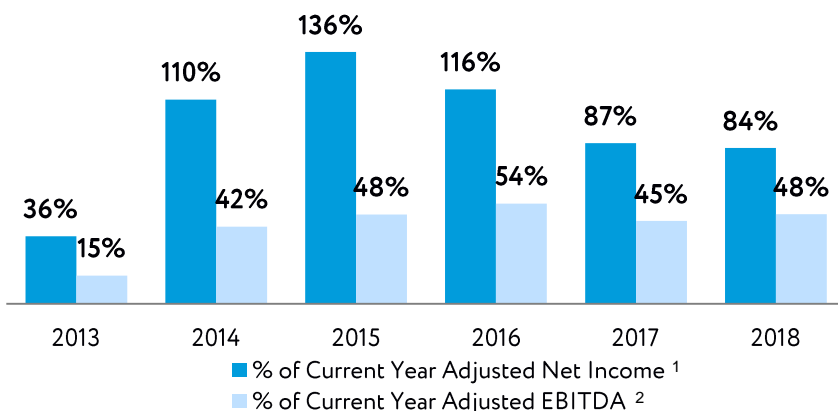
### Comments

- 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 FY2017 of RUB 2.9bn in Q2 2018, as well as interim dividends for 9M 2018 of RUB 3.2bn in Q4 2018

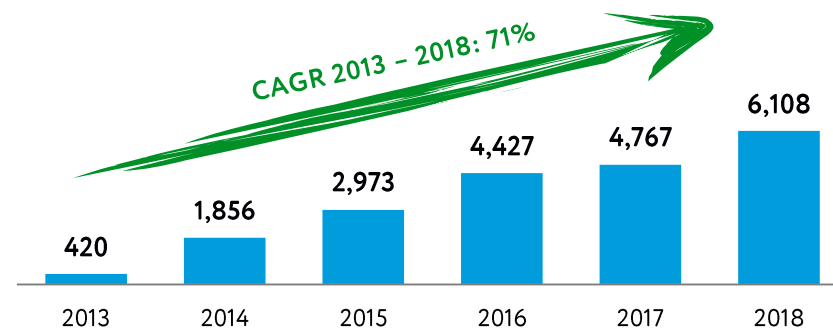
### Adjusted Net Income (RUBm)<sup>1</sup>



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



### History of Declared Dividends (RUBm)



Source: Company's consolidated financial statements for 2017-2018 under IFRS are presented without reference to the application of IFRS16, unless specified otherwise.

<sup>1</sup> 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

<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



# 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)
<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 2018-2021 (increased to 300 in Q3 2018)</li> </ul>	<ul style="list-style-type: none"> <li>&gt;80 new stores in 2019</li> <li>At least 300 new stores in 2019-2022</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>	<ul style="list-style-type: none"> <li>No change in guidance</li> </ul>
<b>LFL Revenue Growth</b>	<ul style="list-style-type: none"> <li>Single-digit growth outperforming the market, positive traffic growth, below inflation ticket growth, plus effect of new store ramp ups</li> </ul>	4.3% LFL growth, outperforming the market	<ul style="list-style-type: none"> <li>Single-digit growth outperforming the market, positive traffic growth, below inflation ticket growth, plus effect of new store ramp ups</li> </ul>	<ul style="list-style-type: none"> <li>No change in guidance</li> </ul>
<b>Gross Margin</b>	<ul style="list-style-type: none"> <li>Stable</li> </ul>	Continued investing in prices to attract traffic (-60 bps)	<ul style="list-style-type: none"> <li>Stable</li> </ul>	<ul style="list-style-type: none"> <li>Continued investing in prices to attract traffic, slightly declining to stable as % of revenue</li> </ul>
<b>Rent &amp; Utility Expenses</b>	<ul style="list-style-type: none"> <li>Rents/sqm rise initially slightly above inflation then in line with inflation, so stable as % of revenue</li> </ul>	Continued decline in as % of revenue (-60 bps)	<ul style="list-style-type: none"> <li>Rents/sqm rise initially slightly above inflation then in line with inflation, so stable as % of revenue</li> </ul>	<ul style="list-style-type: none"> <li>Slightly declining to stable as % of revenue</li> </ul>
<b>Personnel Expenses<sup>2</sup></b>	<ul style="list-style-type: none"> <li>Slightly declining to stable as % of revenue</li> </ul>	Continued decline in as % of revenue (-10 bps)	<ul style="list-style-type: none"> <li>Slightly declining to stable as % of revenue</li> </ul>	<ul style="list-style-type: none"> <li>No change in guidance</li> </ul>
<b>Adjusted EBITDA Margin</b>	<ul style="list-style-type: none"> <li>Double-digit</li> </ul>	Improved by 40bps	<ul style="list-style-type: none"> <li>Double-digit</li> </ul>	<ul style="list-style-type: none"> <li>No change in guidance</li> </ul>

Source: Company data

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

<sup>1</sup> In 2018, Detsky Mir closed five stores

<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%	4% -15%	3% -9%
	<i>Incl. Functional<sup>2</sup></i>	25%	14% -40%	10.5% - 24%

## 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 4.6% 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>

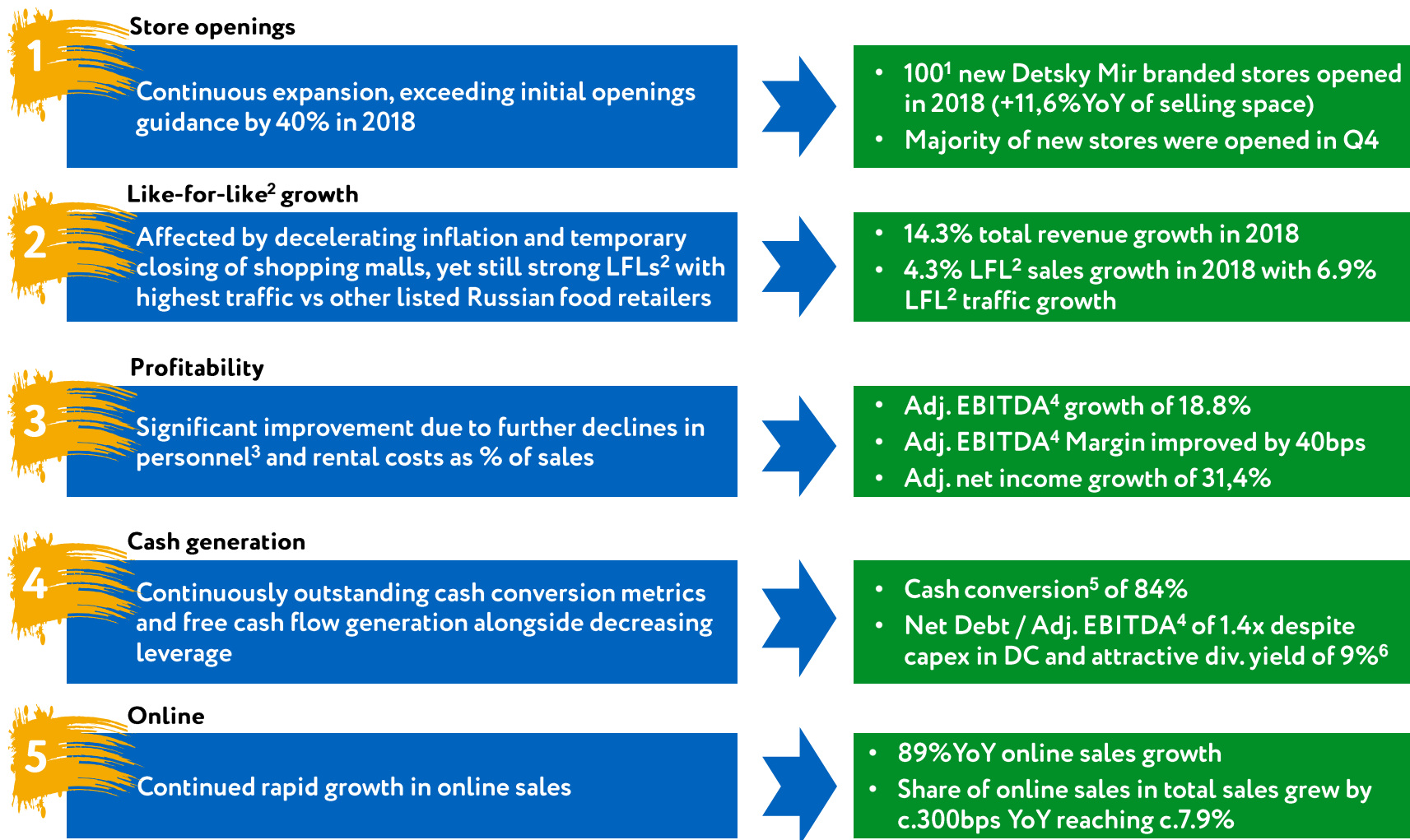
**Incentive program to cement management long-term focus on shareholder value creation**

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

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



## FY 2018 Financial Highlights



Source: Company data. Note: The Company's consolidated financial statements for 2017-2018 under IFRS are presented without reference to the application of IFRS 16, unless specified otherwise.

<sup>1</sup> In 2018, Detsky Mir closed five stores, including two stores in which a fire occurred.

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

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

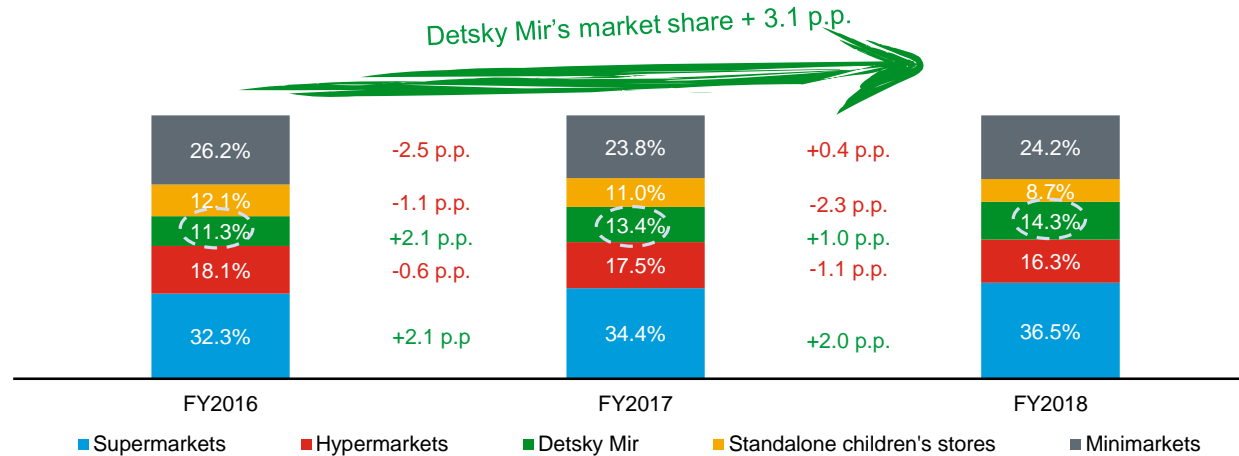
<sup>4</sup> Adj. EBITDA is calculated as profit for the year before income tax, FX gain/loss, gain on acquisition of controlling interest in associate, impairment of goodwill, net finance expense, D&A, as well as share-based compensation and cash bonuses under the LTI program

<sup>5</sup> Calculated as (Adjusted EBITDA LTM - Capex adjusted on new DC "Bekasovo-2") / Adjusted EBITDA LTM

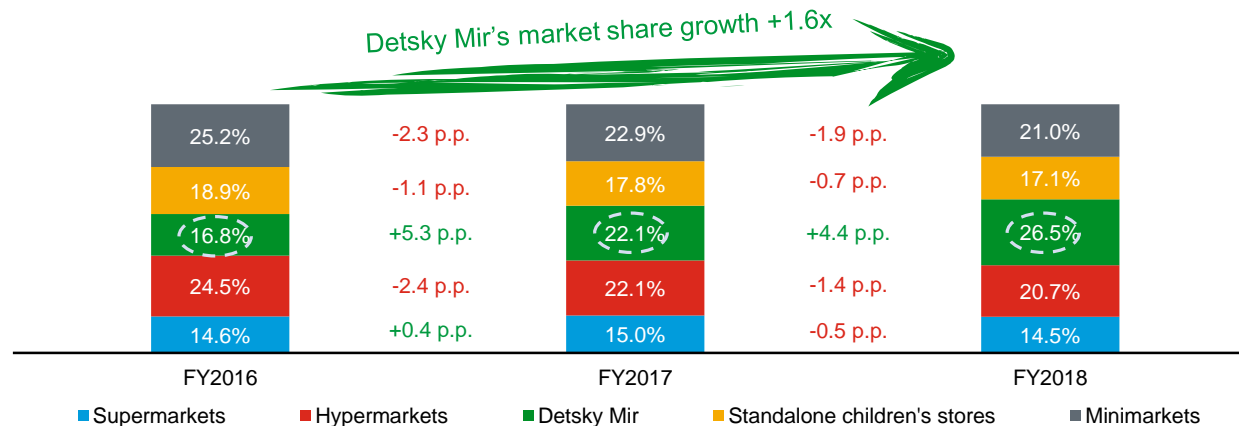
<sup>6</sup> Calculated as dividend per share (RUB 8.27 declared in 2018) divided by average share price for at least 12 full calendar months

# 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 food retailers which have been the largest sales channel for baby food historically
- Detsky Mir's Baby Food market share increased by 27% to 14.3% in 2018 (vs 2016)
- Detsky Mir's Diapers market share increased by 1.6x to 26.5% in 2018 (vs 2016)

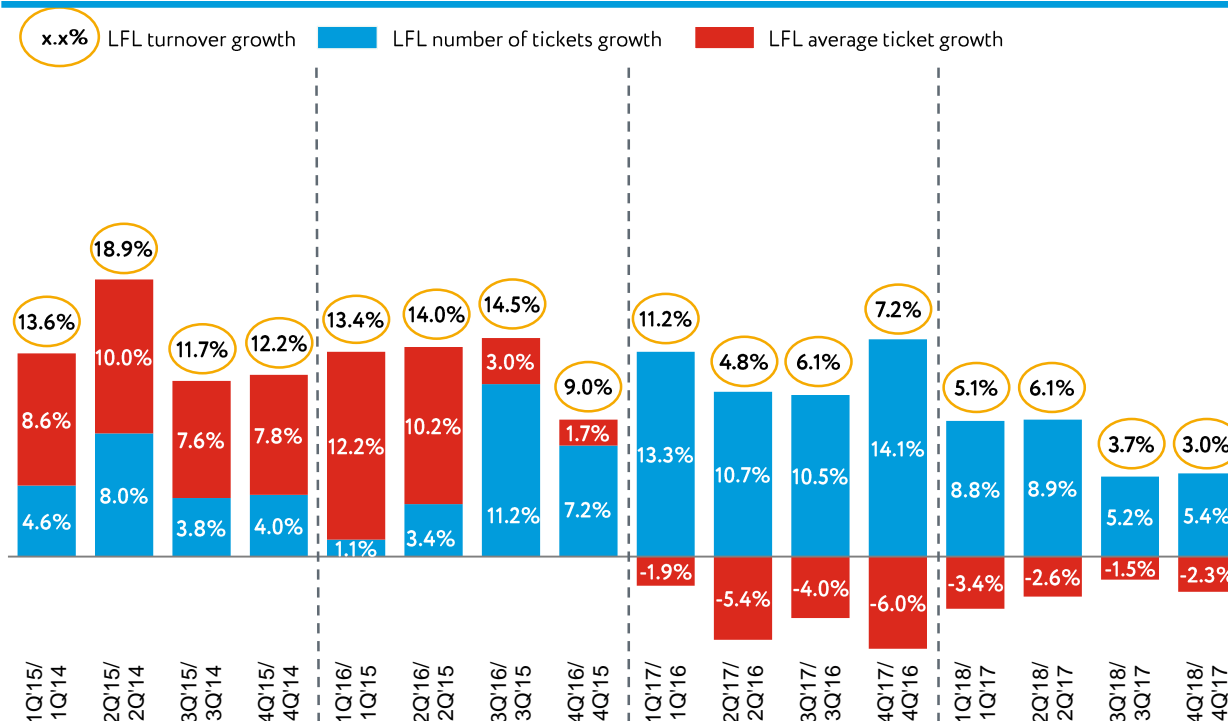
**Detsky Mir's shares in the diapers markets increased by 160 bps over several years**



# Robust Like-for-Like Performance

Detsky Mir

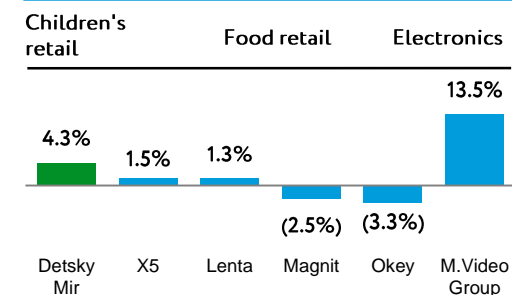
## Like-for-like revenue (in RUB)



## 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 in 2018
- 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 FY '18



## LFL growth

## LFL growth 2015

## LFL growth 2016

## LFL growth 2017

## LFL growth 2018

Total	13.7%	12.3%	7.2%	4.3%
Average ticket	8.3%	5.9%	(4.4%)	(2.4%)
Number of tickets	5.0%	6.0%	12.2%	6.9%

**Detsky Mir demonstrated an attractive revenue growth rate (LFL +4.3%) in 2018**

Source: Company data, publicly available data with respect to other companies

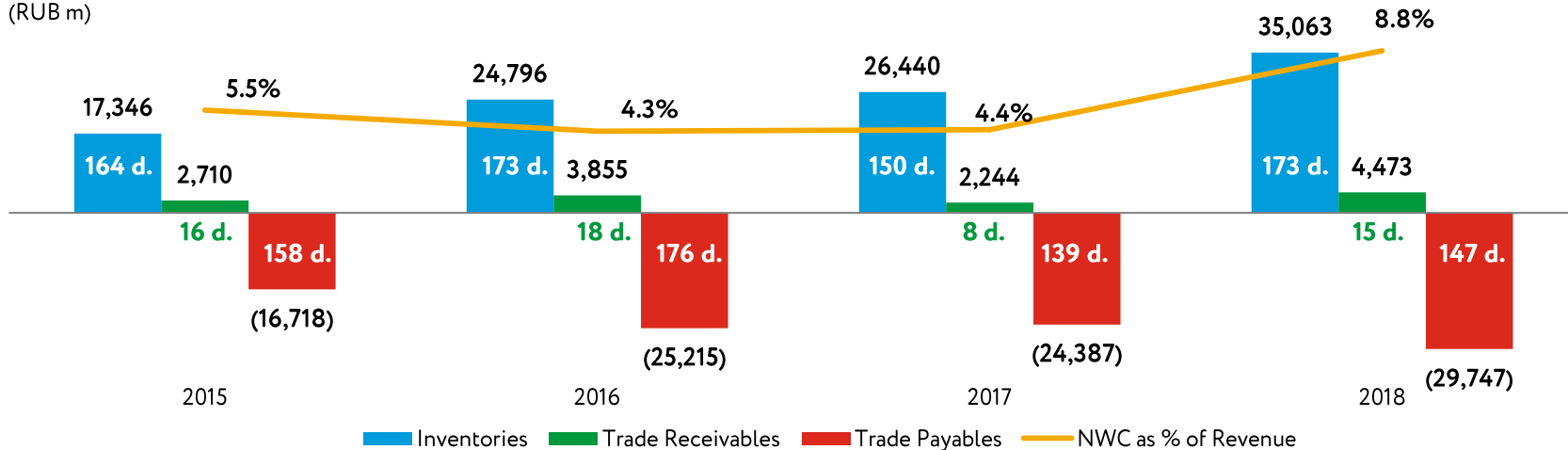
\*LFL growth in RUB terms. LFL growth includes only DM stores in Russia that have been in operations for at least 12 full calendar months.



## Net Trade Working Capital Overview

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

(RUB m)



- 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

Source: Company data.

Note: The Company's consolidated financial statements 2015-2018 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.

<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.



## Financial Performance Summary

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

	2015	2016	2017	2018
<b>Number of stores</b>	<b>425</b>	<b>525</b>	<b>622</b>	<b>743</b>
Detsky Mir stores	381	480	578	673
ELC stores	44	45	44	66
<b>Selling space (k sqm)</b>	<b>491</b>	<b>596</b>	<b>688</b>	<b>768</b>
<b>Revenue</b>	<b>60,544</b>	<b>79,547</b>	<b>97,003</b>	<b>110,874</b>
% total sales growth	33.2%	31.4%	21.9%	14.3%
% LFL sales growth <sup>2</sup>	13.7%	12.3%	7.2%	4.3%
Revenue per sqm <sup>3</sup> (RUB thousand / sqm)	137	146	151	152
Online sales <sup>4</sup>	1,260	2,776	4,637	8,771
Share of online sales	2.1%	3.5%	4.8%	7.9%
<b>Gross profit</b>	<b>21,904</b>	<b>27,108</b>	<b>32,798</b>	<b>36,829</b>
Margin, %	36.2%	34.1%	33.8%	33.2%
<b>Gross profit per sqm<sup>3</sup></b> <b>(RUB thousand / sqm)</b>	<b>50</b>	<b>50</b>	<b>51</b>	<b>51</b>
Adjusted SG&A <sup>5</sup>	15,708	18,885	22,127	24,116
% of revenue	25.9%	23.7%	22.8%	21.8%
<b>Adjusted EBITDA<sup>6</sup></b>	<b>6,185</b>	<b>8,203</b>	<b>10,663</b>	<b>12,665</b>
Margin, %	10.2%	10.3%	11.0%	11.4%
<b>Adjusted Profit for the period<sup>7</sup></b>	<b>2,189</b>	<b>3,827</b>	<b>5,501</b>	<b>7,229</b>
Margin, %	3.6%	4.8%	5.7%	6.5%
<b>Total Debt</b>	<b>18,359</b>	<b>14,638</b>	<b>13,592</b>	<b>21,470</b>
Cash and cash equivalents	(1,934)	(2,445)	(3,155)	(3,335)
<b>Adjusted Net Debt<sup>8</sup></b>	<b>10,618</b>	<b>11,133</b>	<b>10,436</b>	<b>18,135</b>
Adjusted Net Debt / Adjusted EBITDA	1.7x	1.4x	1.0x	1.4x
<b>Capex</b>	<b>(5,308)</b>	<b>(1,747)</b>	<b>(2,468)</b>	<b>(3,793)</b>
% of revenue	8.8%	2.2%	2.5%	3.4%
<b>Dividends declared</b>	<b>(2,973)</b>	<b>(4,427)</b>	<b>(4,767)</b>	<b>(6,108)</b>

Source: Company data

<sup>1</sup> The Group's consolidated financial statements for 2015–2018 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.

<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 period

<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
- High rate of new openings in 2018 (100 stores<sup>9</sup>)

### 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 (-100bps 2018 vs 2017)

### Superior EBITDA Margin

- Major SG&A optimisation measures implemented by the new management team since 2013
- Over 120bps margin increase over four years (+40bps 2018 vs 2017)
- Double-digit EBITDA margin achieved in 2015 and improved in 2016 - 2018, expected to be maintained in mid-term

### Capex

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

### Conservative Financial Policy

- Leverage<sup>8</sup> as of 31-December-2018 is 1.4x 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 14-fold from 2013

<sup>6</sup> 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

<sup>7</sup> 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

<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 2018, Detsky Mir closed five stores



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